

# **STATE OF NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT OF WILSON COUNTY PARTNERSHIP FOR CHILDREN**

**WILSON, NORTH CAROLINA**

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

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**WILSON COUNTY PARTNERSHIP FOR CHILDREN**

**WILSON, NORTH CAROLINA**

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

**BOARD OF DIRECTORS**

**FRANK E. EMORY, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**ELLIS WILLIFORD, INTERIM EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

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

This report presents the results of our financial statement audit of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson 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 Wilson Partnership is one of these local partnerships. As such, the Wilson 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 Wilson 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 conditions represent significant deficiencies in internal control.

### **Findings**

1. Weaknesses in Contract Management
2. Control Environment

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.

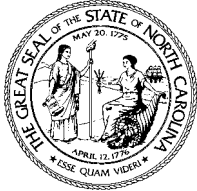


Ralph Campbell, Jr.  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
FINANCIAL STATEMENTS	
EXHIBITS	
A    Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis .....	3
B    Statement of Functional Expenditures – Modified Cash Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1    Schedule of Contract and Grant Expenditures – Modified Cash Basis .....	12
2    Schedule of State Level Service Provider Contracts .....	13
3    Schedule of Federal and State Awards – Modified Cash Basis .....	14
4    Schedule of Property and Equipment – Modified Cash Basis .....	15
5    Schedule of Qualifying Match (Non-GAAP) .....	16
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i> .....	17
AUDIT FINDINGS AND RECOMMENDATIONS .....	19
DISTRIBUTION OF AUDIT REPORT .....	23



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Directors  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson County Partnership for Children as of June 30, 2004, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2004 on our consideration of the Wilson 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 Wilson County 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

October 20, 2004

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

	Unrestricted Funds		Temporarily	
	Smart Start	Other	Restricted	Total
	Fund	Funds	Funds	Funds
<b>Receipts:</b>				
State Awards (less refunds of \$15,371)	\$ 651,968	\$ 347,400	\$ 0	\$ 999,368
Federal Awards		8,344		8,344
Private Contributions		28,985	156	29,141
Interest and Investment Earnings		304		304
Sales Tax Refunds		5,000		5,000
<b>Total Receipts</b>	651,968	390,033	156	1,042,157
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		25,000	(25,000)	
	651,968	415,033	(24,844)	1,042,157
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	227,963	33,824		261,787
Family Support	93,345			93,345
Health and Safety	64,942	25,000		89,942
More at Four	54,051	337,860		391,911
Support:				
Management and General	150,496	13,649		164,145
Program Coordination	51,237	106		51,343
Other:				
Sales Tax Paid		6,451		6,451
<b>Total Expenditures</b>	642,034	416,890		1,058,924
<b>Excess of Receipts Over Expenditures</b>	9,934	(1,857)	(24,844)	(16,767)
<b>Net Assets at Beginning of Year</b>	14,423	(7,180)	25,000	32,243
<b>Net Assets at End of Year</b>	\$ 24,357	\$ (9,037)	\$ 156	\$ 15,476
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 19,520	\$ (9,037)	\$ 156	\$ 10,639
Refunds Due From Contractors	4,837			4,837
	\$ 24,357	\$ (9,037)	\$ 156	\$ 15,476

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



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

***Exhibit B***

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 227,963	\$ 58,951	\$ 8,198	\$ 9,435	\$ 17,104	\$ 14,353	\$ 5,170	\$ 114,096	\$ 656
Family Support	93,345							93,345	
Health and Safety	64,942							64,942	
More at Four	54,051		25,696	527	1,477	497	1,635	24,219	
	<u>440,301</u>	<u>58,951</u>	<u>33,894</u>	<u>9,962</u>	<u>18,581</u>	<u>14,850</u>	<u>6,805</u>	<u>296,602</u>	<u>656</u>
<b>Support:</b>									
Management and General	150,496	114,245	13,766	7,044	10,118	5,165	158		
Program Coordination	51,237	44,356	816	770	2,536	1,134	1,625		
	<u>201,733</u>	<u>158,601</u>	<u>14,582</u>	<u>7,814</u>	<u>12,654</u>	<u>6,299</u>	<u>1,783</u>		
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 642,034</u>	<u>\$ 217,552</u>	<u>\$ 48,476</u>	<u>\$ 17,776</u>	<u>\$ 31,235</u>	<u>\$ 21,149</u>	<u>\$ 8,588</u>	<u>\$ 296,602</u>	<u>\$ 656</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 33,824	\$ 8,824	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 25,000	\$ 0
Health and Safety	25,000							25,000	
More at Four	337,860							337,860	
	<u>396,684</u>	<u>8,824</u>						<u>387,860</u>	
<b>Support:</b>									
Management and General	13,649	135	11,976	1,524	14				
Program Coordination	106				106				
	<u>13,755</u>	<u>135</u>	<u>11,976</u>	<u>1,524</u>	<u>120</u>				
<b>Other:</b>									
Sales Tax Paid	6,451			6,451					
<b>Total Other Funds Expenditures</b>	<u>\$ 416,890</u>	<u>\$ 8,959</u>	<u>\$ 11,976</u>	<u>\$ 7,975</u>	<u>\$ 120</u>	<u>\$ 56</u>	<u>\$ 0</u>	<u>\$ 387,860</u>	<u>\$ 0</u>

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

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

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Wilson County Partnership for Children (Wilson Partnership) is a legally separate nonprofit organization incorporated on October 11, 1994. The Wilson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilson 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 Wilson 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 Wilson 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. 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, Wilson Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Wilson 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 other comprehensive basis of accounting used by the Wilson 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)

---

### NOTE 2 - DEPOSITS

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

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Wilson 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 Wilson 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 Wilson Partnership was awarded \$669,039 under a current year Smart Start contract with NCPC and has received \$667,339 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Wilson Partnership has returned \$28,531 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

**More at Four** – The Wilson Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Wilson Partnership was awarded and received \$335,400 under a current year cost-reimbursement contract. The Wilson Partnership expects to receive continued funding through new More at Four contracts with the State.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Wilson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wilson Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Wilson 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 Wilson 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 their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, learning materials and teaching aids, or curriculum enhancements.

**Family Support** - Used to account for service activities associated with teen parent/child programs.

**Health and Safety** - Used to account for service activities including oral health services, prenatal/newborn services, or child abuse and neglect intervention.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### B. Support Functions

**Management and General** - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

**Program Coordination** - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose including contracted services, supplies and materials, communication costs (telephone, postage, and shipping), occupancy cost (utilities and maintenance), equipment rentals, and insurance 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	\$ 4,071
2006	4,071
2007	<u>2,139</u>
Total Minimum Lease Payments	<u>\$ 10,281</u>

Rental expense for all operating leases during the year was \$4,589.

### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan** - All employees 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 Wilson Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Wilson Partnership contributed

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

6.81% 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 Wilson Partnership contributed \$11,393 for retirement benefits during the year.

### NOTE 8 - RISK MANAGEMENT

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

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Wilson 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 \$5,108. No funds or reservation of net assets has been made for this commitment.
- B. Other Contingencies Resulting from Penalties** - The North Carolina Partnership for Children, Inc. (NCPC) Board of Directors approved an Audit Penalty Policy on June 12, 2003, that provided for the assessment of a penalty against the allocation of local partnerships with three or more audit findings in its Financial Audit Report for the fiscal year ended

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

June 30, 2002 and any subsequent fiscal year. The Wilson Partnership had three findings in their fiscal year ended June 30, 2003 audit report. As a result, the Wilson Partnership was assessed a \$95,359 audit penalty. The Wilson Partnership elected to apply the penalty to the subsequent fiscal year funding from NCPC.

### 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>
Project First Book	<u>\$ 156</u>

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

<u>Purpose</u>	<u>Amount</u>
BB&T – Dental Clinic	<u>\$ 25,000</u>



***Wilson County 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
Carolina Family Health Centers, Inc.	\$ 0	\$ 0	\$ 25,000	\$ 0
Fairplay / JSL Development Center *	4,844		67,280	
Kidsworld Learning Center	14,532		200,840	
Positive Change for Youth	36,031	(272)		
Science Museums of Wilson	54,300			
Wee School Child Development Center *	4,844		69,740	
Wesley Shelter, Inc.	97,910	(4,565)		
Wilson County Cooperative Extension Service *	18,279			
Wilson County Health Department *	10,903			
	241,643	(4,837)	362,860	
<b>Individuals:</b>				
Quality Enhancement Grants	57,871		25,000	
T.E.A.C.H. Scholarships	1,925			
	59,796		25,000	
	\$ 301,439	\$ (4,837)	\$ 387,860	\$ 0

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

***Wilson County 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		\$ 143,989
Wilson County Department of Social Services	*	1,050,298
		<u>\$ 1,194,287</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>		

**Wilson County Partnership for Children****Schedule of Federal and State Awards - Modified Cash Basis****For the Year Ended June 30, 2004****Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
US Department of Labor				
Pass-through from the North Carolina Department of Health and Human Services - Division of Aging				
Pass-through from the Upper Coastal Plain Council of Governments				
Senior Community Service Employment Program	17.235	N/A	\$ 8,344	\$ 8,959
<b>State Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Previous Years)		N/A	(15,371)	(285)
Early Childhood Initiatives Program (Current Year)	*	N/A	667,339	642,319
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	2090003758	335,400	335,400
<b>Total State Awards</b>			999,368	989,434
<b>Total Federal and State Awards</b>			\$ 1,007,712	\$ 998,393

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

<i>Wilson County 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	\$	34,878
	Computer Equipment/Printers		27,418
	Buildings		133,995
	Leasehold Improvements		41,991
	Total Property and Equipment	\$	238,282
	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.		

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

***Schedule 5***

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

Cash	\$	26,656
In-Kind Goods and Services		10,387
	\$	37,043

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

Cash	\$	153,700
In-Kind Goods and Services		25,928
	\$	179,628

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.



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

**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  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the financial statements of the Wilson County Partnership for Children (Wilson Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 20, 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 Wilson 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 Wilson Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are reported, with responses, in the Audit Finding and Recommendation section of this report:

**Finding**

1. Weaknesses in Contract Management
2. Control Environment

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

**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)**

---

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 finding number one described above to be a material weakness. In addition, we noted another matter involving the internal control over financial reporting, which we have reported to the management of the Wilson Partnership in a separate letter dated January 5, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wilson 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 Wilson 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 20, 2004

## AUDIT FINDING AND RECOMMENDATION

---

### **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. Finding numbers 1 and 2 were reported in the prior year.

#### 1. WEAKNESSES IN CONTRACT MANAGEMENT

We identified deficiencies in the Wilson Partnership's contract management and monitoring system during the prior year related to the More at Four activity. Issues addressed were the lack of documentation to support eligibility determinations for the program including the "at risk" and health assessments required by the program. In addition, all funding sources were not made a part of provider contracts resulting in the overpayment of these agreements.

*This finding is partially resolved.* We noted improved documentation standards by the Wilson Partnership to support compliance efforts with the More at Four eligibility requirements. However, issues continued in the area of contract management including the following:

- The Partnership failed to include Smart Start funding or More at Four start-up funding in its More at Four provider agreements resulting in contract overpayments totaling \$25,719.
- Smart Start funds totaling \$6,302 was disbursed to a contracted More at Four Coordinator prior to the execution of a contract.
- There was no formal grant agreement to support \$25,000 paid from the Partnership's private restricted funds for a dental clinic program.

Contract management policies and procedures provide guidance to ensure proper receipt of goods and/or services by the Partnership, timely payment to contractors, and complete, accurate, and consistent recordkeeping for contractual activities.

*Recommendation:* We recommend that the Wilson Partnership enhance and consistently implement its contract management policies and procedures. In addition, the Partnership should ensure that its contract documents address all funding sources in its contract agreements.

*Partnership's Response:* With assistance from the North Carolina Partnership for Children, the Wilson Partnership has implemented improved contract management policies and procedures, which will eliminate this finding in the future. The Executive



## AUDIT FINDING AND RECOMMENDATION (CONTINUED)

---

Director, Finance Officer, and Program Managers are aware of the policies and procedures and will strive to adhere to them in contract activities.

### 2. CONTROL ENVIRONMENT

We previously reported deficiencies in the Wilson Partnership's control environment. The control environment sets the tone of an organization, influencing the control consciousness of its people. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control. Previously reported control environment deficiencies included the Board's failure to document voting abstentions as related to issues of conflict of interest, failure to address repeated audit findings, and the need to address an ongoing noncompliance issue with a private grant.

*This finding is partially resolved.* During the course of the audit, we noted improvement with the Board's documentation of its voting abstentions and adherence with conflict of interest policies. In addition, funds have been obtained to meet the required match as stipulated in the private grant agreement. However, we continued to identify control environment deficiencies as noted below:

- The Partnership continues to have repeated audit findings. The finding related to contract management was first reported for the fiscal year ended June 30, 2000 and continues for the current reporting period.
- We continue to note issues related to the internal control system and the implementation of approved policies and procedures.
- During the fiscal year, the Executive Director was terminated related to Board concerns.

The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations.

*Recommendation:* Attention should be given to addressing the above audit deficiencies to demonstrate the Board's accountability for the Wilson Partnership's actions and its intentions to provide necessary oversight for the Partnership's operations. Assistance should be sought from The North Carolina Partnership for Children, Inc. as considered necessary in resolving these issues.

*Partnership's Response:* The Board is very aware of the management deficiencies of the organization. It has taken steps to change personnel and to ensure that its policies and procedures are followed. It is working with staff to develop better policies and procedures, which will ensure that the same issues do not continue. It is working with NCPC through the performance improvement planning process to restructure the policies

## **AUDIT FINDING AND RECOMMENDATION (CONCLUDED)**

---

and responsibilities so future questions do not occur. There has been a change in the Executive Director, Fiscal Officer, Administrative Assistant, and all program managers as well. With NCPC's continued assistance the Board will have in place proper policies and procedures and will require adherence to these procedures by the staff. The start-up of the Partnership's Audit and Finance Committee will ensure that proper financial recordkeeping and internal controls are in compliance with the agency's policies and procedures, by providing direction and guidance for the operations of the agency. Several positive actions have resulted in improvements as noted. All concerns should be resolved within this fiscal year.

## **DISTRIBUTION OF AUDIT REPORT**

---

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley  
The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Ms. Carmen Hooker Odom  
Mr. Ashley Thrift

Ms. Karen Ponder

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

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore  
Senator Marc Basnight, Co-Chair  
Senator Charles W. Albertson  
Senator Daniel G. Clodfelter  
Senator Walter H. Dalton  
Senator Charlie S. Dannelly  
Senator James Forrester  
Senator Linda Garrou  
Senator Fletcher L. Hartsell, Jr.  
Senator David W. Hoyle  
Senator Ellie Kinnaird  
Senator Jeanne H. Lucas  
Senator Anthony E. Rand  
Senator Eric M. Reeves  
Senator Robert A. Rucho  
Senator R. C. Soles, Jr.  
Senator Scott Thomas

Speaker of the House  
Representative James B. Black, Co-Chair  
Representative Richard T. Morgan, Co-Chair  
Representative Martha B. Alexander  
Representative Rex L. Baker  
Representative Bobby H. Barbee, Sr.  
Representative Harold J. Brubaker  
Representative Debbie A. Clary  
Representative E. Nelson Cole  
Representative James W. Crawford, Jr.  
Representative William T. Culpepper, III  
Representative W. Pete Cunningham  
Representative W. Robert Grady  
Representative Joe Hackney  
Representative Julia C. Howard  
Representative Joe L. Kiser  
Representative Edd Nye  
Representative William C. Owens, Jr.  
Representative Wilma M. Sherrill  
Representative Thomas E. Wright

### **Other Legislative Officials**

Mr. James D. Johnson

Director, Fiscal Research Division

January 14, 2005

## **ORDERING INFORMATION**

---

Copies of this report may be obtained by contacting the:

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647