



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.

SPARTA, 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  
ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.**

**SPARTA, NORTH CAROLINA**

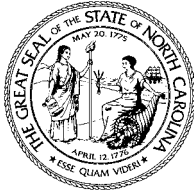
**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**EVA WOOTEN, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**ELLEN B. WRIGHT, EXECUTIVE DIRECTOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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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, Alleghany Partnership for Children, Inc.

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

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

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

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

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Allegheny 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.

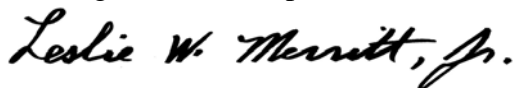
**Results** - The following conditions represent significant deficiencies in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

### **Finding**

1. Improvement Needed for Internal Control
2. Contract Monitoring Deficiencies
3. Inadequate Documentation for the Competitive Bidding Processes
4. Mismanagement of Executive Director

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 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.

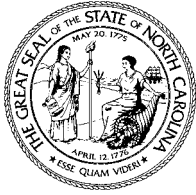


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Alleghany Partnership for Children, Inc.  
Sparta, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Alleghany Partnership for Children, Inc., (Alleghany 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 Alleghany 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 Alleghany Partnership for Children, Inc. 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 April 8, 2005, on our consideration of the Alleghany 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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results 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 Allegheny Partnership for Children, Inc.'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.



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

April 8, 2005

**Alleghany Partnership for Children, Inc.**

**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**

**For the Year Ended June 30, 2004**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$7,341)	\$ 188,967	\$ 50,770	\$ 0	\$ 239,737
Federal Awards (less refunds of \$1,032)		109,595		109,595
Private Contributions		12,774		12,774
Special Fund Raising Events		4,569		4,569
Interest and Investment Earnings		707		707
Sales Tax Refunds		1,888		1,888
Other Receipts		9,112		9,112
<b>Total Receipts</b>	<b>188,967</b>	<b>189,415</b>		<b>378,382</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		2,699	(2,699)	
	<b>188,967</b>	<b>192,114</b>	<b>(2,699)</b>	<b>378,382</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	60,976	19,556		80,532
Child Care and Education Quality	43,714	3,888		47,602
Domestic Violence		41,407		41,407
Family Support	23,714	87,568		111,282
Farmworker Health		75,924		75,924
Health and Safety		966		966
Support:				
Management and General	62,553	14,360		76,913
Program Evaluation	1,339			1,339
Other:				
Sales Tax Paid		1,227		1,227
<b>Total Expenditures</b>	<b>192,296</b>	<b>244,896</b>		<b>437,192</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(3,329)</b>	<b>(52,782)</b>	<b>(2,699)</b>	<b>(58,810)</b>
<b>Net Assets at Beginning of Year Restatement (Note 11)</b>	<b>2,239</b>	<b>82,942</b>		<b>85,181</b>
		<b>(14,447)</b>	<b>14,447</b>	
<b>Net Assets at Beginning of Year after Restatement</b>	<b>2,239</b>	<b>68,495</b>	<b>14,447</b>	<b>85,181</b>
<b>Net Assets at End of Year</b>	<b>\$ (1,090)</b>	<b>\$ 15,713</b>	<b>\$ 11,748</b>	<b>\$ 26,371</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ (816)	\$ 16,683	\$ 11,748	\$ 27,615
Less: Funds Held for Others	274	970		1,244
	<b>\$ (1,090)</b>	<b>\$ 15,713</b>	<b>\$ 11,748</b>	<b>\$ 26,371</b>

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



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

***Exhibit B***

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/Contracts/Grants</u>	<u>Participant Training Expenditures</u>
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 60,976	\$ 19,691	\$ 97	\$ 844	\$ 4,089	\$ 255	\$ 0	\$ 36,000	\$ 0
Child Care and Education Quality	43,714	28,737		1,822	5,207	5,398	1,200		1,350
Family Support	23,714	19,692	51	1,200	2,524	247			
	<u>128,404</u>	<u>68,120</u>	<u>148</u>	<u>3,866</u>	<u>11,820</u>	<u>5,900</u>	<u>1,200</u>	<u>36,000</u>	<u>1,350</u>
<b>Support:</b>									
Management and General	62,553	48,326	1,826	1,261	5,913	5,227			
Program Evaluation	1,339		1,339						
	<u>63,892</u>	<u>48,326</u>	<u>3,165</u>	<u>1,261</u>	<u>5,913</u>	<u>5,227</u>			
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 192,296</u>	<u>\$ 116,446</u>	<u>\$ 3,313</u>	<u>\$ 5,127</u>	<u>\$ 17,733</u>	<u>\$ 11,127</u>	<u>\$ 1,200</u>	<u>\$ 36,000</u>	<u>\$ 1,350</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Affordability	\$ 19,556	\$ 11,717	\$ 28	\$ 652	\$ 1,197	\$ 493	\$ 944	\$ 4,525	\$ 0
Child Care and Education Quality	3,888	2,624		499	515				250
Domestic Violence	41,407	30,413		3,413	5,334	1,959		288	
Family Support	87,568	48,272	1,741	3,079	15,769	14,091		4,616	
Farmworker Health	75,924	47,684	8,329	5,449	11,913	2,249	300		
Health and Safety	966	533				433			
	<u>229,309</u>	<u>141,243</u>	<u>10,098</u>	<u>13,092</u>	<u>34,728</u>	<u>19,225</u>	<u>1,244</u>	<u>9,429</u>	<u>250</u>
<b>Support:</b>									
Management and General	14,360	381	8,454	991	3,794	60	680		
<b>Other:</b>									
Sales Tax Paid	1,227			1,227					
<b>Total Other Funds Expenditures</b>	<u>\$ 244,896</u>	<u>\$ 141,624</u>	<u>\$ 18,552</u>	<u>\$ 15,310</u>	<u>\$ 38,522</u>	<u>\$ 19,285</u>	<u>\$ 1,924</u>	<u>\$ 9,429</u>	<u>\$ 250</u>

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

**ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Alleghany Partnership for Children, Inc., (Alleghany Partnership) is a legally separate nonprofit organization incorporated on December 12, 1994. The Alleghany Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Alleghany 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 Alleghany 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 Alleghany 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)

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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. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Alleghany Partnership acts in an agency capacity. At June 30, the Alleghany Partnership was holding funds in an agency capacity for two local organizations in addition to amounts withheld from employee paychecks for retirement distributions.
- F. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Alleghany Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Alleghany 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.
- G. 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.
- H. Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Alleghany 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS

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

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Alleghany 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 Alleghany 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 Alleghany Partnership was awarded and has received \$193,108 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Alleghany Partnership has returned \$813 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

**Family Resource Center Program** - The Alleghany Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Family Resource Center (FRC) Program.

The Alleghany Partnership was awarded \$80,000 under a current year FRC contract with DHHS and has received \$72,799 of this amount. The unexpended balance of this contract is subject to reversion to the State. This activity is blended with other Smart Start funded family resource activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Alleghany Partnership expects to receive continued funding through new FRC Program contracts with the State.

**Domestic Violence Program** - The Alleghany Partnership also received revenue and support from the State of North Carolina based on a contract with North Carolina Department of Administration for a Domestic Violence Program. The Alleghany Partnership was awarded a base amount of \$29,500, plus a pro-rated share of marriage license fees collected in North Carolina. At June 30, 2004, the Alleghany Partnership had received \$41,970 in grant revenue. The Alleghany Partnership expects to receive continued funding through new Domestic Violence Program contracts with the State.

**Farmworker Health Program** - The Alleghany Partnership also received revenue and support from the State of North Carolina based on a contract with DHHS for the Farmworker Health Program. The Alleghany Partnership was awarded \$90,275 under a current year contract with DHHS and has received \$30,091 during fiscal year ended June 30, 2004. The unexpended balance of this contract is subject to reversion to the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

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

### NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 including public pre-K classes, child care subsidy programs outside of DCD, or part-day care programs.

**Child Care and Education Quality** - Used to account for service activities associated with child care resource and referral.

**Domestic Violence Program** - Used to account for services provided to victims of domestic violence and the provision of community education and/or training pertaining to domestic violence.

**Family Support** - Used to account for service activities including family resource centers, parenting skills training, family crisis intervention, or community outreach information and resources.

**Farmworker Health Program** - Used to support the development and operation of Health Centers and migrant health programs which provide primary health care services (diagnosis and treatment of chronic and acute disease), supplemental health services (x-ray, dental, maternal and child health), technical assistance and environmental health services (pesticide awareness and protection) which are accessible to migrant and seasonal agricultural farmworkers and their families as they move and work.

**Health and Safety** - Used to account for service activities associated with comprehensive health support.

### 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 Evaluation** - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Direct allocation based on employee time reports.

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

### NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 7,339
2006	1,939
2007	1,939
2008	<u>1,615</u>
Total Minimum Lease Payments	<u>\$ 12,832</u>

Rental expense for all operating leases during the year was \$21,245.

### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans - 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 Alleghany Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Alleghany Partnership contributed 8% 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 Alleghany Partnership contributed \$4,814 for retirement benefits during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 8 - RISK MANAGEMENT

The Alleghany 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 Alleghany 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 Alleghany 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 Alleghany 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 \$7,304. No funds or reservation of net assets have been made for this commitment.

### NOTE 10 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Domestic Violence	\$ 8,369
Education Station	2,296
Family Resource Center	<u>1,083</u>
	<u>\$ 11,748</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**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
Domestic Violence	\$ 1,754
Education Station	945
	\$ 2,699

**NOTE 11 - RESTATEMENT OF NET ASSETS**

The Alleghany Partnership received donor restricted funds for various activities during past fiscal years. These funds were incorrectly classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets is required for proper financial presentation for both the Unrestricted Other and the Temporarily Restricted funds and is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2003 Net Assets Restated
Unrestricted Funds - Smart Start	\$ 2,239	\$ 0	\$ 2,239
Unrestricted Funds - Other	82,942	(14,447)	68,495
Temporarily Restricted Funds		14,447	14,447
Total Net Assets	\$ 85,181	\$ 0	\$ 85,181

**NOTE 12 - DEFICIT NET ASSETS – UNRESTRICTED SMART START FUNDS**

The deficit net asset balance for the Unrestricted Smart Start Funds column is a result of unreimbursed expenditures related to old Smart Start grants. These grants are no longer active and the Alleghany Partnership will need to seek assistance from The North Carolina Partnership for Children, Inc. in closing out these past activities.

***Alleghany Partnership for Children, Inc.***  
***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>
Alleghany County Board of Education	* \$ 36,000	\$ 0	\$ 0	\$ 0
Family Resource Center			462	
	<u>36,000</u>		<u>462</u>	
<b>Individuals:</b>				
Summer School Childcare Scholarships			4,525	
Domestic Abuse is Not Acceptable (DANA) Payments			4,442	
			<u>8,967</u>	
	<u>\$ 36,000</u>	<u>\$ 0</u>	<u>\$ 9,429</u>	<u>\$ 0</u>

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

***Alleghany Partnership for Children, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Alleghany County Department of Social Services	* \$ 39,000
Child Care Services Association - WAGE\$ Program	13,097
	<u>\$ 52,097</u>

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

**Allegheny Partnership for Children, Inc.**  
**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>				
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	93.556	* 01099-04	\$ 72,799	\$ 73,387
Pass-through from the Allegheny County Department of Social Services Temporary Assistance for Needy Families	93.558	N/A	4,154	4,154
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from the Work Family Resource Center Child Care and Development Block Grant	93.575	6227-01	3,583	3,888
Pass-through from the North Carolina Department of Health and Human Services - Office of Research, Demonstrations, and Rural Health Development Health Centers Grants for Migrant and Seasonal Farmworkers (Prior Year)	93.246	2090003567	(1,032)	
Health Centers Grants for Migrant and Seasonal Farmworkers (Current Year)	93.246	* 2090003567	30,091	75,924
<b>Total Federal Awards</b>			<u>109,595</u>	<u>157,353</u>
<b>State Awards:</b>				
North Carolina Department of Administration Pass-through from the North Carolina Council for Women Domestic Violence Grant	N/A	* N/A	41,970	41,407
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	N/A	(4,141)	
Early Childhood Initiatives Program (Current Year)	N/A	*	193,108	192,296
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	N/A	(3,200)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	N/A	12,000	12,000
<b>Total State Awards</b>			<u>239,737</u>	<u>245,703</u>
<b>Total Federal and State Awards</b>			<u>\$ 349,332</u>	<u>\$ 403,056</u>

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

***Alleghany Partnership for Children, Inc.***  
***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	\$	14,859
Computer Equipment/Printers		47,299
Leasehold Improvements		994
Motor Vehicles		14,803
		<hr/>
Total Property and Equipment	\$	<u>77,955</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.

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

***Schedule 5***

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

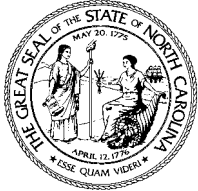
Cash	\$	8,094
In-Kind Goods and Services		<u>19,905</u>
	\$	<u><u>27,999</u></u>

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

Cash	\$	9,291
In-Kind Goods and Services		<u>678</u>
	\$	<u><u>9,969</u></u>

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**

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Board of Directors  
Alleghany Partnership for Children, Inc.  
Sparta, North Carolina

We have audited the financial statements of the Alleghany Partnership for Children, Inc., (Alleghany Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 8, 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 Alleghany 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 Alleghany 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 Audit Findings and Recommendations section of this report:

**Finding**

1. Improvement Needed for Internal Control
2. Contract Monitoring Deficiencies
4. Mismanagement of Executive Director



**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 the following to be a material weakness:

1. Improvement Needed for Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alleghany 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is reported, with responses, in the Audit Findings and Recommendations section of this report.

**Finding**

3. Inadequate Documentation of Competitive Bidding

We noted another matter that we reported to management of the Alleghany Partnership in a separate letter dated July 26, 2005.

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

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

April 8, 2005

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. Finding number 1 was reported in the prior year.

#### 1. IMPROVEMENT NEEDED FOR INTERNAL CONTROL

The prior audit reported deficiencies in the segregation of duties between the authorization, record keeping, and physical custody functions. During the current audit, we continued to note similar concerns related to the Allegheny Partnership's internal control including:

- The deposit code sheets examined were prepared and approved by the Executive Director.
- Payment request forms were reviewed and approved after checks had been processed.
- No approval was noted for any of the journal entries reviewed. The outsourced accounting processor prepared the journal entries, including payroll, with no indication of review or approval. The outsourced accounting processor also entered all journal entries into the accounting system without approval from the Executive Director. Some of the journal entries reviewed did not have adequate supporting documentation.

An internal control system is supported 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 within the organization.

*Recommendation:* We recommend that the Allegheny Partnership enhance its internal control system by updating the policies and procedures to provide for adequate segregation of duties. The timely review and authorization of transactions should be documented within the Partnership's accounting records.

*Partnership's Response:* Immediately following a NCPC monitoring visit in April 2004, the Allegheny Partnership made suggested revisions to policy and procedures to improve segregation of duties. Immediately after the State Audit in April 2005, additional changes were made to policy and procedures to meet State Auditor recommendations to further strengthen internal controls. Additional modifications are being made to the Partnership Policies & Procedures Manual to improve internal controls and to ensure documentation of the timely review and authorization of transactions.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### 2. CONTRACT MONITORING DEFICIENCIES

We identified several deficiencies in our review of the Alleghany Partnership's contract monitoring procedures. Our review of direct service provider activities noted that documentation was lacking to support the monitoring for specific compliance requirements. As an example, we noted that two key program eligibility requirements of the At-Risk Preschool program were not addressed during the Partnership's monitoring of the activity. In addition, we noted that the Partnership's policies and procedures do not address programmatic monitoring.

Effective contract monitoring provides a reporting of actual performance in relation to expected outcomes and a measurement focus on compliance with program requirements.

*Recommendation:* We recommend that the Alleghany Partnership establish policies and procedures for its contract management and monitoring activities to ensure that documentation is maintained to support compliance with program eligibility requirements.

*Partnership's Response:* The Partnership has reviewed the NCPC recommended Contract Monitoring policies procedures and are now in the process of updating the Partnership Policies & Procedures Manual. Some policy changes will be presented at the next board meeting.

### 3. INADEQUATE DOCUMENTATION FOR THE COMPETITIVE BIDDING PROCESSES

Adequate documentation was not available to support the Alleghany Partnership's compliance with legislatively mandated competitive bidding requirements.

*Recommendation:* We recommend that the Alleghany Partnership enhance its documentation procedures to support compliance with the competitive bidding guidelines established by The North Carolina Partnership for Children, Inc., and the *North Carolina General Statutes*.

*Partnership's Response:* Having reviewed the mandated Competitive Bidding Requirements, the staff is now aware of the regulations. Additionally, this section of the Partnership Policies & Procedures Manual will be updated to reflect current legislative and NCPC mandates.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### 4. MISMANAGEMENT OF EXECUTIVE DIRECTOR

The Alleghany Partnership's former Executive Director improperly used the partnership credit card to obtain cash advances for personal use. In addition, we identified instances where the former Executive Director compromised internal control procedures established for the proper disbursement of funds for personal gain.

The former Executive Director improperly obtained cash advances of \$9,500, plus related finance charges, using the partnership credit card. Most advances were repaid within a two-month timeframe; however, the credit card reached its credit limit maximum resulting in the discovery of its improper use. The former Executive Director has made full restitution of these cash advances by direct payments to the issuing credit card company.

A total of \$337 was either diverted from the Family Resource Center Flex (Flex) funds or obtained through inappropriate mileage reimbursement requests. The Flex funds were established for crisis assistance payments. Instances were noted where the former Executive Director completed and approved the crisis payment request form while also preparing and signing a manual check for the payment. In addition, the former Executive Director received permission to charge gas on the Partnership credit card for business purposes; however, mileage reimbursement was also obtained for the same trips. Restitution of all such identified funds was made on April 4, 2005.

These issues were brought to the attention of the Partnership's board of directors on September 2, 2004, at which point the former Executive Director immediately resigned.

*Recommendation:* We recommend that the Alleghany Partnership review and modify the policies and procedures to ensure proper segregation of duties between the authorizing and processing of transactions. The board of directors should carefully consider who should be identified as authorized check signers within its organizational structure. Proper oversight should be given to all disbursement processes.

*Partnership's Response:* Immediately following the NCPC monitoring visit in April 2004, the Partnership revised staff duties in order to ensure proper segregation of duties. May and June 2005 board meetings produced approved revised policies for priority areas such as Cash Receipts/Wire Transfers, Petty Cash, Inventory, and Journal Entries. Other policy changes are expected at the next board meeting as well as ongoing review of the Policies & Procedures Manual. The board has reviewed its signatory authorizations, eliminated the private checking account and placed additional processes in place to ensure proper oversight of disbursements.

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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 Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odum	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director The North Carolina Partnership for Children, Inc.

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Mr. James D. Johnson	Director, Fiscal Research Division
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August 23, 2005

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