



STATE OF NORTH CAROLINA

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

FAYETTEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

FAYETTEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

CHARLES MORRIS, CHAIRMAN

ADMINISTRATIVE OFFICER

EVA L. HANSEN, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Cumberland County Partnership for Children, Inc. (Cumberland Partnership) for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Cumberland 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 Cumberland Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Cumberland Partnership is one of these local partnerships. As such, the Cumberland Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by 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** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Cumberland Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

Contract Management and Monitoring

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Finding and Recommendation section of this report.

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cumberland County Partnership for Children, Inc.
Fayetteville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Cumberland County Partnership for Children, Inc. (Cumberland Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Cumberland 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Cumberland County Partnership for Children, Inc. as of June 30, 2001, and the results of its operations 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 May 22, 2002 on our consideration of the Cumberland Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Cumberland County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the 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

May 22, 2002

Cumberland County Partnership for Children, Inc.

Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis

For the Year Ended June 30, 2001

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$1,110,887)	\$ 11,781,560	\$ 57,849	\$ 12,171	\$ 11,851,580
Federal Awards		13,613		13,613
Private Contributions		139,868		139,868
Interest and Investment Earnings		99,903		99,903
Sales Tax Refunds		86,040		86,040
Other Receipts		39,104		39,104
Total Receipts	11,781,560	436,377	12,171	12,230,108
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		38,199	(38,199)	
	11,781,560	474,576	(26,028)	12,230,108
Expenditures:				
Programs:				
Child Care and Education Quality	5,675,492	54,989		5,730,481
Child Care and Education Accessibility and Availability	934,610			934,610
Child Care and Education Affordability	1,204,275			1,204,275
Health and Safety	491,833	138,495		630,328
Family Support	3,773,840	148,657		3,922,497
Support:				
Management and General	495,190	60,148		555,338
Program Evaluation	158,164			158,164
System Integration	72,800			72,800
Other:				
Sales Tax Paid		90,028		90,028
Total Expenditures	12,806,204	492,317		13,298,521
Excess of Receipts Over Expenditures	(1,024,644)	(17,741)	(26,028)	(1,068,413)
Net Assets at Beginning of Year	1,133,549	84,960	(11,943)	1,206,566
Net Assets at End of Year	\$ 108,905	\$ 67,219	\$ (37,971)	\$ 138,153
Net Assets Consisted of:				
Petty Cash	\$	\$ 150	\$	\$ 150
Cash on Deposit	79,378	73,183	(37,971)	114,590
Refunds Due From Contractors	29,598			29,598
	108,976	73,333	(37,971)	144,338
Less: Funds Held for Others	71	6,114		6,185
	\$ 108,905	\$ 67,219	\$ (37,971)	\$ 138,153

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

Cumberland County Partnership for Children, Inc.
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	5,675,492	725,449	82,365	94,253	123,671	25,628	74,888	4,546,504	2,734
Child Care and Education Accessibility and Availability	934,610							934,610	
Child Care and Education Affordability	1,204,275							1,204,275	
Health and Safety	491,833							491,833	
Family Support	3,773,840	404,210	206,431	101,131	137,179	11,608	428,580	2,461,073	23,628
	12,080,050	1,129,659	288,796	195,384	260,850	37,236	503,468	9,638,295	26,362
Support:									
Management and General	495,190	332,395	14,155	13,990	61,124	23,232	50,294		
Program Evaluation	158,164							158,164	
System Integration	72,800							72,800	
	726,154	332,395	14,155	13,990	61,124	23,232	50,294	230,964	0
Total Smart Start Fund Expenditures	12,806,204	1,462,054	302,951	209,374	321,974	60,468	553,762	9,869,259	26,362
Other Funds:									
Programs:									
Child Care and Education Quality	54,989	9,495	10,336	2,345	2,549		2,907	27,357	
Health and Safety	138,495		540	7,693	901	3,586	11,075	114,700	
Family Support	148,657	10,117	29,290	4,739	83,983	520	18,451		1,557
	342,141	19,612	40,166	14,777	87,433	4,106	32,433	142,057	1,557
Support:									
Management and General	60,148	32,595	10,179	275	10,774	1,134	5,191	0	0
Other:									
Sales Tax Paid	90,028	0	0	90,028	0	0	0	0	0
Total Other Funds Expenditures	492,317	52,207	50,345	105,080	98,207	5,240	37,624	142,057	1,557

CUMBERLAND COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Cumberland County Partnership for Children, Inc. (Cumberland Partnership) is a legally separate nonprofit organization incorporated on December 2, 1993. The Cumberland Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cumberland 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 Cumberland Partnership's Board of Directors is responsible. In accordance with 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 Cumberland Partnership did not have any permanently restricted net assets at June 30, 2001.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles 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 STATEMENT (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.
- E. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Cumberland Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities as well as rental deposits for office space.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

The Cumberland Partnership has an Overnight Investment Service to invest excess balances over an established target amount. The investment is in the bank's commercial paper securities and is not insured by the FDIC. Consequently, the Cumberland Partnership bank deposits in excess of the FDIC insured limit totaled \$2,436,316 at June 30, 2001.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Cumberland 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, NCPC and the Department of Health and Human Services (DHHS) entered into

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

contracts with and made payments to service providers selected by the Cumberland Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by NCPC and/or DHHS are presented on Schedule 2 accompanying the financial statements.

The Cumberland Partnership was awarded and has received \$12,892,447 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$83,688 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Cumberland Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Cumberland Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by NCPC and/or DHHS with board member organizations for activities funded by the 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 – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory 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, child care resource and referral, provider training, special needs training for child care

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

professionals, resources and materials, curriculum enhancement, or school readiness programs.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support or increasing child care spaces.

Child Care and Education Affordability - Used to account for service activities including expanding child care eligibility, public preschool classes, Head Start summer programs, scholarship programs, transportation to child care, or outreach plans to assess services.

Health and Safety - Used to account for service activities including speech and hearing screenings, comprehensive health support, special needs – early intervention services, or transportation to health services.

Family Support - Used to account for service activities including family resource centers, teen parent/child programs, intensive home visiting, family crisis intervention, special needs – family support, MotheRead, transportation services, information and resources, outreach plans to assess services, school readiness programs, or community playgrounds.

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.

System Integration – Expenditures incurred for information management across several agencies/organizations bridging numerous service areas.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based employee time reports.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

A. Leases - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 13,162
2003	5,448
2004	4,518
2005	<u>3,389</u>
Total Minimum Lease Payments	<u>\$ 26,517</u>

Total rental expenditure for all operating leases was \$17,494 for the year ended June 30, 2001.

B. Loan Commitment - The Cumberland Partnership has a note with a balance of \$352,774 at June 30, 2001 that is secured by an office building and payable to Centura Bank in monthly installments of \$18,292. This amount includes principal and interest computed at an annual rate of 8.1%.

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

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2002	\$ 198,180	\$ 21,324
2003	<u>154,594</u>	<u>5,134</u>
Total Loan Payments	<u>\$ 352,774</u>	<u>\$ 26,458</u>

NOTE 7 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. The Cumberland Partnership provides a 100% match of employee contributions not to exceed 6% of the employee's annual salary. The voluntary contributions by employees amounted to \$33,760 during the year ended June 30, 2001. The Cumberland Partnership contributed \$25,326 for matching pension benefits during the year.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

Purpose	Amount
School Age Children	\$ (25,821)
Intensive Home Visiting Project	(12,150)
	<u>\$ (37,971)</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
School Age Children	\$ 25,821
Intensive Home Visiting Project	12,150
Healthy Families Christmas Fund	228
	<u>\$ 38,199</u>

Cumberland County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
ARC of Cumberland County	86,203	(1)		
Autism Society of Cumberland County	* 32,702	(60)		
Brown's Consultations	30,000			
Cape Fear Valley Health System	* 130,226	(1,709)		
City of Fayetteville	176,181			
CK Kroll and Associates, Incorporated	20,000	(257)		
County of Cumberland	* 145,761			
Cozy Corner Child Care	* 29,424		848	
Crago, Alvarez and Bicknell Consulting	110,690			
Cumberland Community Action Program, Incorporated	* 1,112,418	(5,638)		
Cumberland County Communicare, Incorporated	8,030			
Cumberland County District Court - Family Court Division	12,575	(31)		
Cumberland County Health Department	* 1,105,451		114,697	
Cumberland County Mental Health	* 341,791	(2,639)		
Cumberland County Public Library	* 377,991	(16,469)		
Cumberland County Public Schools	* 685,040	(1,650)		
Developmental Evaluation Center	* 52,580			
Families First	* 22,410			
Fayetteville Area Youth for Christ	182,000	(1,144)		
Fayetteville Museum of Art	145,724			
Fayetteville State University	* 151,902			
Fayetteville Technical Community College	* 2,429,929			
Friends of the Parks Foundation, Incorporated	57,415			
Methodist College	38,112			
Patrick Crago Consulting	92,275			
Speech Therapy of the Sandhills	59,400			
Town of Falcon	32,796			
Town of Hope Mills	72,881			
Town of Spring Lake	72,381			
University of Alabama - Birmingham	39,444			
Various Day Care Providers	1,610,090		26,512	
Wade Family Medical Center	111,197			
	9,575,019	(29,598)	142,057	0
Individuals:				
Child Care Expense Reimbursements	251,238			
Scholarships/ Bonus Awards	72,600			
	323,838	0	0	0
	9,898,857	(29,598)	142,057	0

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

Cumberland County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Cumberland County Department of Social Services *	2,999,903		2,999,903
National Society to Prevent Blindness - North Carolina Affiliate		86,848	86,848
	2,999,903	86,848	3,086,751

* 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 Department of Health and Human Services (DHHS) or the NC Partnership for Children (NCPC) as described in Note 3 - Funding From Grant Awards.

Cumberland County Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through the NC Department of Health and Human Services Division of Child Development				
School Age Children Grant	93.575	5911	\$ 13,613	\$ 39,434
State Awards:				
North Carolina Department of Health and Human Services				
Pass-through the Division of Public Health				
Home Visitation Grant		15340001	20,020	20,000
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)		1-90-1-04-001	(1,110,887)	(928)
Early Childhood Initiatives Program (Current Year)		* 1-01-1-04-001E	858,150	858,150
Early Childhood Initiatives Program (Current Year)		* 1-01-1-04-001	12,034,297	11,948,982
Multi-County Accounting and Contracting Grant		N/A	50,000	36,000
Total State Awards			11,851,580	12,862,204
Total Federal and State Awards			\$ 11,865,193	\$ 12,901,638
* Programs with compliance requirements that have a direct and material effect on the financial statement.				

Cumberland County Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$ 213,185
Computer Equipment/Printers	455,500
Buildings	2,295,534
Leasehold Improvements	60,459
Total Property and Equipment	\$ 3,024,678
<p>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. On the regulatory basis of accounting, these items are expensed in the year purchased.</p>	

Cumberland County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 179,629
In-Kind Goods and Services	385,318
	<u>\$ 564,947</u>

Match Provided at the Contractor Level:

Cash	\$ 799,337
In-Kind Goods and Services	207,362
	<u>\$ 1,006,699</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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

Board of Directors
Cumberland County Partnership for Children, Inc.
Yayetteville, North Carolina

We have audited the financial statements of the Cumberland County Partnership for Children, Inc. (Cumberland Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 22, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Cumberland Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland 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 assurance 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

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

reporting that, in our judgment, could adversely affect the Cumberland Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

Contract Management and Monitoring

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, 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

May 22, 2002

AUDIT FINDING AND RECOMMENDATION

Matters Related to Financial Reporting

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents a significant deficiency in internal control.

CONTRACTS MANAGEMENT AND MONITORING

We identified weaknesses in the Cumberland Partnership's contract management and monitoring system that included:

- The Partnership made payments totaling \$25,884 prior to the execution of formal contracts. In addition, the Partnership reimbursed a service provider \$45,910 from current year funds for activities related to a prior year contract.
- The Partnership failed to adequately document its contract amendments with local municipalities related to the Community Playground project. Payments totaled \$565,850, of which \$114,326 would be considered prepayments as all goods and/or services were not received prior to payment.
- Criteria established by the Partnership for the management and monitoring of various grant activities were not consistently followed. Transportation program expenditures totaling \$31,056 were not supported by adequate documentation as to the eligibility of the payment and are considered to be questioned costs.

The achievement of the partnership goals is dependent on the effectiveness of the contract management system and monitoring of subcontractor and grantee performance.

Recommendation: We recommend that the Partnership further refine its contract management system to ensure compliance with established policies and procedures. Formal contract documents should be executed prior to the disbursement of funds and all payments should be made within the appropriate contract period. In accordance with the terms of its contracts, all changes to original contracts should be incorporated in written amendments signed by all parties. Payments should be in accordance with established criteria and properly monitored to ensure the verification of eligibility requirements and that expected outcomes are achieved. In addition, we recommend that the Cumberland Partnership seek appropriate guidance from its funding agency, the North Carolina Partnership for Children, Inc., for the resolution of the above-identified questioned costs.

Partnership's Response: The Cumberland County Partnership for Children (PFC) has continued to refine contracts management and monitoring for the purpose of quality improvement. The Board is currently reviewing the Contracts Manual.

AUDIT FINDING AND RECOMMENDATION (CONCLUDED)

The two prepayments were exceptions to the general PFC practice conducted that fiscal year in the execution of 430 contracts, as was the payment of \$45,910 to a local agency for services rendered in the previous fiscal year. This payment was made due to extenuating circumstances and at the time we thought it was executed appropriately. During the first few months of 2000 we were in the process of changing the transportation grant procedures and this refined process began implementation in October of 2000. PFC is in consultation with the North Carolina Partnership for Children regarding this issue and is confident the issue will be resolved positively when the archived files are fully researched.

We strive to adhere to all rules and regulations in the operation of the PFC and the implementation of Smart Start in our community in accordance with North Carolina statutes and in the spirit of the Smart Start legislation. The issues identified by the auditors in this finding were not intentional disregard for policies or laws. Suggestions from the Smart Start audit team that assist our operations are appreciated. We are committed to doing the right things for children in the right way.

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September 13, 2002

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