

FINANCIAL STATEMENT AUDIT REPORT OF
HERTFORD COUNTY PARTNERSHIP FOR CHILDREN
MURFREESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF STATE AUDITOR
RALPH CAMPBELL, JR.

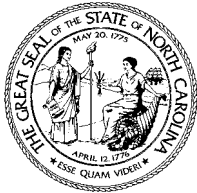
FINANCIAL STATEMENT AUDIT REPORT OF
HERTFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.
MURFREESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DENNIS DELOATCH, CHAIRMAN

ADMINISTRATIVE OFFICER

CYNTHIA SCHADE, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Hertford County Partnership for Children, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Hertford County Partnership for Children, Inc. 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 partnerships. The Hertford County Partnership for Children, Inc. is one of these local partnerships. As such, the Hertford County Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all 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.

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

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hertford County Partnership for Children, Inc.
Murfreesboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Hertford County Partnership for Children, Inc. (Hertford 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 Hertford 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 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 Hertford 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2002 on our consideration of the Hertford 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Hertford 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.

January 18, 2002

Crisp Hughes Evans LLP

Hertford 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 | | |
|---|---------------------------|--------------------|--------------------|
| | Smart Start Fund | Other Funds | Total Funds |
| Receipts: | | | |
| State Awards (less refunds of \$1,103) | \$ 792,148 | \$ 11,700 | \$ 803,848 |
| Federal Awards | - | 86,195 | 86,195 |
| Private Contributions | - | 81,370 | 81,370 |
| Special Fund Raising Events | - | 3,769 | 3,769 |
| Interest and Investment Earnings | - | 3,324 | 3,324 |
| Sales Tax Refunds | - | 3,147 | 3,147 |
| Other Receipts | - | 2,824 | 2,824 |
| Total Receipts | 792,148 | 192,329 | 984,477 |
| Expenditures: | | | |
| Programs: | | | |
| Child Care and Education Quality | 245,055 | 46,922 | 291,977 |
| Child Care and Education Affordability | 174,395 | - | 174,395 |
| Health and Safety | 85,849 | 41,764 | 127,613 |
| Family Support | 130,926 | - | 130,926 |
| Support: | | | |
| Management and General | 113,032 | 13,503 | 126,535 |
| Program Evaluation | 41,420 | 1,500 | 42,920 |
| Special Fund Raising Events | - | 970 | 970 |
| Other: | | | |
| Sales Tax Paid | - | 2,509 | 2,509 |
| Total Expenditures | 790,677 | 107,168 | 897,845 |
| Excess of Receipts Over Expenditures | 1,471 | 85,161 | 86,632 |
| Net Assets at Beginning of Year | 10,072 | 7,574 | 17,646 |
| Net Assets at End of Year | \$ 11,543 | \$ 92,735 | \$ 104,278 |
| Net Assets Consisted of: | | | |
| Cash on Deposit | \$ 12,945 | \$ 92,960 | \$ 105,905 |
| Less: Funds Held for Others | 1,402 | 225 | 1,627 |
| | \$ 11,543 | \$ 92,735 | \$ 104,278 |

The accompanying notes are an integral part of these statements.

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

Exhibit B

| | Total | Personnel | Contracted Services | Supplies and Materials | Other Operating | Fixed Charges and Other | Property and Equipment Outlay | Services/ Contracts/Participant Grants | Training |
|--|------------------|------------------|------------------------|------------------------------|--------------------|-------------------------------|--|--|-----------------|
| Smart Start Fund: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$245,055 | \$ 85,296 | \$ 3,180 | \$ 18,130 | \$ 53,768 | \$ 4,588 | \$ 4,559 | \$ 70,701 | \$ 4,833 |
| Child Care and Education Affordability | 174,395 | 20,317 | - | - | - | - | - | 154,078 | - |
| Health and Safety | 85,849 | - | - | - | - | - | - | 85,849 | - |
| Family Support | 130,926 | 2,742 | - | - | - | - | - | 128,184 | - |
| Support: | | | | | | | | | |
| Management and General | 113,032 | 75,437 | 3,459 | 3,252 | 24,580 | 3,883 | 2,421 | - | - |
| Program Evaluation | 41,420 | 23,105 | 3,550 | 4,175 | 8,619 | 442 | 1,529 | - | - |
| Total Smart Start Fund Expenditures | \$790,677 | \$206,897 | \$ 10,189 | \$ 25,557 | \$ 86,967 | \$ 8,913 | \$ 8,509 | \$438,812 | \$ 4,833 |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 46,922 | \$ 39,965 | \$ 840 | \$ 1,132 | \$ 2,889 | \$ 850 | \$ - | \$ 1,240 | \$ 6 |
| Health and Safety | 41,764 | 5,801 | - | 938 | 1,218 | 336 | - | 33,471 | - |
| Support: | | | | | | | | | |
| Management and General | 13,503 | 3,994 | 8,539 | - | 33 | - | 937 | - | - |
| Program Evaluation | 1,500 | - | - | - | 1,500 | - | - | - | - |
| Special Fund Raising Events | 970 | - | - | - | 970 | - | - | - | - |
| Other: | | | | | | | | | |
| Sales Tax Paid | 2,509 | - | - | 2,509 | - | - | - | - | - |
| Total Other Funds Expenditures | \$107,168 | \$ 49,760 | \$ 9,379 | \$ 4,579 | \$ 6,610 | \$ 1,186 | \$ 937 | \$ 34,711 | \$ 6 |

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Hertford County Partnership for Children, Inc. (Hertford Partnership) is a legally separate nonprofit organization incorporated on March 17, 1994. The Hertford Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hertford 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 Hertford 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.

The Hertford Partnership did not have any temporarily or 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 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

D. 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 Hertford Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. 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

All funds of the Hertford Partnership are deposited with two commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subject the Hertford Partnership to a concentration of credit risk. At June 30, 2001, the Hertford Partnership's bank deposits in excess of the FDIC insured limit was \$26,209.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Hertford 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 Department of Health and Human Services (DHHS) entered into a contract with and made payments to a service provider selected by the Hertford Partnership. This service provider contract is not reflected on the accompanying financial statement. However, a summary of the service provider contract entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Hertford Partnership was awarded and has received \$792,951 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$655 of this contract 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Hertford Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Hertford 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 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, program upgrade projects, child care resource and referral, professional development and salary supplements.

Child Care and Education Affordability - Used to account for service activities including public preschool classes, transportation to child care and administrative Smart Start subsidy.

Health and Safety - Used to account for service activities including outreach nurses, comprehensive health support and school readiness/developmental screenings.

Family Support - Used to account for service activities including parenting skills training, family crisis intervention, family literacy, and transportation services.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

Special Fund Raising Events - Expenditures of special fund raising events in which the donor receives a direct benefit.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

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

NOTE 6 - PENSION PLAN

The Hertford Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Hertford Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Hertford Partnership contributed 2% of gross wages for the year ended June 30, 2001. The Hertford Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2001, the Hertford Partnership had a total payroll of \$209,302. The Partnership contributed \$3,040 for pension benefits during the year.

Hertford 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 |
| Choanoke Area Development Association | \$ 90,088 | \$ - | \$ - | \$ - |
| Choanoke Public Transportation | 29,534 | - | - | - |
| Hertford County Schools | * 135,401 | - | - | - |
| Hertford Gates Health District Health Department | * 39,685 | - | - | - |
| Roanoke Chowan Hospital | 37,029 | - | - | - |
| Roanoke Chowan Human Services | * 9,135 | - | - | - |
| Roanoke Chowan SAFE | 27,239 | - | - | - |
| Individuals: | | | | |
| Barbara Everette | * 450 | - | - | - |
| Child Care Expense Reimbursements | 23,502 | - | 1,130 | - |
| Various Day Care Providers | 7,463 | - | - | - |
| Scholarships/ Bonus Awards | 39,286 | - | 33,581 | - |
| | \$ 438,812 | \$ - | \$ 34,711 | \$ - |

See Independent Auditors' Report.

Hertford 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 |
|---|---------------------------|
| Hertford County Department of Social Services | * \$ 157,555 |

- * 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) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

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

Schedule 3

| <u>Federal/State Grantor/Pass-through Grantor/Program</u> | <u>Federal CFDA Number</u> | <u>Contract #</u> | <u>Receipts</u> | <u>Expenditures</u> |
|---|------------------------------------|-------------------|-----------------|---------------------|
| Federal Awards: | | | | |
| U.S. Department of Agriculture Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health Child and Adult Care Food Program | 10.555 | 7726-201 | \$ 45,841 | \$ 41,695 |
| U.S. Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care and Development Fund | 93.575 | 5864 | 40,354 | 40,178 |
| Total Federal Awards | | | 86,195 | 81,873 |
| 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 | 1-90-1-07-001 | (803) | (1,619) |
| Early Childhood Initiatives Program (Current Year) | N/A | * 1-01-1-07-001 | 792,951 | 792,296 |
| Multi-County Accounting and Contracting Grant (Prior Year) | N/A | - | (300) | - |
| Multi-County Accounting and Contracting Grant (Current Year) | N/A | - | 12,000 | 12,000 |
| Total State Awards | | | 803,848 | 802,677 |
| Total Federal and State Awards | | | \$ 890,043 | \$ 884,550 |

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

See Independent Auditors' Report.

Hertford County Partnership for Children, Inc.

Schedule of Property and Equipment

For the Year Ended June 30, 2001

Schedule 4

| | |
|--------------------------------------|-------------------|
| Furniture and Non-Computer Equipment | \$ 31,278 |
| Computer Equipment/Printers | 40,318 |
| Buildings | 90,966 |
| Land | 13,486 |
| Leasehold Improvements | <u>18,968</u> |
| Total Property and Equipment | <u>\$ 195,016</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. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

Hertford 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 | \$ 81,370 |
| In-Kind Goods and Services | <u>49,545</u> |
| | <u>\$ 130,915</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 accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

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

Board of Directors
Hertford County Partnership for Children, Inc.
Murfreesboro, North Carolina

We have audited the financial statements of the Hertford County Partnership for Children, Inc. (Hertford Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 18, 2002. We conducted our audit in accordance with generally accepted auditing standards 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 Hertford 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, which are reported in the Audit Findings and Recommendations section of this report, 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 Hertford 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

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

reportable condition involves a matter 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 Hertford 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 is described in the Audit Findings and Recommendations section of this report:

1. CASH DISBURSEMENTS

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.

We also noted a matter involving an issue of a management control nature that is described in the Audit Findings and Recommendations section of this report.

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.

January 18, 2002

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Material Findings and Recommendations from the Current Audit - The following presents a finding, determined during the current audit, which represents a significant deficiency in internal controls.

1. CASH DISBURSEMENTS

During our audit of the Hertford Partnership, we identified the following weakness in the Partnership's internal control over cash disbursements:

Evidence to support the authorization and processing of transactions was not adequately documented and, in several cases, was not available for our review.

- Several checks did not have supporting invoices or other documentation to support the disbursement.
- Evidence to support the general ledger account coding was not indicated on the invoice in several instances.
- Several invoices were not marked paid.

Recommendation: Weaknesses in the internal controls over cash disbursements affect the Partnership's ability to achieve its goals and objectives to be accountable for its activities. We recommend that the Hertford Partnership ensure that evidence exists to support the authorizing and processing of transactions. For example, all invoices should be stamped as paid and the purchase order, invoice, and check copy should be maintained in a file to ensure that the expenditures are adequately supported.

Partnership's Response: We have taken corrective actions to address the noted areas of weakness in our internal controls over cash disbursements. We are in the process of revising most of our policies and procedures as well.

Other Observations and Recommendations - The following presents a management control issue related to the efficiency and effectiveness of operations.

2. CREDIT CARD LIMIT

During our audit, we noted that the limit on the Partnership's credit card is approximately \$7,500. Although controls over the use of the credit card appear adequate to prevent any abuse of the card, we recommend that the Partnership lower the limit to a reasonable amount to reduce the Partnership's liability if the card were ever abused.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: The credit card referenced is the Partnership's Walmart card, which has a \$7,500 spending limit. Although we would recommend that the limit remain the same, please be advised that as of January 2002, the following administrative actions were taken to prevent abuse of the card:

- There is now only one custodian of the card for the Partnership, the Executive Assistant.
- All purchases on the card must be pre-approved via a signed purchase order. To support this preventative measure, Walmart has also added a security feature to the Hertford Partnership card whereby the Walmart cashier cannot complete the purchase on the card if the user does not have a Purchase Order number at the time of check out. Without this information, Walmart will decline the charge.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. §147-64.5 and G.S. §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

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
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

Ms. Karen Ponder

LEGISLATIVE BRANCH

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Senator Charlie Albertson
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Senator Charles Carter
Senator Daniel G. Clodfelter
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