



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN

WILMINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
NEW HANOVER COUNTY PARTNERSHIP FOR CHILDREN
WILMINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

PATRICIA CARRIKER, CHAIRMAN

ADMINISTRATIVE OFFICER

JANET NELSON, 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, New Hanover County Partnership for Children

This report presents the results of our financial statement audit of the New Hanover County Partnership for Children (New Hanover 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 New Hanover 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 New Hanover 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 New Hanover Partnership is one of these local partnerships. As such, the New Hanover Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the New Hanover 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. Contract Management and Monitoring
2. Internal Control Procedures

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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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
New Hanover County Partnership for Children
Wilmington, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2002 on our consideration of the New Hanover Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

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

Ralph Campbell, Jr.
State Auditor

May 30, 2002

***New Hanover 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 \$64,299)	\$ 1,769,590	\$ 52,889	\$ 0	\$ 1,822,479
Private Contributions		129,709	73,226	202,935
Interest and Investment Earnings		12,733		12,733
Sales Tax Refunds		2,914		2,914
Other Receipts		1,115		1,115
Total Receipts	1,769,590	199,360	73,226	2,042,176
Expenditures:				
Programs:				
Child Care and Education Quality	971,480	10,170		981,650
Child Care and Education Accessibility and Availability	64,145			64,145
Health and Safety	181,735	75,783		257,518
Family Support	284,556	2,233		286,789
Support:				
Management and General	239,749	72,930		312,679
Program Evaluation	61,871			61,871
Other:				
Sales Tax Paid	10	5,512		5,522
Total Expenditures	1,803,546	166,628		1,970,174
Excess of Receipts Over Expenditures	(33,956)	32,732	73,226	72,002
Net Assets at Beginning of Year	64,297	(12,727)		51,570
Net Assets at End of Year	\$ 30,341	\$ 20,005	\$ 73,226	\$ 123,572
Net Assets Consisted of:				
Cash on Deposit	\$ 24,242	\$ 20,005	\$ 73,226	\$ 117,473
Refunds Due From Contractors	6,099			6,099
	\$ 30,341	\$ 20,005	\$ 73,226	\$ 123,572
The accompanying notes to the financial statement are an integral part of this statement.				

***New Hanover 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	971,480	211,059	5,814	26,630	51,565	28,354	28,372	619,686	
Child Care and Education Accessibility and Availability	64,145							64,145	
Health and Safety	181,735	18,710		4,049	7,740	2,385	5,619	143,232	
Family Support	284,556	20,710	255	3,913	3,381	2,091	5,510	248,696	
	1,501,916	250,479	6,069	34,592	62,686	32,830	39,501	1,075,759	0
Support:									
Management and General	239,749	153,543	17,942	4,803	22,650	28,005	12,806		
Program Evaluation	61,871	41,037	570	3,569	5,575	3,676	7,444		
	301,620	194,580	18,512	8,372	28,225	31,681	20,250	0	0
Other:									
Sales Tax Paid	10	0	0	10	0	0	0	0	0
Total Smart Start Fund Expenditures	1,803,546	445,059	24,581	42,974	90,911	64,511	59,751	1,075,759	0
Other Funds:									
Programs:									
Child Care and Education Quality	10,170	8,025	93	2,052					
Health and Safety	75,783	18,231	5,262	507	10,487	629	648	40,019	
Family Support	2,233							2,233	
	88,186	26,256	5,355	2,559	10,487	629	648	42,252	0
Support:									
Management and General	72,930	0	400	1,238	1,290	85	69,917	0	0
Other:									
Sales Tax Paid	5,512	0	0	5,512	0	0	0	0	0
Total Other Funds Expenditures	166,628	26,256	5,755	9,309	11,777	714	70,565	42,252	0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The New Hanover County Partnership for Children (New Hanover Partnership) is a legally separate nonprofit organization incorporated on April 18, 1995. The New Hanover Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The New Hanover 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 New Hanover 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 New Hanover 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)

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.

NOTE 2 - DEPOSITS

All funds of the New Hanover 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 New Hanover Partnership to a concentration of credit risk. At June 30, 2001, the New Hanover Partnership's bank deposits in excess of the FDIC insured limit was \$161,422.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the New Hanover Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the New Hanover Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The New Hanover Partnership was awarded and has received \$1,833,889 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 \$29,763 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the New Hanover Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the New Hanover Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by NCPC and 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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, early education enhancement programs, professional development, provider training, child care provider support, health and safety training for child care professionals, special needs training for child care professionals, child care data analysis, outreach materials, and school readiness programs.

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

Health and Safety - Used to account for service activities including comprehensive health screenings, prenatal/newborn services, special needs – specialized therapy, outreach materials, and information and resources.

Family Support - Used to account for service activities including parenting skills training and general family support.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Support Functions

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

Program 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.

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>	<u>Capital Leases</u>
2002	\$ 66,394	\$ 4,131
2003	67,533	2,066
2004	68,008	
2005	69,061	
2006	45,849	
Total Minimum Lease Payments	\$ 316,845	\$ 6,197

Total rental expenditure for all operating leases was \$56,052 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

The New Hanover Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the New Hanover Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The New Hanover Partnership contributed 3% of gross wages for the year ended June 30, 2001. The New Hanover Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

For the year ended June 30, 2001, the New Hanover Partnership had a total payroll of \$388,661, a percentage of which was covered under the plan. The Partnership contributed \$3,000 for pension benefits during the year. Voluntary contributions by employees totaled \$5,511.

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. The New Hanover Partnership matched the contributions up to 6% dollar for dollar. The Partnership contributed \$8,438 for pension benefits during the year. The voluntary contributions by employees amounted to \$11,822 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>
Maternity Outreach Worker Program	\$ 23,226
Navigator Program	<u>50,000</u>
	<u>\$ 73,226</u>

***New Hanover 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
AAI Early Learning Center	*	14,570		
American Red Cross, Cape Fear Chapter		30,000		
Amigo Translating and Interpreting Services (ATI)		5,894	2,233	
Cape Fear Community College	*	7,907		
Carolina Preschool		26,787		
Child and Adult Care Services, Inc.			12,000	
Child Care Services Association		6,542		
Family Support Network of Southeastern North Carolina, Inc.		6,000		
Haida Andrade		4,395	1,245	
LaTonya NeChante Lee		160		
Miss Susan's Home DayCare		10,150		
MRDRC Learning Center		31,375		
New Hanover County Community Action, Inc.	*	27,566	(75)	
New Hanover County Health Department	*	273,000	26,774	
New Hanover County Public Library	*	104,953		
NHC Community Action - Headstart	*	200		
Noah's Ark	*	28,540		
Pamela Breece, CPA		39,675		
Park Avenue Preschool	*	150		
Planned Parenthood of the Capital and Coast, Inc.		134,500		
Southeastern Center for MH/DD/SA	*	98,987		
Total Child Care	*	8,140		
Trinity United Methodist Church		15,000	(855)	
UCP Development Center	*	50		
United Cerebral Palsy	*	79,950		
University of North Carolina at Wilmington	*	35,075		
Various Child Care Providers		86,265	(5,169)	
		1,075,831	(6,099)	42,252
Individuals:				
Scholarships/Bonus Awards		6,027	0	0
		1,081,858	(6,099)	42,252
				0

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

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

Schedule 2

	NPC	DHHS	Total
Organization Name	Contracts	Contracts	Contracts
Child Care Services Association - WAGES Program		176,750	176,750
National Society to Prevent Blindness - North Carolina Affiliate	42,532		42,532
New Hanover County Department of Social Services	*	1,693,379	1,693,379
	42,532	1,870,129	1,912,661
*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 either the Department of Health and Human Services (DHHS) or the NC Partnership for Children, Inc. (NPC) as described in Note 3 - Funding From Grant Awards.			

***New Hanover County Partnership for Children
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001***

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services Division of Public Health			
North Carolina Health Choice for Children Program	#95372003	\$ 52,889	\$ 32,694
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)	#1-90-3-03-001	(64,299)	
Early Childhood Initiatives Program (Current Year)	* #1-01-3-03-001	1,833,889	1,803,546
Total State Awards		\$ 1,822,479	\$ 1,836,240
*Programs with compliance requirements that have a direct and material effect on the financial statement.			

<i>New Hanover County Partnership for Children</i>			
<i>Schedule of Property and Equipment</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$ 31,060	
	Computer Equipment/Printers	43,092	
	Leasehold Improvements	83,590	
	Total Property and Equipment	\$ 157,742	
	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.		

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

Schedule 5

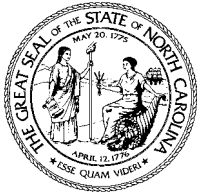
Match Provided at the Partnership Level:

Cash	\$	202,935
In-Kind Goods and Services		30,240
		<u>233,175</u>
	\$	<u>233,175</u>

Match Provided at the Contractor Level:

Cash	\$	366,947
In-Kind Goods and Services		168,908
		<u>535,855</u>
	\$	<u>535,855</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.
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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
New Hanover County Partnership for Children
Wilmington, North Carolina

We have audited the financial statements of the New Hanover County Partnership for Children (New Hanover Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 30, 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 New Hanover Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the New Hanover 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 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 New Hanover Partnership's

**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)**

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. Contract Management and Monitoring
2. Internal Control Procedures

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, of the reportable conditions described above, we consider the following to be a material weakness:

1. Contract Management and Monitoring

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

May 30, 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.

1. CONTRACT MANAGEMENT AND MONITORING

Our review of the New Hanover Partnership's contract management and monitoring system identified instances where documentation was insufficient or unavailable to support changes to established program criteria, eligibility of payments for in-house grant activities, or the Partnership's fiscal and programmatic monitoring activities.

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

Recommendation: We recommend that the New Hanover Partnership enhance its contract management and monitoring procedures to ensure that documentation is maintained to support changes to program guidelines, eligibility of grant payments, as well as the Partnership's fiscal and programmatic monitoring activities.

Partnership's Response: The contract management and monitoring procedures, particularly related to Quality Enhancement Grant programs were changed in July 2001. More detailed documentation is kept of any change to program functions and all site visits performed by the staff or Board of Directors.

2. INTERNAL CONTROL PROCEDURES

Our review of the internal control structure of the New Hanover Partnership noted the following weaknesses:

- Policies and procedures in effect during our audit period did not support the operations of the Partnership.
- Trial balance information presented by the Partnership was materially incorrect requiring adjustments to correct the financial presentations.
- Deficiencies were noted in the Partnership's authorizing and processing of transactions.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities.

Recommendation: We recommend the New Hanover Partnership review its current policies and procedures and revise as necessary to support the operations of the Partnership. Proper procedures should be established for the classification and review of transactions to ensure that activities are charged correctly in the general ledger. Also, documentation standards should be implemented for the processing of transactions, particularly the authorization for purchases and payment for goods and services.

Partnership's Response: Recognizing the need to refine policies and procedures, and in an effort to make continual improvement in the operations of the partnership, the Fiscal Policies and Procedures were updated in February 2002.

Adjustments have been made to the general ledger according to the audit recommendations. The Partnership understands the reasons for the changes, however they were not suggested by prior audits or NCPC review.

Fiscal policy has always required prior approval by the Executive Director for transactions and was indicated by a signature. However, we have changed the format of the purchase request form to make documentation of prior approval more evident.

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August 20, 2002

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