



STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF
WILKES COMMUNITY PARTNERSHIP FOR CHILDREN
NORTH WILKESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
WILKES COMMUNITY PARTNERSHIP FOR CHILDREN
NORTH WILKESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

KATIE SMITHEY, BOARD CHAIR

ADMINISTRATIVE OFFICER

LAURA E. WELBORN, 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, Wilkes Community Partnership for Children

This report presents the results of our financial statement audit of the Wilkes Community Partnership for Children (Wilkes 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 Wilkes 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 Wilkes 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 Wilkes Partnership is one of these local partnerships. As such, the Wilkes Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

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

- 1. Objective** – To express an opinion on the accompanying financial statements.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Wilkes 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 condition represents a significant deficiency in internal control or noncompliance with laws, regulations, contracts, or grants.

Finding

Inadequate Contract Management and Monitoring

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.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wilkes Community Partnership for Children
North Wilkesboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wilkes Community Partnership for Children (Wilkes 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 Wilkes 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 Wilkes Community 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 October 15, 2004 on our consideration of the Wilkes 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)

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wilkes Community Partnership for Children's basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented 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, are 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.



Ralph Campbell, Jr.
State Auditor

October 15, 2004

Wilkes Community Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Bas****For the Year Ended June 30, 2004****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$39,944)	\$ 870,037	\$ 13,625	\$ 0	\$ 883,662
Federal Awards (less refunds of \$494)		57,583		57,583
Local Awards		9,342		9,342
Private Contributions		6,158	9,637	15,795
Special Fund Raising Events		2,123		2,123
Interest and Investment Earnings		946		946
Sales Tax Refunds		5,374		5,374
Total Receipts	870,037	95,151	9,637	974,825
Expenditures:				
Programs:				
Child Care and Education Affordability	26,746	4,307		31,053
Child Care and Education Quality	187,246	47,437		234,683
Family Support	212,220	41,220		253,440
Health and Safety	82,637			82,637
More at Four	199,150			199,150
Support:				
Management and General	131,942	11,352		143,294
Program Coordination	41,265			41,265
Other:				
Sales Tax Paid		4,382		4,382
Total Expenditures	881,206	108,698		989,904
Excess of Receipts Over Expenditures	(11,169)	(13,547)	9,637	(15,079)
Net Assets at Beginning of Year	39,516	12,767		52,283
Net Assets at End of Year	\$ 28,347	\$ (780)	\$ 9,637	\$ 37,204
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 28,347	\$ (780)	\$ 9,637	\$ 37,204

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

**Wilkes Community 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
Smart Start Fund:									
Programs:									
Child Care and Education Affordability	\$ 26,746	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 26,746	\$ 0
Child Care and Education Quality	187,246	84,098	15,036	24,931	28,543	26,731	3,627	3,325	955
Family Support	212,220	134,452	13,182	25,172	24,612	4,800	2,934	7,068	
Health and Safety	82,637	30,143	300	4,331	3,335	7,528		37,000	
More at Four	199,150							199,150	
	<u>707,999</u>	<u>248,693</u>	<u>28,518</u>	<u>54,434</u>	<u>56,490</u>	<u>39,059</u>	<u>6,561</u>	<u>273,289</u>	<u>955</u>
Support:									
Management and General	131,942	99,932	8,084	5,190	10,090	7,097	1,549		
Program Coordination	41,265	37,128	2,825	990	108		214		
	<u>173,207</u>	<u>137,060</u>	<u>10,909</u>	<u>6,180</u>	<u>10,198</u>	<u>7,097</u>	<u>1,763</u>		
Total Smart Start Fund Expenditures	\$ 881,206	\$ 385,753	\$ 39,427	\$ 60,614	\$ 66,688	\$ 46,156	\$ 8,324	\$ 273,289	\$ 955
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 4,307	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,307	\$ 0
Child Care and Education Quality	47,437	24,388	5,775	9,558	5,291	2,425			
Family Support	41,220	27,936	5,434	2,097	1,971		2,656	1,126	
	<u>92,964</u>	<u>52,324</u>	<u>11,209</u>	<u>11,655</u>	<u>7,262</u>	<u>2,425</u>	<u>2,656</u>	<u>5,433</u>	
Support:									
Management and General	11,352		10,442				910		
	<u>11,352</u>		<u>10,442</u>				<u>910</u>		
Other:									
Sales Tax Paid	4,382			4,382					
	<u>4,382</u>			<u>4,382</u>					
Total Other Funds Expenditures	\$ 108,698	\$ 52,324	\$ 21,651	\$ 16,037	\$ 7,262	\$ 2,425	\$ 3,566	\$ 5,433	\$ 0

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

WILKES COMMUNITY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Wilkes Community Partnership for Children (Wilkes Partnership) is a legally separate nonprofit organization incorporated on May 9, 1994. The Wilkes Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilkes 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 Wilkes 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 Wilkes Partnership did not have any permanently restricted net assets at June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State of North Carolina 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 includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Wilkes Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Wilkes 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.
- F. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Wilkes 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 Wilkes 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 Wilkes Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Wilkes 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 Wilkes 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 Wilkes Partnership was awarded and has received \$909,981 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Wilkes Partnership has returned \$28,347 of this contract to the State based on financial status reports submitted to NCPC prior to June 30, 2004.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Affordability - Used to account for service activities associated with child care subsidy programs outside of the Division of Child Development.

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, or professional development.

Family Support - Used to account for service activities including family resource centers or community outreach information and resources.

Health and Safety - Used to account for service activities including comprehensive screenings or comprehensive health services.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were indirectly allocated based on utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 3,986
2006	3,986
2007	<u>1,329</u>
Total Minimum Lease Payments	<u>\$ 9,301</u>

Rental expense for all operating leases during the year was \$28,812.

NOTE 7 - PENSION PLAN

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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 Wilkes Partnership contributed 10% of gross wages for the year ended June 30, 2004. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2004, the Wilkes Partnership contributed \$21,959 to the Plan.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RISK MANAGEMENT

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

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

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Wilkes 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 \$16,356. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
United Way Family & Economic Literacy	\$ 8,332
United Way Scholarship Program	<u>1,305</u>
	<u>\$ 9,637</u>

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

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Wilkes Community College	* \$ 0	\$ 0	\$ 1,126	\$ 0
Wilkes County Health Department	* 37,000			
Wilkes County Schools	* 199,150			
Wilkes Developmental Day School	* 425			
Wilkes Transportation Authority	7,068			
	243,643		1,126	
Individuals:				
Professional Development	2,900			
Child Care Scholarships	26,746		4,307	
	29,646		4,307	
	\$ 273,289	\$ 0	\$ 5,433	\$ 0

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

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 115,000
Wilkes County Department of Social Services	* 738,000
	<u>\$ 853,000</u>
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>	
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>	

Wilkes Community 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
Federal Awards:				
U.S. 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	93.575	6011	\$ 14,233	\$ 14,727
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, Inc.				
Child Care Resource and Referral	93.575	DCD-0304-4	26,595	31,254
Total Federal Awards			40,828	45,981
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	(39,944)	(428)
Early Childhood Initiatives Program (Current Year)	*	N/A	909,981	881,634
Multi-County Accounting and Contracting Grant		N/A	12,000	11,962
Total State Awards			882,037	893,168
Total Federal and State Awards			\$ 922,865	\$ 939,149

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

<i>Wilkes Community Partnership for Children</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2004</i>			<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	34,788
	Computer Equipment/Printers		39,101
	Buildings		1,527
	Leasehold Improvements		14,649
	Total Property and Equipment	\$	90,065
	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.		

***Wilkes Community 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	\$ 36,936
In-Kind Goods and Services	10,947
	<u>\$ 47,883</u>

Match Provided at the Contractor Level:

Cash	\$ 137,168
In-Kind Goods and Services	67,464
	<u>\$ 204,632</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-397, 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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**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
Wilkes Community Partnership for Children
North Wilkesboro, North Carolina

We have audited the financial statements of the Wilkes Community Partnership for Children (Wilkes Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wilkes 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Wilkes Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is reported, with responses, in the Audit Findings and Recommendations section of this report. In addition, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Wilkes Partnership in a separate letter dated December 23, 2004.

Finding

Inadequate Contract Management and Monitoring

**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, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wilkes 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*.

This report is intended solely for the information and use of the audit committee, management of the Wilkes 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 15, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

INADEQUATE CONTRACT MANAGEMENT AND MONITORING

Our testwork identified weaknesses with the Wilkes Partnership's contract management and monitoring systems including the lack of written policies and procedures and limited documentation of its monitoring activities.

Contract management procedures were not a part of the Partnership's accounting policies. We also noted that the Partnership failed to adequately document its monitoring of the More at Four contract activities, including documentation to support adherence to the program guidelines and 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. In addition, an adequate contract management system includes written policies and procedures that provide guidance and direction for the performance and documentation of monitoring activities.

Recommendation: We recommend that the Wilkes Partnership implement contract management and monitoring procedures patterned after guidelines established by The North Carolina Partnership for Children, Inc. Documentation of the Wilkes Partnership's monitoring activities should be enhanced to support compliance with program guidelines and requirements.

Partnership's Response: In response to the finding on inadequate contract management and monitoring, the Wilkes Partnership would like to acknowledge that the purchase of service issue was confusing and the assumption was made that this contract would fall under the same guidelines. The Wilkes Partnership worked on refining policies and procedures in March of 2004 with the assistance of NCPC. The Board of Directors approved new policy and procedures in June of 2004 to be implemented July 2004. The Partnership will follow the new procedures and diligently monitor our More at Four contract to meet all requirements before the release of monies.

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January 13, 2005

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