



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF ASHE COUNTY PARTNERSHIP FOR CHILDREN

JEFFERSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**ASHE COUNTY PARTNERSHIP FOR CHILDREN**

**JEFFERSON, NORTH CAROLINA**

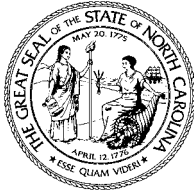
**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**DONNA WEAVER, CHAIR**

**ADMINISTRATIVE OFFICER**

**CAROL COULTER, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
Office of the 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, Ashe County Partnership for Children

This report presents the results of our financial statement audit of the Ashe County Partnership for Children (Ashe Partnership) for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Ashe 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 Ashe 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 Ashe Partnership is one of these local partnerships. As such, the Ashe Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have an annual 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 Ashe Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

**Results** - The following conditions represent significant deficiencies in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements:

### **Finding**

04-01 Inaccurate Financial Statement Presentations

04-02 Contract Management and Monitoring Deficiencies

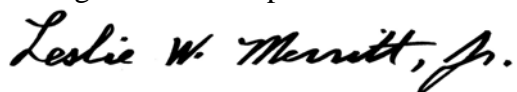
04-03 Internal Control Weaknesses

04-04 Noncompliance with the Davis-Bacon Act

04-05 Failure to File Appropriate Federal Reports

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and in the Schedule of Findings and Questioned Costs 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.

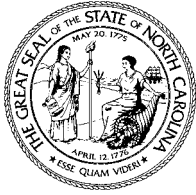


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
Ashe County Partnership for Children  
Jefferson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Ashe County Partnership for Children (Ashe Partnership) as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Ashe 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 misstatement. 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 Ashe County Partnership for Children as of June 30, 2004, 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 February 23, 2005, on our consideration of the Ashe Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements that collectively comprise the Ashe County Partnership for Children's basic financial statements. The information in Schedules 1, 3, 4, and 5 is present for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

February 23, 2005

*Ashe County Partnership for Children  
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis  
For the Year Ended June 30, 2004*

*Exhibit A*

	Unrestricted Funds		Temporarily Restricted Funds	Permanently Restricted Funds	Total Funds
	Smart Start Fund	Other Funds			
<b>Receipts:</b>					
State Awards (less refunds of \$5,506)	\$ 428,642	\$ 46,243	\$ 0	\$ 0	\$ 474,885
Federal Awards		545,091			545,091
Local Awards		32,953	6,297		39,250
Private Contributions		211,134	74,378		285,512
Special Fund Raising Events			1,952		1,952
Interest and Investment Earnings		2,502			2,502
Sales Tax Refunds		9,001			9,001
Other Receipts		123,454	58		123,512
<b>Total Receipts</b>	<b>428,642</b>	<b>970,378</b>	<b>82,685</b>		<b>1,481,705</b>
Net Assets Released from Restrictions: Satisfaction of Program Restrictions		62,620	(62,620)		
	428,642	1,032,998	20,065		1,481,705
<b>Expenditures:</b>					
Programs:					
Child Care and Education Affordability	33,533	1,413			34,946
Child Care and Education Quality	178,166	33,618			211,784
Domestic Violence		239,361			239,361
Family Support	53,334	253,563			306,897
Health and Safety	39,278				39,278
Support:					
Management and General	116,884	639,585			756,469
Program Coordination	4,800				4,800
Other:					
Sales Tax Paid		7,255			7,255
<b>Total Expenditures</b>	<b>425,995</b>	<b>1,174,795</b>			<b>1,600,790</b>
<b>Excess of Receipts Over Expenditures</b>	<b>2,647</b>	<b>(141,797)</b>	<b>20,065</b>		<b>(119,085)</b>
<b>Net Assets at Beginning of Year Restatement (Note 13)</b>	<b>1,193</b>	<b>95,524</b>	<b>62,620</b>	<b>7,526</b>	<b>159,337</b>
					<b>7,526</b>
<b>Net Assets at End of Year</b>	<b>\$ 3,840</b>	<b>\$ (46,273)</b>	<b>\$ 82,685</b>	<b>\$ 7,526</b>	<b>\$ 47,778</b>
<b>Net Assets Consisted of:</b>					
Cash and Cash Equivalents	\$ 971	\$ (46,145)	\$ 82,685	\$ 7,526	\$ 37,511
Benefit Interest in Community Foundation					7,526
Refunds Due From Contractors	3,055				3,055
	4,026	(46,145)	82,685	7,526	48,092
Less: Funds Held for Others	186	128			314
	\$ 3,840	\$ (46,273)	\$ 82,685	\$ 7,526	\$ 47,778

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



***Ashe County Partnership for Children  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2004***

***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 Affordability	\$ 33,533	\$ 33,258	\$ 0	\$ 275	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	178,166	65,940	1,336	4,701	20,930	2,832	500	78,609	3,318
Family Support	53,334	44,581		43	5,860	2,850			
Health and Safety	39,278							39,278	
	<u>304,311</u>	<u>143,779</u>	<u>1,336</u>	<u>5,019</u>	<u>26,790</u>	<u>5,682</u>	<u>500</u>	<u>117,887</u>	<u>3,318</u>
<b>Support:</b>									
Management and General	116,884	90,850	1,359	3,962	11,501	5,507	3,705		
Program Coordination	4,800	4,800							
	<u>121,684</u>	<u>95,650</u>	<u>1,359</u>	<u>3,962</u>	<u>11,501</u>	<u>5,507</u>	<u>3,705</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 425,995</u>	<u>\$ 239,429</u>	<u>\$ 2,695</u>	<u>\$ 8,981</u>	<u>\$ 38,291</u>	<u>\$ 11,189</u>	<u>\$ 4,205</u>	<u>\$ 117,887</u>	<u>\$ 3,318</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 1,413	\$ 1,413	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Child Care and Education Quality	33,618	32,320		243		1,055			
Family Support	253,563	184,935	5,483	13,552	40,102	4,616	4,875		
Domestic Violence	239,361	108,572	1,689	3,887	15,274	18,060	91,879		
	<u>527,955</u>	<u>327,240</u>	<u>7,172</u>	<u>17,682</u>	<u>55,376</u>	<u>23,731</u>	<u>96,754</u>		
<b>Support:</b>									
Management and General	639,585	88,221	11,507	12,764	29,182	50,489	447,422		
	<u>639,585</u>	<u>88,221</u>	<u>11,507</u>	<u>12,764</u>	<u>29,182</u>	<u>50,489</u>	<u>447,422</u>		
<b>Other:</b>									
Sales Tax Paid	7,255			7,255					
<b>Total Other Funds Expenditures</b>	<u>\$ 1,174,795</u>	<u>\$ 415,461</u>	<u>\$ 18,679</u>	<u>\$ 37,701</u>	<u>\$ 84,558</u>	<u>\$ 74,220</u>	<u>\$ 544,176</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**ASHE COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Ashe County Partnership for Children (Ashe Partnership) is a legally separate nonprofit organization incorporated on January 17, 1995. The Ashe Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Ashe 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 Ashe 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.

Permanently restricted net assets include gifts and contributions that are limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Ashe Partnership. The net assets are invested in perpetuity with only the income from such investments available for program operations.

- 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)

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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, savings accounts, and money market accounts.
- E. Investments** – This classification consists of funds invested in an endowment fund with the North Carolina Community Foundation, Inc. as reported in Note 12.
- F. 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.
- G. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Ashe Partnership acts in an agency capacity. For the year ended, the Ashe Partnership was holding amounts withheld from employee paychecks for individual insurance premiums.
- H. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Ashe Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Ashe Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- I. 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 that would be due to employees upon termination is reported as a commitment in Note 10.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**J. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Ashe 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 Ashe Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Ashe Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Ashe 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 Ashe 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 Ashe Partnership was awarded and has received \$429,835 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 \$3,814 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The Ashe Partnership expects to receive continued funding through new Smart Start contracts with the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Community Facility Loan and Grant** – The Ashe Partnership received additional revenue and support from the United States Department of Agriculture. The Ashe Partnership was approved for a community facilities loan in the amount of \$500,000 for the renovation of the Partnership’s office complex. The Ashe Partnership received \$290,380 of this loan during the 2004 fiscal year and all loan proceeds have been received as of June 30, 2004.

**Even Start Program** - The Ashe Partnership received additional revenue and support from the United States Department of Education, which passed through the State of North Carolina based on a cost-reimbursement contract with the Department of Public Instruction (DPI) for the Even Start Program.

The Ashe Partnership was awarded \$110,000 and has received \$88,359 of this amount under a current year contract with DPI. The unexpended balance of this contract is subject to reversion to the State. The Ashe Partnership expects to receive continued funding through new Even Start contracts with the State.

### NOTE 4 - PUBLIC SUPPORT AND FUNDING

The Ashe Partnership received significant private contributions during the 2004 fiscal year for their Capital Campaign. The Capital Campaign is an ongoing project of the Ashe Partnership to raise funds for renovation of the Partnership’s office complex. The funds raised were utilized to supplement the funds received from the Community Facility Loan and Grant as identified in Note 3. During the 2004 fiscal year, the Ashe Partnership received \$126,491 for the Capital Campaign.

### NOTE 5 - RELATED PARTY TRANSACTIONS

**A. Service Provider Contracts with Board Member Organizations** - The board members of the Ashe Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Ashe 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 Ashe Partnership’s Smart Start Allocation.

**B. Other Related Parties** - The Ashe County Children’s Trust Endowment Committee consists of seven voting members, two of which are Ashe County Partnership board members. The purpose of the Committee is to provide financial resources for programs conducted by the Ashe County

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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4-H and the Ashe County Partnership to enrich the quality of life for all children in Ashe County. The Ashe County Partnership maintained a separate bank account to deposit and disburse grants awarded by the Committee.

The Ashe Partnership also contracted with James R. Vannoy & Sons Construction (Vannoy Construction) for leasehold improvements. An employee of Vannoy Construction is a Partnership board member. The total amount paid to Vannoy Construction during the 2004 fiscal year was \$373,717.

### NOTE 6 - 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 Affordability** - Used to account for service activities associated with part-day care programs.

**Child Care and Education Quality** - Used to account for service activities including child care resource and referral or professional development.

**Domestic Violence** – Used to account for activities associated with providing assistance services for victims and survivors of domestic violence.

**Family Support** - Used to account for service activities including family resource centers, general family support, family crisis intervention, family literacy projects, transportation services, or community outreach information and resources.

**Health and Safety** - Used to account for service activities including oral health services, comprehensive screenings, or prenatal/newborn services.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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.

**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 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 14,430
2006	5,393
2007	2,970
Total Minimum Lease Payments	<u>\$ 22,793</u>

Rental expense for all operating leases during the year was \$15,120.

### NOTE 8 - PENSION PLAN

**IRC Section 403(b) Plan**- All permanent employees who are at least half time 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 Ashe Partnership, as a condition of employment,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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is provided an individual annuity through an outside insurance company. The Ashe Partnership contributed 5% of gross wages for the year ended June 30, 2004. 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. The Ashe Partnership contributed \$18,095 for retirement benefits during the year.

### NOTE 9 - RISK MANAGEMENT

The Ashe 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 Ashe 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 <sup>1</sup>	Purchased commercial insurance	None

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

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Ashe 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, 2004, is \$22,886. No funds or reservation of net assets has been made for this commitment.
- B. Loan Commitment** - The Ashe Partnership has a note with a balance of \$476,484 at June 30, 2004, that is secured by the Ashe Partnership building complex and by the income of the organization. The note is payable to the United States Department of Agriculture, Rural Housing



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Service in annual installments of \$38,440. This amount includes principal and a variable interest rate currently computed at 4.5%.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2005	\$ 16,998	\$ 21,442
2006	17,763	20,677
2007	18,563	19,878
2008	19,398	19,042
2009	20,271	18,169
2010-2014	115,885	76,314
2015-2019	144,414	47,786
2020-2024	<u>123,192</u>	<u>13,023</u>
Total Loan Payments	<u>\$ 476,484</u>	<u>\$ 236,331</u>

- C. Mortgage Commitment** - The Ashe Partnership has a note with a balance of \$93,405 at June 30, 2004, that is secured by the Ashe Partnership building complex and payable to the High Country Bank in 59 regular monthly installments of \$765 and one last balloon payment estimated at \$74,892. This amount includes principal and interest computed at an annual rate of 4.5%.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2005	\$ 5,081	\$ 4,099
2006	5,314	3,866
2007	5,558	3,622
2008	<u>77,452</u>	<u>2,795</u>
Total Loan Payments	<u>\$ 93,405</u>	<u>\$ 14,382</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - RESTRICTIONS ON NET ASSETS

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

Purpose	Amount
Ashe County Children's Trust Endowment	\$ 1,952
Capital Campaign	27,689
Car Seats	59
Domestic Violence	25,087
Individual Development Account Program	24,921
Parks and Recreation	2,977
	<u>\$ 82,685</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Capital Campaign	<u>\$ 62,620</u>

### NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purpose at June 30, 2004:

Purpose	Amount
Ashe County Children's Trust Endowment	<u>\$ 7,526</u>

The Ashe County Children's Trust Endowment (Endowment) was established through the North Carolina Community Foundation, Inc. (Foundation) on March 22, 1999. The Ashe Partnership established the Endowment in conjunction with the Ashe County 4-H and its purpose is devoted to the support of the Ashe Partnership and the Ashe County 4-H programs. The Ashe Partnership presents the above amount as a beneficial interest in the Foundation.

The agreement between the Ashe Partnership, the Ashe County 4-H, and the Foundation provides that all the contributions to the Endowment are

**NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)**

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irrevocable. The Endowment, including all investment income, capital gains and subsequent contributions, are the Foundation’s property. The Foundation will make annual distributions of the income earned on the Endowment, subject to Foundation’s spending policy. The Foundation may distribute all or any part of the Endowment at the Foundation’s discretion; however, it is the Foundation’s general policy that a substantial part of the Endowment remains as a permanent endowment of the Foundation. The agreement also permits the Community Foundation to substitute another beneficiary in the place of the Ashe Partnership and the Ashe County 4-H if both organizations cease to exist. Therefore, the Ashe Partnership and Ashe County 4-H have explicitly granted variance power to the Community Foundation.

The Ashe Partnership’s endowment position is identified on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis as a Benefit Interest in the Community Foundation. The entire amount invested with the Community Foundation has been identified on the Ashe Partnership’s financial statement due to the Ashe Partnership and the Ashe County 4-H not having an agreement in place that identifies the percentage in which each organization is invested.

**NOTE 13 - RESTATEMENT OF NET ASSETS**

The Ashe Partnership established an endowment fund with the North Carolina Community Foundation, Inc., as identified in Note 12 above. The beneficial interest in the endowment has not been recorded in the accounting records of the Ashe Partnership in accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. As a result, a reclassification of the net assets for the Permanently Restricted fund is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2003 Net Assets Restated
Permanently Restricted Funds	<u>\$ 0</u>	<u>\$ 7,526</u>	<u>\$ 7,526</u>

***Ashe County Partnership for Children  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Appalachian District Health Department	* \$ 41,500	\$ (2,222)	\$ 0	\$ 0
Wilkes Community College	* 79,442	(833)		
	<u>\$ 120,942</u>	<u>\$ (3,055)</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

***Ashe County Partnership for Children  
 Schedule of State Level Service Provider Contracts  
 For the Year Ended June 30, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Ashe County Department of Social Services	* \$ <u>182,672</u>

\* These organizations are represented on the Partnership's Board as described in Note 4A - 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.

***Ashe County Partnership for Children  
Schedule of Federal and State Awards - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number		Contract #	Receipts	Expenditures
<b>Federal Awards:</b>					
US Department of Agriculture, Rural Development					
Community Facility Loan and Grant					
Building Renovations	10.766	**	N/A	\$ 290,380	\$ 290,379
US Department of Education					
Pass-through from the North Carolina Department of Public Instruction					
Pass-through from the Ashe County Board of Education					
Even Start Family Literacy (Prior Year)	84.213	**	N/A	16,574	15,344
Even Start Family Literacy (Current Year)	84.213	**	N/A	88,359	100,570
US Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services					
Promoting Safe and Stable Families:					
Family Resource Center (Prior Year)	93.556		01101-03	1,759	
Family Resource Center (Current Year)	93.556		01101-04	69,481	72,687
US Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services					
Family Violence Prevention	93.671		450-04	19,228	36,301
US Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development					
Child Care Resource and Referral (Prior Year)					
	93.575		5977	1,889	
Child Care Resource and Referral (Current Year)	93.575		5977	8,061	8,061
US Department of Health and Human Services					
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development					
Pass-through from the Iredell County Partnership for Young Children					
Child Care Resource and Referral	93.575		DCD-0304-2	21,499	24,259
US Department of Justice					
Office of the Juvenile Justice and Delinquency Prevention					
Pass-through from the North Carolina Department of Crime Control and Public Safety					
Division of Governor's Crime Commission					
ASHE - A Safe Home for Everyone (Prior Year)	16.575		005-1-02-B10-AV-939	8,700	
ASHE - A Safe Home for Everyone (Current Year)	16.575		005-1-03-B10-AV-366	19,161	41,170
<b>Total Federal Awards</b>				<b>545,091</b>	<b>588,771</b>
<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)					
			N/A	(1,193)	
Early Childhood Initiatives Program (Current Year)		*	N/A	429,835	425,995
Multi-County Accounting and Contracting Grant			N/A	12,000	12,000
North Carolina Department of Administration					
Council for Women and Domestic Violence Commission					
Domestic Violence Grant (Prior Year)					
			N/A	(4,313)	
Domestic Violence Grant (Current Year)			N/A	29,500	29,089
Marriage License Fee Grant (Current Year)			N/A	9,056	12,655
<b>Total State Awards</b>				<b>474,885</b>	<b>479,739</b>
<b>Total Federal and State Awards</b>				<b>\$ 1,019,976</b>	<b>\$ 1,068,510</b>

\* Programs with compliance requirements that have a direct and material effect on the financial statements.

\*\* Major Programs per OMB Circular A-133

***Ashe County Partnership for Children  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$ 49,367
Computer Equipment/Printers	50,880
Buildings	163,361
Leasehold Improvements	1,095,656
Motor Vehicles	<u>82,360</u>
Total Property and Equipment	<u>\$ 1,441,624</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.

***Ashe County Partnership for Children  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2004***

***Schedule 5***

***Match Provided at the Partnership Level:***

Cash	\$	6,444
In-Kind Goods and Services		<u>43,356</u>
	\$	<u><u>49,800</u></u>

***Match Provided at the Contractor Level:***

Cash	\$	<u><u>21,442</u></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 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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

---

Board of Directors  
Ashe County Partnership for Children  
Jefferson, North Carolina

We have audited the financial statements of the Ashe County Partnership for Children (Ashe Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 23, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ashe 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 an opinion 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 Ashe Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are reported, with responses, in the Schedule of Findings and Questioned Costs section of this report:

**Finding**

- 04-01 Inaccurate Financial Statement Presentations
- 04-02 Contract Management and Monitoring Deficiencies
- 04-03 Internal Control Weaknesses

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

---

A material weakness is a reportable 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 caused by error or fraud 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 finding number 04-01, Inaccurate Financial Statement Presentations, to be a material weakness.

Compliance and Other Matters

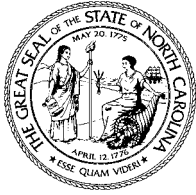
As part of obtaining reasonable assurance about whether the Ashe Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Ashe Partnership in a separate letter, dated March 14, 2005.

This report is intended solely for the information and use of the audit committee, management of the Ashe 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.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

February 23, 2005



Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

---

Board of Directors  
Ashe County Partnership for Children  
Jefferson, North Carolina

Compliance

We have audited the compliance of the Ashe County Partnership for Children (Ashe Partnership) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Ashe Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ashe Partnership's management. Our responsibility is to express an opinion on Ashe Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ashe Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ashe Partnership's compliance with those requirements.

As described in item 04-04 in the accompanying Schedule of Findings and Questioned Costs, the Ashe Partnership did not comply with requirements regarding the Davis-Bacon Act that is

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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applicable to the Community Facilities Loans and Grants program. Compliance with such requirements is necessary, in our opinion, for the Ashe Partnership to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Ashe Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Ashe Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Ashe Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Ashe Partnership's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-02, 04-03, and 04-05.

A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. In addition, we noted certain immaterial instances of noncompliance, which we have reported to the management of the Ashe Partnership in a separate letter, dated March 14, 2005.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

---

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

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

February 23, 2005

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

---

**I. SUMMARY OF AUDITOR'S RESULTS**

**YES   NO**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness identified
- Reportable conditions identified that are not considered to be material weaknesses

Noncompliance material to financial statements noted?   

**Federal Awards**

Internal control over major programs:

- Material weakness identified
- Reportable conditions identified that are not considered to be material weaknesses

Type of auditor's report issued on compliance for major federal programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133   

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
<b>10.766</b>	<b>Community Facilities Loans and Grants</b>
<b>84.213</b>	<b>Even Start – (William F. Goodling Family Literacy Program) Title I of NCLB</b>

Dollar threshold used to distinguish between Type A and Type B Programs **\$500,000**

Auditee qualified as low-risk auditee

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

---

**II. FINANCIAL STATEMENT FINDINGS**

04-01 INACCURATE FINANCIAL STATEMENT PRESENTATIONS

There were material misstatements in the financial information presented for audit by the Ashe Partnership. Most significant was the failure to report federal loan proceeds totaling \$290,000 as federal funds. In addition, the Ashe County Children's Trust endowment (a permanently restricted fund maintained by the North Carolina Community Foundation) and its related fundraising activities are not recorded in the accounts of the Partnership. While Domestic Violence appears to be a major program activity for the Partnership, we identified three different program activity codes to record expenditures related to this activity. Significant audit adjustments were necessary to present revenue and disbursement transactions within their proper classifications to correctly reflect the Partnership's financial presentations.

The financial records of the Partnership should correctly reflect transactions and events on a timely basis including the classification of net assets, revenues, and expenditures. The incorrect classification of the federal loan proceeds resulted in the Partnership's failure to identify that it required a federal audit in accordance with U. S. Office of Management and Budget (OMB) *Circular A-133*.

*Recommendation:* We recommend that the Ashe Partnership implement procedures for the review and classification of transactions to ensure that financial activities are properly recorded in the general ledger. All transactions by the Partnership, including those related to the Ashe County Children's Trust, should be accounted for in the records of the Partnership.

*Partnership's Response:* The Ashe County Partnership for Children is working with The North Carolina Partnership for Children, Inc. to ensure that financial activities are properly recorded in the general ledger.

04-02 CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

During our review of the contracting activities of the Ashe Partnership, we identified deficiencies in the contract management and monitoring procedures including:

- The Even Start project indicated that funds could be used to provide early childhood education and support services for children of eligible adults, from birth to age seven. Documentation including enrollment and attendance rosters was to be obtained to support the eligibility of the participants. Our testwork did not find evidence to support that the Ashe Partnership verified the eligibility of these participants.



**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

---

- In our review of Direct Service Provider activities, we did not find evidence to support that fiscal monitoring activities were performed in accordance with Partnership policy or contract requirements.

The achievement of the Partnership's goals and objectives is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

*Recommendation:* We recommend that the Ashe Partnership enhance its monitoring activities in compliance with its policies and procedures to ensure compliance with the programmatic requirements and the accomplishment of expected program outcomes.

*Partnership's Response:* The Ashe Partnership has put into place additional procedures related to the documentation of the eligibility of participants for the Even Start program. Required documentation will be maintained to support these determinations.

#### 04-03 INTERNAL CONTROL WEAKNESSES

Our testwork identified several key deficiencies in the Ashe Partnership's system of internal control. In most cases, transactions were not being processed in accordance with the Partnership's established policies and procedures. Items noted included:

- Payroll transactions are recorded on the books of the Partnership by journal entries. We noted where the payroll journal entry was being prepared by the MAC accountant (processor for Partnership transactions) instead of the Fiscal Coordinator as established in policy. In addition, we did not find evidence to support that the payroll transactions are reviewed by management of the Partnership prior to their entry into the accounting system. Payroll costs are significant transactions to the Partnership and the timing of review, authorization, processing, and recording of those transactions is key to the internal control processes for payroll.
- Journal entries affect changes to the original accounting records. As such, it is essential that journal entry transactions are properly documented and reviewed by management prior to their entry into the accounting system. Instances were noted where journal entries were entered into the accounting system without the documented approval of management or prior to that approval being obtained.
- Instances were noted with both the receipting and disbursements processes whereby the Partnership's actions were not in accordance with its established policies.

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

---

Internal control is represented by a set of written guidelines, policies, and actions that seek to maximize fiscal integrity and minimize the likelihood of the misuse of funds by establishing a clearly defined and implemented set of financial checks and balances with the organization.

*Recommendation:* We recommend that the Ashe Partnership review its current operations and make appropriate changes to ensure adherence with its approved policies and procedures. Proper reviews and authorizations should be documented within the Partnership's accounting records.

*Partnership's Response:* The Ashe Partnership plans to revisit its policies and procedures to ensure that fiscal integrity is maximized. Emphasis will be placed on adherence to those policies and procedures to ensure the timely review and authorization of accounting transactions.

### **III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **04-02 CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES**

During our review of the contracting activities of the Ashe Partnership, we identified deficiencies in the contract management and monitoring procedures including:

- The Even Start project indicated that funds could be used to provide early childhood education and support services for children of eligible adults, from birth to age seven. Documentation including enrollment and attendance rosters was to be obtained to support the eligibility of the participants. Our testwork did not find evidence to support that the Ashe Partnership verified the eligibility of these participants.
- In our review of Direct Service Provider activities, we did not find evidence to support that fiscal monitoring activities were performed in accordance with Partnership policy or contract requirements.

The achievement of the Partnership's goals and objectives is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

*Recommendation:* We recommend that the Ashe Partnership enhance its monitoring activities in compliance with its policies and procedures to ensure compliance with the programmatic requirements and the accomplishment of expected program outcomes.

*Partnership's Response:* The Ashe Partnership has put into place additional procedures related to the documentation of the eligibility of participants for the Even

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

---

Start program. Required documentation will be maintained to support these determinations.

04-03 INTERNAL CONTROL WEAKNESSES

Our testwork identified several key deficiencies in the Ashe Partnership's system of internal control. In most cases, transactions were not being processed in accordance with the Partnership's established policies and procedures. Items noted included:

- Payroll transactions are recorded on the books of the Partnership by journal entries. We noted where the payroll journal entry was being prepared by the MAC accountant (processor for Partnership transactions) instead of the Fiscal Coordinator as established in policy. In addition, we did not find evidence to support that the payroll transactions are reviewed by management of the Partnership prior to their entry into the accounting system. Payroll costs are significant transactions to the Partnership and the timing of review, authorization, processing, and recording of those transactions is key to the internal control processes for payroll.

Journal entries affect changes to the original accounting records. As such, it is essential that journal entry transactions are properly documented and reviewed by management prior to their entry into the accounting system. Instances were noted where journal entries were entered into the accounting system without the documented approval of management or prior to that approval being obtained.

- Instances were noted with both the receipting and disbursements processes whereby the Partnership's actions were not in accordance with its established policies.

Internal control is represented by a set of written guidelines, policies, and actions that seek to maximize fiscal integrity and minimize the likelihood of the misuse of funds by establishing a clearly defined and implemented set of financial checks and balances with the organization.

*Recommendation:* We recommend that the Ashe Partnership review its current operations and make appropriate changes to ensure adherence with its approved policies and procedures. Proper reviews and authorizations should be documented within the Partnership's accounting records.

*Partnership's Response:* The Ashe Partnership plans to revisit its policies and procedures to ensure that fiscal integrity is maximized. Emphasis will be placed on adherence to those policies and procedures to ensure the timely review and authorization of accounting transactions.

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

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04-04 NONCOMPLIANCE WITH THE DAVIS-BACON ACT

The Ashe Partnership failed to obtain payroll data and certifications of compliance from its contractors in accordance with the requirements established by the Davis-Bacon Act.

The Ashe Partnership received a community facilities loan from the United States Department of Agriculture (USDA). The Davis-Bacon requirements are applicable for all construction contracts in excess of \$2,000 financed by federal assistance funds. The intent of the requirement is to ensure that all laborers and mechanics employed by contractors are paid wages not less than the prevailing wage rates of the locality of the project. We identified two contractors that were paid approximately \$290,000 during the 2004 fiscal year. Contracts signed by the Ashe Partnership and its contractors identified the requirements necessary to comply with the Davis-Bacon Act including the contractors' submission of weekly copies of all payrolls accompanied by a signed "Statement of Compliance." The Ashe Partnership did not obtain this information.

*Recommendation:* We recommend that the Ashe Partnership obtain appropriate payroll documentation and certifications of compliance from its subcontractors for this USDA funded project. Those certifications should be reviewed to ensure that wages paid by the subcontractors met the applicable federal standards.

*Partnership's Response:* The Ashe Partnership will seek guidance from the United States Department of Agriculture to determine the best method for resolution of this issue. In the future, the Ashe Partnership will seek to identify those material compliance requirements related to the source of funding to ensure appropriate measures are implemented to maintain compliance.

04-05 FAILURE TO FILE APPROPRIATE FEDERAL REPORTS

The Ashe Partnership submitted financial reports to the local Rural Development office of the United States Department of Agriculture (USDA) that were not in accordance with the requirements established by federal guidelines.

The required reports as specified by the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* are:

- RD442-2, Statement of Budget, Income, and Equity (covers financial operations)
- RD442-3, Balance Sheet (covers financial status)
- Copy of the annual audit report of the organization

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004 (CONCLUDED)**

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The Ashe Partnership provided financial information to the local USDA office; however, those reports were not the above identified RD442-2 or RD442-3. In addition, the information provided by the Ashe Partnership was not in accordance with the reporting requirements established by the above reports. The Ashe Partnership is on a biennial audit cycle per *North Carolina General Statute 143B-168.14(b)* and no prior audit report exists for this federal project. It should be noted that the local Rural Development office submitted a letter to the Office of the State Auditor stating that it had accepted the noncompliant financial reports submitted by the Ashe Partnership.

*Recommendation:* We recommend that the Ashe Partnership seek appropriate guidance from the national Rural Development office of the USDA as to the required reporting requirements. Applicable federal reports should be submitted to substantiate the federal activity incurred with this community facilities loan.

*Partnership's Response:* The Ashe Partnership has contacted the local Rural Development office and determined the necessary reporting formats. These formats, RD442-2 and RD442-3, have been completed for fiscal year 2003-2004 and submitted to the local Rural Development Office.

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2004**

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There were no prior year audit findings for the Ashe County Partnership for Children.

**ASHE COUNTY PARTNERSHIP FOR CHILDREN  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2004**

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<b>Finding Number</b>	<b>Contact Person Phone Number</b>	<b>Corrective Action Planned</b>
<b>04-02</b>	<b>Carol Coulter (336) 982-4588</b>	<b>Contract Management and Monitoring Deficiencies</b>
		The Ashe Partnership has put into place additional procedures related to the documentation of the eligibility of participants for the Even Start program. Required documentation will be maintained to support these determinations.
<b>04-03</b>	<b>Carol Coulter (336) 982-4588</b>	<b>Internal Control Weaknesses</b>
		The Ashe Partnership plans to revisit its policies and procedures to ensure that fiscal integrity is maximized. Emphasis will be placed on adherence to those policies and procedures to ensure the timely review and authorization of accounting transactions.
<b>04-04</b>	<b>Carol Coulter (336) 982-4588</b>	<b>Noncompliance with the Davis-Bacon Act</b>
		The Ashe Partnership will seek guidance from the United States Department of Agriculture to determine the best method for resolution of this issue. In the future, the Ashe Partnership will seek to identify those material compliance requirements related to the source of funding to ensure appropriate measures are implemented to maintain compliance.
<b>04-05</b>	<b>Carol Coulter (336) 982-4588</b>	<b>Failure to File Appropriate Federal Reports</b>
		The Ashe Partnership has contacted the local Rural Development office and determined the necessary reporting formats. These formats, RD442-2 and RD442-3, have been completed for fiscal year 2003-2004 and submitted to the local Rural Development Office.

## DISTRIBUTION OF AUDIT REPORT

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In accordance with North Carolina 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 Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Ms. Carmen Hooker Odom  
Mr. Ashley Thrift  
  
Ms. Karen Ponder

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
Secretary, Department of Health and Human Services  
Chairman, Board of Directors  
The North Carolina Partnership for Children, Inc.  
Executive Director  
The North Carolina Partnership for Children, Inc.

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Mr. James D. Johnson

Director, Fiscal Research Division

April 15, 2005



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

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