



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**THE JONES CARTERET PARTNERSHIP FOR CHILDREN**  
**TRENTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**THE JONES CARTERET PARTNERSHIP FOR CHILDREN**  
**TRENTON, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**BOARD OF DIRECTORS**

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**ADMINISTRATIVE OFFICERS**

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**SHERRY PEEL, EXECUTIVE DIRECTOR – MOREHEAD CITY LOCATION**



Ralph Campbell, Jr.  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, The Jones Carteret Partnership For Children

This report presents the results of our financial statement audit of The Jones Carteret Partnership For Children (Jones Carteret 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 Jones Carteret 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 Jones Carteret 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 Jones Carteret Partnership is one of these local partnerships. As such, the Jones Carteret 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)

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

**Results** - The following instance of noncompliance was detected:

**Finding**

4. Competitive Bidding

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

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

**Results** - The following significant deficiencies were detected in internal control over financial reporting:

**Finding**

1. Control Environment
2. Contract Management and Monitoring
3. Authorization and Processing of Transactions

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting 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

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
The Jones Carteret Partnership For Children  
Trenton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of The Jones Carteret Partnership For Children (Jones Carteret 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 Jones Carteret 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 Jones Carteret Partnership For Children 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 March 8, 2002 on our consideration of the Jones Carteret 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)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of The Jones Carteret Partnership For Children 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

March 8, 2002

**The Jones Carteret Partnership For Children**  
**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		
<b>Receipts:</b>				
State Awards (less refunds of \$141,175)	\$ 1,160,981	\$ 23,993	\$ 0	\$ 1,184,974
Federal Awards		109,165		109,165
Local Awards		3,488		3,488
Private Contributions		23,166	2,875	26,041
Special Fund Raising Events	5	(1,480)		(1,475)
Interest and Investment Earnings		4,005		4,005
Sales Tax Refunds		1,011		1,011
<b>Total Receipts</b>	<b>1,160,986</b>	<b>163,348</b>	<b>2,875</b>	<b>1,327,209</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		11	(11)	
	<b>1,160,986</b>	<b>163,359</b>	<b>2,864</b>	<b>1,327,209</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	169,764	54,482		224,246
Child Care and Education Accessibility and Availability	29,946			29,946
Child Care and Education Affordability	516,726	5,013		521,739
Health and Safety	108,807	62,918		171,725
Family Support	246,344	2,060		248,404
Support:				
Management and General	188,270	43,890		232,160
Program Evaluation	30,247			30,247
Other:				
Sales Tax Paid		2,191		2,191
<b>Total Expenditures</b>	<b>1,290,104</b>	<b>170,554</b>		<b>1,460,658</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(129,118)</b>	<b>(7,195)</b>	<b>2,864</b>	<b>(133,449)</b>
<b>Net Assets at Beginning of Year</b>	<b>150,742</b>	<b>24,106</b>	<b>6,198</b>	<b>181,046</b>
<b>Net Assets at End of Year</b>	<b>\$ 21,624</b>	<b>\$ 16,911</b>	<b>\$ 9,062</b>	<b>\$ 47,597</b>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 13,750	\$ 16,911	\$ 9,062	\$ 39,723
Refunds Due From Contractors	7,874			7,874
	<b>\$ 21,624</b>	<b>\$ 16,911</b>	<b>\$ 9,062</b>	<b>\$ 47,597</b>

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



**The Jones Carteret Partnership For Children  
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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	169,764	35,167	134	7,600	4,445	2,792	3,736	115,890	
Child Care and Education Accessibility and Availability	29,946							29,946	
Child Care and Education Affordability	516,726	51,915	312	11,243	5,774	1,390	5,237	440,855	
Health and Safety	108,807							108,807	
Family Support	246,344	36,407	166	4,549	2,934	987		201,301	
	<b>1,071,587</b>	<b>123,489</b>	<b>612</b>	<b>23,392</b>	<b>13,153</b>	<b>5,169</b>	<b>8,973</b>	<b>896,799</b>	<b>0</b>
<b>Support:</b>									
Management and General	188,270	124,626	468	4,300	26,252	25,634	6,990		
Program Evaluation	30,247	26,531	15	189	1,061		2,451		
	<b>218,517</b>	<b>151,157</b>	<b>483</b>	<b>4,489</b>	<b>27,313</b>	<b>25,634</b>	<b>9,441</b>	<b>0</b>	<b>0</b>
<b>Total Smart Start Fund Expenditures</b>	<b>1,290,104</b>	<b>274,646</b>	<b>1,095</b>	<b>27,881</b>	<b>40,466</b>	<b>30,803</b>	<b>18,414</b>	<b>896,799</b>	<b>0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	54,482	36,180	119	5,432	9,691	1,246	1,169	645	
Child Care and Education Affordability	5,013			1,115		3,898			
Health and Safety	62,918	55,075	202	300	5,059	1,245	307	730	
Family Support	2,060	1,105		841	114				
	<b>124,473</b>	<b>92,360</b>	<b>321</b>	<b>7,688</b>	<b>14,864</b>	<b>6,389</b>	<b>1,476</b>	<b>1,375</b>	<b>0</b>
<b>Support:</b>									
Management and General	43,890	0	24,000	12,329	0	600	3,549	2,912	500
<b>Other:</b>									
Sales Tax Paid	2,191	0	0	2,191	0	0	0	0	0
<b>Total Other Funds Expenditures</b>	<b>170,554</b>	<b>92,360</b>	<b>24,321</b>	<b>22,208</b>	<b>14,864</b>	<b>6,989</b>	<b>5,025</b>	<b>4,287</b>	<b>500</b>

**THE JONES CARTERET PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Jones Carteret Partnership for Children (Jones Carteret Partnership) is a legally separate nonprofit organization incorporated on April 13, 1998. The Jones Carteret Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Jones Carteret 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 Jones Carteret 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 Jones Carteret 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 STATEMENTS (CONTINUED)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

**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. 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 Jones Carteret Partnership are deposited between two commercial banks and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for each bank. Deposits over this amount subjects the Jones Carteret Partnership to a concentration of credit risk. At June 30, 2001, the Jones Carteret Partnership's bank deposits in excess of the FDIC insured limit was \$47,308.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Jones Carteret Partnership was awarded and has received \$1,302,149 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 \$11,541 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.

**Child Care Resource and Referral Program** - The Jones Carteret Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child Care Resource and Referral Program (CCR&R) Program.

The Jones Carteret Partnership was awarded \$53,970 under a current year CCR&R contract with DHHS and has received \$50,443 of this amount.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Jones Carteret Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Jones Carteret 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, child care resource and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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referral, salary supplements, child care provider support, and curriculum enhancement.

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

**Child Care and Education Affordability** - Used to account for service activities including public preschool classes, scholarship program(s), supplements for quality, cooperative play groups, and enrolled part day care programs.

**Health and Safety** - Used to account for service activities including immunization support, health clinic, prenatal/newborn services, outreach nurses, and child abuse and neglect intervention.

**Family Support** - Used to account for service activities including a mobile family resource center, parenting skills training, literacy projects, transportation services, information and resources, and a family specialist.

### 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.

### 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, and communication costs (telephone and printing) were allocated based on estimates of utilization or utilization data.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 6 - COMMITMENTS AND CONTINGENCIES

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	\$ 34,262
2003	24,195
2004	2,366
2005	<u>1,577</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 62,400</u></b>

Total rental expenditure for all operating leases was \$28,292 for the year ended June 30, 2001.

### NOTE 7 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
For All Kids Foundation	\$ 708
Mobile Education Center	839
Speech, Language, and Hearing	2,641
Welcome Baby Activity	3,578
Multicultural Translation Grant	<u>1,296</u>
	<b><u>\$ 9,062</u></b>

**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:

<u>Purpose</u>	<u>Amount</u>
Mobile Education Center	<b><u>\$ 11</u></b>

**The Jones Carteret Partnership For Children  
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
Carteret Cooperative Extension *	136,973	(7,874)		
Carteret County Board of Education *	57,468			
Carteret County Rape Crisis Program	5,064			
Colony Day Care *	14,748			
Craven Area Rural Transit System	12,457			
Jones County Health Department *	23,703			
Jones County Public Schools *	125,000			
Little Citizens Day Care	37,234			
My School, Inc. *	94,543			
Nancy Barton of Music on the Move	57,000			
Neuse Center for Mental Health *	43,626			
Neuse Center for Mental Health *	53,513			
Newport Developmental Center *	35,356			
Pollocksville Presbyterian Child Care *	25,646			
Saint James Day Care & Preschool *	46,474			
Various Day Cares	70,686			
White Oak Christian Academy Day Care	42,485			
	<b>881,976</b>	<b>(7,874)</b>	<b>0</b>	<b>0</b>
<b>Individuals:</b>				
Child Care Expense Reimbursements	3,622		4,287	
Multicultural Translators	10,015			
Salary Supplement	9,060			
	<b>22,697</b>	<b>0</b>	<b>4,287</b>	<b>0</b>
	<b>904,673</b>	<b>(7,874)</b>	<b>4,287</b>	<b>0</b>

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

***The Jones Carteret Partnership For Children  
 Schedule of State Level Service Provider Contracts  
 For the Year Ended June 30, 2001***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGES Program	<b>34,925</b>
* 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.	



**The Jones Carteret Partnership For Children**  
**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
<b>Federal Awards:</b>				
North Carolina Department of Health and Human Services				
Division of Child Development				
Child Care Resource and Referral (Prior Year)	93.575	5747	\$ 2,070	\$ 0
Child Care Resource and Referral (Current Year)	93.575	5866	50,443	53,965
<b>Total Federal Awards</b>			52,513	53,965
<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 (Prior Year)	*	1-90-1-08-001	(141,168)	
Early Childhood Initiatives Program (Current Year)	*	1-01-1-08-001	1,302,149	1,290,104
Multi-County Accounting and Contracting Grant (Prior Year)			(7)	
Multi-County Accounting and Contracting Grant (Current Year)			24,000	24,000
<b>Total State Awards</b>			1,184,974	1,314,104
<b>Total Federal and State Awards</b>			\$ 1,237,487	\$ 1,368,069
* Programs with compliance requirements that have a direct and material effect on the financial statement.				

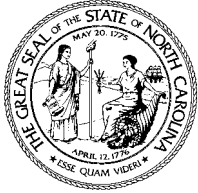
***The Jones Carteret Partnership For Children***  
***Schedule of Property and Equipment***  
***For the Year Ended June 30, 2001*** ***Schedule 4***

	Furniture and Non-Computer Equipment	\$	34,943
	Computer Equipment/Printers		48,226
	Leasehold Improvements		13,683
	Motor Vehicles		45,208
	<b>Total Property and Equipment</b>	<b>\$</b>	<b>142,060</b>
	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.		

***The Jones Carteret Partnership For Children  
Schedule of Qualifying Match (Non-GAAP)  
For the Year Ended June 30, 2001***

***Schedule 5***

<b><i>Match Provided at the Partnership Level:</i></b>			
Cash		\$	125,899
In-Kind Goods and Services			29,993
			<u>155,892</u>
		\$	<u>155,892</u>
<b><i>Match Provided at the Contractor Level:</i></b>			
Cash		\$	1,017
In-Kind Goods and Services			388,381
			<u>389,398</u>
		\$	<u>389,398</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.		



Ralph Campbell, Jr.  
State Auditor

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**Office of the State Auditor**

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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**

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Board of Directors  
The Jones Carteret Partnership For Children  
Trenton, North Carolina

We have audited the financial statements of The Jones Carteret Partnership For Children (Jones Carteret Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 8, 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 Jones Carteret 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Finding**

4. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jones Carteret 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

**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)**

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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 Jones Carteret Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

**Finding**

1. Control Environment
2. Contract Management and Monitoring
3. Authorization and Processing of Transactions

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 conditions described above to be material weaknesses.

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

March 8, 2002

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

*Current Year Findings and Recommendations Also Reported in Prior Audit* - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

#### 1. CONTROL ENVIRONMENT

During the prior year, we noted that The Jones Carteret Partnership's Board had not effectively addressed issues related to the Partnership's control environment including staffing, policy development, and fiscal accountability.

*This finding is partially resolved.* The Partnership addressed its staffing needs during the 2001 fiscal year. However, the Partnership continued to operate without adequate policies and procedures. Financial policies have not been updated and approved and we noted an inadequate segregation of the cash receipting functions during the current year. The Partnership did not approve personnel policies and procedures until the 2002 fiscal year.

*Recommendation:* We recommend that the Board immediately address the Partnership's need for adequate fiscal policies and procedures. Those policies should establish proper segregation of duties for all accounting functions and strengthen the Partnership's financial accountability.

*Partnership's Response:* As the Partnership became aware of the deficiencies, changes were made to the policies and procedures to correct them. However, it was very late in the fiscal year when these deficiencies were discovered. The Carteret County Partnership for Children Board of Directors approved new fiscal policies and procedures at their June 2001 meeting. These policies adequately address segregation of duties for all accounting functions. The Jones County Partnership for Children Board of Directors approved new fiscal policies and procedures in July 2001.

#### 2. CONTRACT MANAGEMENT AND MONITORING

During the prior audit, we identified that The Jones Carteret Partnership did not have an adequate contract management and monitoring system in place. Issues identified included the lack of contract management/monitoring policies and procedures, contract payments that lacked proper authorization or supporting documentation, and limited evidence to support monitoring of grant activities and results.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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*This finding is unresolved.* The Partnership has not adopted and implemented written contracting policies and procedures. In addition, we continued to note contract payments that were not supported by adequate documentation. Documentation to support contract monitoring activities performed during the year was limited.

*Recommendation:* We recommend that the Partnership work with its oversight agency, the North Carolina Partnership for Children, Inc., to enhance its contract management and monitoring system to ensure funds allocated are meeting the expected outcomes of the Partnership's strategic plan and the monitoring results are adequately documented.

*Partnership's Response:* The Carteret County Partnership for Children now have staff in place to manage and monitor contracts. A schedule has been developed for monitoring visits and these visits have occurred. Monitoring Policies and procedures have been developed and approved by the Carteret County Partnership for Children Board of Directors. Jones County Executive Director is responsible for monitoring Direct Service Providers. Monitoring visits have been made and policies have been developed and approved by the board of directors.

### 3. AUTHORIZATION AND PROCESSING OF TRANSACTIONS

During the prior audit, we identified procedural weaknesses with the Partnership's authorizing and processing of transactions. Issues noted included inadequate processing procedures that resulted in prepayments of goods/services and misclassifications between account codes, a decentralized and inconsistently maintained filing system, undocumented reviews and approvals of bank reconciliations, and problems with the maintenance of the master fixed asset listing.

*This finding is partially resolved.* The Partnership made significant improvements in its filing system and our testwork did not find material prepayments for goods and services during the current fiscal year. Improvements were also noted with the Partnership's maintenance of the master fixed asset listing. Although approvals of the bank reconciliation were documented, we noted that the cash account was not balanced as of June 30, 2001. In addition, we continued to identify deficiencies with the disbursement approval and documentation processes.

*Recommendation:* As noted in Finding #1, financial policies and procedures provide direction to the staff for fiscal accountability. Financial policies and procedures should address the processing and approval of disbursement transactions and the necessary documentation standards related to those processes.

*Partnership's Response:* As noted in Finding #1, financial policies and procedures are now in place to address these concerns.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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### 4. COMPETITIVE BIDDING

During the prior audit, we noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

*This finding is unresolved.* We continued to note errors in the Partnership's documentation of compliance with competitive bidding procedures during the current fiscal year.

*Recommendation:* We recommend that the Partnership adequately document its compliance with the legislatively mandated bid requirements.

*Partnership's Response:* The Partnership is striving to adequately document its compliance with the legislatively mandated bid requirements. RFP's have been published with required information bidder's conferences have been held. All other bidding requirements are being followed. Partnership employees are planning on attending the bidding conference being held by NCPC in September.



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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.

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July 25, 2002

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