



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF PERSON COUNTY PARTNERSHIP FOR CHILDREN

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PERSON COUNTY PARTNERSHIP FOR CHILDREN

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

JOAN E. HODGES, CHAIR

ADMINISTRATIVE OFFICER

CINDY WATKINS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Person County Partnership for Children (Person 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 Person 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 Person 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 Person Partnership is one of these local partnerships. As such, the Person 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 - The following instance of noncompliance was detected:

Finding

2. 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 Person 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

1. 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 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

Board of Directors
Person County Partnership for Children
Roxboro, North Carolina

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2002 on our consideration of the Person 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 Person County 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

Person County 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		
Receipts:				
State Awards (less refunds of \$74,292)	\$ 983,055	\$ 12,000	\$ 0	\$ 995,055
Federal Awards		186,593	7,523	194,116
Local Awards		10,000		10,000
Private Contributions		23,611	4,152	27,763
Interest and Investment Earnings		735		735
Sales Tax Refunds		2,165		2,165
Other Receipts		1,924		1,924
Total Receipts	983,055	237,028	11,675	1,231,758
Expenditures:				
Programs:				
Child Care and Education Quality	300,291	200,872		501,163
Child Care and Education Accessibility and Availability	39,026	4,643		43,669
Child Care and Education Affordability	200,829			200,829
Health and Safety	193,308	3,982		197,290
Family Support	155,621	3,298		158,919
Support:				
Management and General	101,569	22,112		123,681
Program Evaluation	61,540			61,540
Other:				
Sales Tax Paid		1,897		1,897
Total Expenditures	1,052,184	236,804	0	1,288,988
Excess of Receipts Over Expenditures	(69,129)	224	11,675	(57,230)
Net Assets at Beginning of Year	74,382	50,461	0	124,843
Net Assets at End of Year	\$ 5,253	\$ 50,685	\$ 11,675	\$ 67,613
Net Assets Consisted of:				
Cash on Deposit	\$ 4,289	\$ 50,685	\$ 11,675	\$ 66,649
Refunds Due From Contractors	964			964
	\$ 5,253	\$ 50,685	\$ 11,675	\$ 67,613

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

**Person County Partnership for Children
Statement 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	300,291	70,125	14,404	11,375	18,053	5,511	1,095	179,728	
Child Care and Education Accessibility and Availability	39,026							39,026	
Child Care and Education Affordability	200,829	21,287	144		1,086			178,312	
Health and Safety	193,308		2,949	511				189,848	
Family Support	155,621	20,478	111	3,304				131,728	
	889,075	111,890	17,608	15,190	19,139	5,511	1,095	718,642	0
Support:									
Management and General	101,569	65,075	5,373	3,721	14,075	12,499	826		
Program Evaluation	61,540	35,066	23,880	379	2,140	75			
	163,109	100,141	29,253	4,100	16,215	12,574	826	0	0
Total Smart Start Fund Expenditures	1,052,184	212,031	46,861	19,290	35,354	18,085	1,921	718,642	0
Other Funds:									
Programs:									
Child Care and Education Quality	200,872	58,809	4,165	6,579	9,930	5,755	549	115,085	
Child Care and Education Accessibility and Availability	4,643		969	889	392			2,393	
Health and Safety	3,982							3,982	
Family Support	3,298							3,298	
	212,795	58,809	5,134	7,468	10,322	5,755	549	124,758	0
Support:									
Management and General	22,112	0	12,000	92	369	9,600	51	0	0
Other:									
Sales Tax Paid	1,897	0	0	1,897	0	0	0	0	0
Total Other Funds Expenditures	236,804	58,809	17,134	9,457	10,691	15,355	600	124,758	0

PERSON COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Person County Partnership for Children (Person Partnership) is a legally separate nonprofit organization incorporated on January 20, 1994. The Person Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Person 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 Person 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 Person 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.

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 Person Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Person Partnership to a concentration of credit risk. At June 30, 2001, the Person Partnership's bank deposits in excess of the FDIC insured limit was \$39,546.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Person 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 Person 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 is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

The Person Partnership was awarded and has received \$1,057,347 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 \$5,163 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 and Adult Care Food Program – The Person Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child and Adult Care Food Program.

The Person Partnership was awarded \$134,709 under a current year contract with DHHS. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new Child and Adult Care Food Program contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Person Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Person 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:

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, early education enhancement programs, child care resource and referral, professional development, child care substitutes, salary supplements, child care provider support, resources and materials, and information and resources.

Child Care and Education Accessibility and Availability - Used to account for service activities including inclusion support, information and resources, and outreach plans to assess services.

Child Care and Education Affordability - Used to account for service activities including scholarship programs, supplements for quality, Head Start classrooms, and transportation to child care.

Health and Safety - Used to account for service activities including dental treatment, comprehensive dental services, vision screenings, prenatal/newborn services, outreach nurses, child abuse and neglect intervention, and special needs – specialized therapy.

Family Support - Used to account for service activities including parenting education, teen parent/child program, ongoing parent education, support services for children in crisis, and transportation services.

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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

(telephone and printing) were allocated based on estimates of utilization. The Partnership allocated a total of \$153,189 in other costs.

Summarized below are the cost allocated by type of expenditure category:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 47,789
Supplies and Materials	26,607
Other Operating Expenses	43,367
Fixed Charges and Other Expenses	32,905
Property and Equipment	<u>2,521</u>
Total Allocated Other Costs	<u>\$ 153,189</u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 6,877
2003	3,664
2004	2,868
2005	<u>1,195</u>
Total Minimum Lease Payments	<u>\$ 14,604</u>

Total rental expenditure for all operating leases was \$26,817 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

The Person Partnership did not have a pension plan in place for its employees. However, each employee of the Person Partnership, in lieu of medical coverage, may opt to have the monetary equivalency to cover other cafeteria plans offered by the Person Partnership, including retirement. The basis is determined by the average employee medical cost. The Partnership contributed \$15,339 for retirement benefits during the year.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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 annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Person Partnership. The voluntary contributions by employees amounted to \$2,772 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Child and Adult Care Food Program	\$ 7,523
Week of the Young Child	<u>4,152</u>
	<u>\$ 11,675</u>

*Person County 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
Early Intervention & Family Services	*	102,356		
Family & Life Services of Person County		7,500		
Person Area Transportation System	*	55,973		
Person County Board of Education	*	194,508	(435)	9,892
Person County Cooperative Extension	*	25,643		
Person County Health Department	*	111,629		3,982
Person County Parks and Recreation	*	9,723	(527)	
Piedmont Community College	*	45,338	(2)	
Safe-Haven Children's Program		3,330		
Various Day Care Providers		108,866		
		664,866	(964)	13,874
				0
Individuals:				
Child Care Expense Reimbursements		33,605		
Emergency Crisis		12,555	2,998	
Scholarships/ Bonus Awards		8,580	107,886	
		54,740	0	110,884
				0
		719,606	(964)	124,758
				0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations				

**Person County Partnership for Children
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2001**

Schedule 2

Organization Name			DHHS Contracts	
Person County Department of Social Services	*		182,136	
* 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.				

Person County 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
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	10.558	* 7095-201	\$ 134,709	\$ 127,185
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 Development Fund, Discretionary	93.575	5870	59,407	59,408
Total Federal Awards			194,116	186,593
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Incorporated				
Early Childhood Initiatives Program (Previous Years)		Various	(68,089)	
Early Childhood Initiatives Program (Prior Year)		1-90-2-10-001	(6,203)	
Early Childhood Initiatives Program (Current Year)		* 1-01-2-10-001	1,057,347	1,052,184
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			995,055	1,064,184
Total Federal and State Awards			\$ 1,189,171	\$ 1,250,777
* Programs with compliance requirements that have a direct and material effect on the financial statement.				

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

Schedule 4

Furniture and Non-Computer Equipment	\$	5,160
Computer Equipment/Printers		34,042
Leasehold Improvements		2,860
Total Property and Equipment	\$	<u>42,062</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.

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 37,763
In-Kind Goods and Services	29,659
	\$ 67,422

Match Provided at the Contractor Level:

Cash	\$ 53,331
In-Kind Goods and Services	3,880
	\$ 57,210

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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Ralph Campbell, Jr.
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**

Board of Directors
Person County Partnership for Children
Roxboro, North Carolina

We have audited the financial statements of the Person County Partnership for Children (Person 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 Person 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

2. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Person 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

**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)**

internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Person 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

1. 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

March 8, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. CONTRACT MANAGEMENT AND MONITORING

The Person Partnership did not have an adequate contract management system in place. Weaknesses identified included:

- There was no formal contract agreement for the Transportation activity. In addition, we identified a need for improvement in documenting the Partnership's granting process.
- The Partnership made payments totaling \$39,460 prior to the execution of a formal contract.
- Transportation project expenditures totaling \$33,057 were not supported by adequate documentation and are considered to be questioned costs. Billing reports submitted by the transportation contractor did not agree with transportation logs for Smart Start related activities.
- The criteria established for the Incentive, Emergency Crisis, Salary Supplement, and Quality Enhancement grants was changed during the year resulting in inconsistent application by the Partnership.
- Monitoring procedures were not in accordance with Partnership policies.

The achievement of the Person Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

Recommendation: We recommend that the Partnership further refine and implement contract management/monitoring policies and procedures that address its contract and grant activities. Those procedures should address executing formal contract documents that support the Partnership's contractual intentions, performing documented site visits, in accordance with established policies, ensuring that expected outcomes are achieved. In addition, payments should be in accordance with the terms of the contract and supported by adequate documentation. The Person Partnership should contact the North Carolina Partnership for Children, Inc. for proper guidance as to resolving identified questioned costs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: Following is our response to your findings and recommendations:

- The Person County Partnership for Children is currently negotiating a contract with the local transportation system for next year's services. If a contract agreement cannot be made which adequately addresses their billing and reporting weaknesses, then the partnership will no longer provide transportation services through the Person Area Transportation System. All future transportation arrangements will be contractual.
- The Partnership will work to assure that all contracts are fully executed prior to any payments being made.
- The Partnership will work with NCPC to determine outcome of costs related to transportation services.
- The Partnership will more adequately document any Board approved changes to established criteria, and work to assure that all program criteria are consistently followed.
- At the June 2002 Partnership Board meeting, the Board approved a revised monitoring policy. The new policy will be implemented in July 2002 and monitoring procedures will be in accordance with the policy.

2. COMPETITIVE BIDDING

Sufficient documentation was not available to support the Person Partnership's compliance with the competitive bidding requirements.

Recommendation: We recommend that the Partnership comply with the legislatively mandated bid requirements.

Partnership's Response: Although competitive bids were sought for all activities and for most services, in the future the Partnership will supply more sufficient documentation to support our compliance.

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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 22, 2002

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