



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN, INC.

ASHEVILLE, 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
BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN, INC.

ASHEVILLE, NORTH CAROLINA

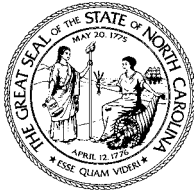
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

DAVID BAILEY, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

N. RONALD BRADFORD, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Buncombe County Partnership for Children, Inc. (Buncombe 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 Buncombe 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 Buncombe 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 Buncombe Partnership is one of these local partnerships. As such, the Buncombe 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 Buncombe 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 condition represents a significant deficiency in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

Finding

Contract Management and Monitoring Deficiencies

This matter is 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.

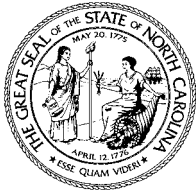
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Buncombe County Partnership for Children, Inc.
Asheville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Buncombe County Partnership for Children, Inc. (Buncombe 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 Buncombe 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 Buncombe County 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 June 9, 2005, on our consideration of the Buncombe 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 of that testing, and not to provide an opinion on the internal control over financial reporting or

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Buncombe County 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.

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

June 9, 2005

Buncombe County 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$81,131)	\$ 2,436,314	\$ 245,838	\$ 2,682,152
Private Contributions		39,163	39,163
Interest and Investment Earnings		3,423	3,423
Sales Tax Refunds		1,349	1,349
Other Receipts		52,527	52,527
Total Receipts	2,436,314	342,300	2,778,614
Expenditures:			
Programs:			
Child Care and Education Quality	1,531,736	36,218	1,567,954
Family Support	51,490	153	51,643
Health and Safety	381,990		381,990
More at Four	189,908	240,875	430,783
Support:			
Management and General	279,835	64,395	344,230
Program Evaluation	64,944		64,944
Other:			
Refund of Prior Year Grant		872	872
Sales Tax Paid		1,419	1,419
Total Expenditures	2,499,903	343,932	2,843,835
Excess of Receipts Over Expenditures	(63,589)	(1,632)	(65,221)
Net Assets at Beginning of Year	73,203	18,402	91,605
Net Assets at End of Year	\$ 9,614	\$ 16,770	\$ 26,384
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 1,585	\$ 16,770	\$ 18,355
Refunds Due From Contractors	8,029		8,029
	\$ 9,614	\$ 16,770	\$ 26,384

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

Buncombe County 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>
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 1,531,736	\$ 0	\$ 0	\$ 0	\$ 3,648	\$ 0	\$ 0	\$ 1,528,088
Family Support	51,490							51,490
Health and Safety	381,990							381,990
More at Four	189,908		86,727					103,181
	<u>2,155,124</u>		<u>86,727</u>		<u>3,648</u>			<u>2,064,749</u>
Support:								
Management and General	279,835	182,212	13,656	5,138	29,146	41,573	7,860	250
Program Evaluation	64,944	63,443					1,501	
	<u>344,779</u>	<u>245,655</u>	<u>13,656</u>	<u>5,138</u>	<u>29,146</u>	<u>41,573</u>	<u>9,361</u>	<u>250</u>
Total Smart Start Fund Expenditures	<u>\$ 2,499,903</u>	<u>\$ 245,655</u>	<u>\$ 100,383</u>	<u>\$ 5,138</u>	<u>\$ 32,794</u>	<u>\$ 41,573</u>	<u>\$ 9,361</u>	<u>\$ 2,064,999</u>
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 36,218	\$ 160	\$ 0	\$ 83	\$ 474	\$ 1,000	\$ 0	\$ 34,501
Family Support	153				153			
More at Four	240,875	18,313						222,562
	<u>277,246</u>	<u>18,473</u>		<u>83</u>	<u>627</u>	<u>1,000</u>		<u>257,063</u>
Support:								
Management and General	64,395	11,334	48,050	1,425	3,275		311	
Other:								
Refund of Prior Year Grant	872					872		
Sales Tax Paid	1,419			1,419				
	<u>2,291</u>			<u>1,419</u>		<u>872</u>		
Total Other Funds Expenditures	<u>\$ 343,932</u>	<u>\$ 29,807</u>	<u>\$ 48,050</u>	<u>\$ 2,927</u>	<u>\$ 3,902</u>	<u>\$ 1,872</u>	<u>\$ 311</u>	<u>\$ 257,063</u>

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

BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Buncombe County Partnership for Children, Inc. (Buncombe Partnership), is a legally separate nonprofit organization incorporated on October 6, 1995. The Buncombe Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Buncombe 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 Buncombe 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.

The Buncombe Partnership did not have any temporarily or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Buncombe Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Buncombe 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.

NOTE 2 - DEPOSITS

All funds of the Buncombe 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 Buncombe Partnership to a concentration of credit risk. At June 30, 2004, the Buncombe Partnership's bank deposits in excess of the FDIC insured limit was \$200,027.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Buncombe 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State could have an adverse effect on the operations of the Buncombe Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Buncombe 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 Buncombe 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 Buncombe Partnership was awarded and has received \$2,509,875 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Buncombe Partnership has returned \$9,614 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

More at Four - The Buncombe Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Buncombe Partnership was awarded \$279,500 and received \$241,408 under a current year cost-reimbursement contract. The Buncombe Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, professional development, salary supplements, or special needs – support for child care professionals.

Family Support - Used to account for service activities associated with community outreach information and resources.

Health and Safety - Used to account for service activities including oral health services, child care health consultants, or special needs – early intervention services/special education.

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 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)

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	\$ 33,260
2006	18,738
Total Minimum Lease Payments	<u>\$ 51,998</u>

Rental expense for all operating leases during the year was \$33,266.

NOTE 7 - PENSION PLAN

The Buncombe Partnership did not have a pension plan in place for its employees. However, after one year of service, each full-time employee of the Buncombe Partnership is provided as part of the benefit package an additional 8.5% of his/her salary to be applied to an individual retirement plan. The Buncombe Partnership has no liability for any other cost other than the required percentage. The Buncombe Partnership contributed \$12,631 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Buncombe 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 Buncombe 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 Buncombe Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences - As a result of the Buncombe 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 \$8,785. No funds or reservation of net assets has been made for this commitment.

Buncombe County Partnership for Children, Inc.
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
Asheville City Schools	* \$ 111,469	\$ 0	\$ 39,337	\$ 0
Asheville-Buncombe Technical Community College	* 87,704	(3,414)		
Blue Ridge Center	* 19,688			
Buncombe County Child Care Services	* 42,625	(727)	16,704	
Buncombe County Health Center	* 347,742			
Community Child Care Center	* 23,777			
Eliada Child Development	73,806		98,697	
Irene Wortham Center	32,046		4,603	
Little Beaver Day Care	49,980			
MarComm, Incorporated	51,550	(60)	11,499	
Mission St. Josephs Child Care	* 63,226			
Mountain Area Child and Family Center	51,700			
Orlena Puckett Institute Learning Alliance	298,979	(3,828)	24,840	
The Opportunity Corporation	* 88,870		61,109	
Various Sustaining Facility Quality-Facilities	443,883			
Western Highlands LME of North Carolina	24,202			
YWCA Child Care Center	22,446		274	
	<u>1,833,693</u>	<u>(8,029)</u>	<u>257,063</u>	
Individuals:				
Sustaining Facility Quality-Individuals	<u>239,335</u>			
	<u>\$ 2,073,028</u>	<u>\$ (8,029)</u>	<u>\$ 257,063</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.

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

Schedule 2

Organization Name	DHHS Contracts
Buncombe County Department of Social Services	* \$ <u>1,023,890</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.

***Buncombe County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2004***

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
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)	N/A	\$ (73,561)	\$ (358)
Early Childhood Initiatives Program (Current Year)	*	2,509,875	2,500,261
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(7,037)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	11,777
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program (Prior Year)	N/A	(533)	
More at Four Pre-Kindergarten Program (Current Year)	* 2090003750	241,408	240,875
Total State Awards		\$ 2,682,152	\$ 2,752,555

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

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

Schedule 4

Furniture and Noncomputer Equipment	\$	10,893
Computer Equipment/Printers		<u>26,275</u>
Total Property and Equipment	\$	<u><u>37,168</u></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.

***Buncombe County 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:

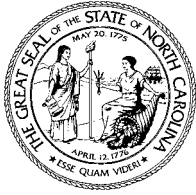
Cash	\$	39,529
In-Kind Goods and Services		<u>23,838</u>
	\$	<u><u>63,367</u></u>

Match Provided at the Contractor Level:

Cash	\$	201,596
In-Kind Goods and Services		<u>107,075</u>
	\$	<u><u>308,671</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

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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
Buncombe County Partnership for Children, Inc.
Asheville, North Carolina

We have audited the financial statements of the Buncombe County Partnership for Children, Inc. (Buncombe Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated June 9, 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 Buncombe 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 Buncombe 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:

Finding

Contract Management and Monitoring Deficiencies

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

**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)**

the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Buncombe 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 Buncombe 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

June 9, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses a condition that represents significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements.

CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

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

- The More at Four program identifies specific eligibility requirements related to age and at risk categories. Documentation available for review did not consistently support the income verification process used in determining the at-risk status of the More at Four program participants. In addition, the persons performing the eligibility processes did not consistently certify the intake applications used in the age verification process.
- The Sustaining Facility Quality - Facilities Incentive (SFQ) program provided bonus payments to teachers who worked at least 32 hours per week with children under the age of 19 months old. The Partnership failed to obtain adequate documentation to support the monitoring of these requirements. In addition, the SFQ program provided bonus payments to teachers based on increasing educational levels. We noted instances where payments were made to teachers prior to obtaining relevant documentation to support the level of payments. Further review determined that these payments were to eligible individuals; however, the supporting documentation was received after the payments were made.
- Documentation was not available to support the monitoring activities of individuals in the Sustaining Facility Quality - Individual Incentive program.

Contract management is essential to establishing terms and expectations for grant recipients, including documentation/verification requirements pertaining to any required eligibility determinations. Monitoring of contractor performance ensures adherence with applicable compliance requirements.

Recommendation: We recommend that the Buncombe Partnership enhance its contract management and monitoring procedures to ensure that documentation is maintained to support compliance with program eligibility requirements. In addition, documentation should be maintained to support all monitoring activities performed in accordance with established program guidelines

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: More at Four Program – Buncombe County Partnership for Children, Inc. (BCPC) recognized in 2004-05 that additional measures need to be taken to ensure that each child participating in the program qualified for the services. As a result, we have reviewed the eligibility process regarding certification of the intake application and age verification guidelines with our More at Four site directors to ensure applicant eligibility. Despite the concern noted by the finding, we were pleased to note that the children who participated in the program in 2003-04 did qualify for the services.

Sustaining Facility Quality (SFQ) – Facilities – We recognized in 2004-05, our second year of the program, that additional measures needed to be taken to ensure that the monitoring of the SFQ program improved. For 2004/05, we implemented a comprehensive and successful monitoring plan for SFQ Facilities and SFQ Individuals. First, the number of SFQ Facilities monitored was increased to 20, or 29%, of participating child care facilities. Second, components of the monitoring process included the review of teacher payroll, employment, and related program records to verify SFQ facilities eligibility. With regard to payments to teachers, our practice in the past was to replace initial transcripts with newly received transcripts as the individual teachers improved their education level. We believe that it is likely that the proper documentation, i.e. transcripts, were in the file when the payments were made. For 2005-06, we will not discard transcripts, but rather place the new transcripts on top of the current transcripts within the educational folders. Despite the concern noted by the finding, we were pleased to note that the teachers who received funding did, in fact, qualify for the services.

Sustaining Facility Quality – Individuals – We recognized in 2004-05, our second year of the program, that additional measures needed to be taken to ensure that proper documentation is maintained to support SFQ compliance and is supported by improved monitoring efforts. To ensure that adequate documentation is on file, we have initiated procedures which include the review and verification of documentation of each participating individual's file. Components of the monitoring plan and procedures include the review of payroll and employment records of 229, or 54%, of participating teachers. Special needs certifications were also reviewed when appropriate in order to verify SFQ individual's eligibility.

In summary, with regard to documentation, we have developed and implemented new steps and procedures to ensure that all documentation is maintained to support compliance with all BCPC programs and eligibility requirements. Improved monitoring plans and procedures are now in place to ensure that proper documentation is maintained to support all monitoring activities. These practices will be continued and further developed in 2005/06.

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August 24, 2005

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