

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

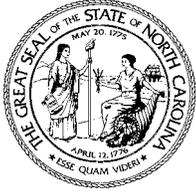
FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

BERNICE MCPHATTER, CHAIRMAN

ADMINISTRATIVE OFFICER

JEAN BREWER, 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, Hoke County Partnership for Children and Families

This report presents the results of our financial statement audit of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke 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 Hoke Partnership is one of these local partnerships. As such, the Hoke 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

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 Hoke 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. Financial Presentation
3. Policies and 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.

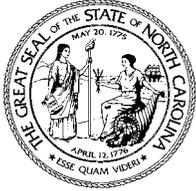
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke County Partnership for Children and Families 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 September 12, 2001 on our consideration of the Hoke 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 Hoke County Partnership for Children and Families 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

September 12, 2001

Hoke County Partnership for Children and Families

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 \$188,523)	\$ 1,359,240	\$ 2,073	\$ 7,517	\$ 1,368,830
Federal Awards		10,375		10,375
Private Contributions		15,970	4,108	20,078
Interest and Investment Earnings		72		72
Sales Tax Refunds		1,025		1,025
Other Receipts	2,214	1,721		3,935
Total Receipts	1,361,454	31,236	11,625	1,404,315
Net Assets Released from Restrictions:				
Expiration of Time Restrictions		5,864	(5,864)	
	1,361,454	37,100	5,761	1,404,315
Expenditures:				
Programs:				
Child Care and Education Quality	357,872	3,592		361,464
Child Care and Education Affordability	632,441			632,441
Health and Safety	114,170			114,170
Family Support	202,274	40,835		243,109
Support Our Students		13,784		13,784
Support:				
Management and General	152,643	6,605		159,248
Program Evaluation	23,100			23,100
Program Coordination	15,984			15,984
Other:				
Sales Tax Paid		1,342		1,342
Total Expenditures	1,498,484	66,158		1,564,642
Excess of Receipts Over Expenditures	(137,030)	(29,058)	5,761	(160,327)
Net Assets at Beginning of Year	187,955	30,552	5,864	224,371
Net Assets at End of Year	\$ 50,925	\$ 1,494	\$ 11,625	\$ 64,044
Net Assets Consisted of:				
Petty Cash	\$ (146)	\$ 0	\$ 0	\$ (146)
Cash on Deposit	37,539	2,655	11,625	51,819
Refunds Due From Contractors	13,532			13,532
	50,925	2,655	11,625	65,205
Less: Funds Held for Others		1,161		1,161
	\$ 50,925	\$ 1,494	\$ 11,625	\$ 64,044

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

***Hoke County Partnership for Children and Families
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001***

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	357,872		3,152	12,372			1,076	341,272	
Child Care and Education Affordability	632,441	74,570	500	6,093	7,931	55,798	984	486,565	
Health and Safety	114,170							114,170	
Family Support	202,274			2,519	580	1,271		197,904	
	1,306,757	74,570	3,652	20,984	8,511	57,069	2,060	1,139,911	0
Support:									
Management and General	152,643	87,254	4,857	4,147	15,090	40,951	344		
Program Evaluation	23,100							23,100	
Program Coordination	15,984	13,000	8	279	1,333	1,364			
	191,727	100,254	4,865	4,426	16,423	42,315	344	23,100	0
Total Smart Start Fund Expenditures	1,498,484	174,824	8,517	25,410	24,934	99,384	2,404	1,163,011	0
Other Funds:									
Programs:									
Child Care and Education Quality	3,592			3,592					
Family Support	40,835	24,900	2,238	1,350	8,062	250	2,500	1,535	
Support Our Students	13,784							13,784	
	58,211	24,900	2,238	4,942	8,062	250	2,500	15,319	0
Support:									
Management and General	6,605	0	0	509	2,621	3,475	0	0	0
Other:									
Sales Tax Paid	1,342	0	0	1,342	0	0	0	0	0
Total Other Funds Expenditures	66,158	24,900	2,238	6,793	10,683	3,725	2,500	15,319	0

HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Hoke County Partnership for Children and Families (Hoke Partnership) is a legally separate nonprofit organization incorporated on October 17, 1994. The Hoke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hoke 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 Hoke 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 Hoke 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.
- E. 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 Hoke Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Hoke Partnership to a concentration of credit risk. At June 30, 2001, the Hoke Partnership's bank deposits in excess of the FDIC insured limit was \$74,046.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Hoke Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Hoke Partnership was awarded and has received \$1,547,452 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 \$48,709 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001. As allowed by program regulation, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

unexpended balance of the current year contract is available for carry-forward to the subsequent year based on approved service plans by NCPC.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

B. Other Related Parties - The Hoke Partnership is party to a contract with the County of Hoke for a recreational vehicle that is used as a mobile resource center. A representative from the County of Hoke is a board member of the Partnership. Also, the Hoke Partnership contracted for rental space with a private business associated with a board member of the Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Occupancy Cost	\$ 28,318
Mobile Resource Center	<u>35,616</u>
	<u>\$ 63,934</u>

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, child care resource and referral, salary supplements, child care provider support, health and safety

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

training for child care professionals, curriculum enhancement, and health and safety intervention in child care.

Child Care and Education Affordability - Used to account for service activities including public preschool classes, scholarship program, and enrolled part day care programs.

Health and Safety - Used to account for service activities including mobile health unit, speech and hearing screenings, comprehensive health services, outreach nurses, special needs – specialized therapy and outreach materials.

Family Support - Used to account for service activities including family resource center, parenting education, parenting skills training, general family support, intensive home visiting, support services for children in crisis, special needs – family support and literacy projects.

Support Our Students – Used to account for service activities including the providing of high quality after-school activities for school-aged children.

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.

Program Coordination – Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 42,331
2003	44,251
2004	32,613
2005	<u>34,020</u>
Total Minimum Lease Payments	\$ <u>153,215</u>

Total rental expenditure for all operating leases was \$33,797 for the year ended June 30, 2001.

- B. Loan Commitment** - The Hoke Partnership has a note with a balance of \$66,451 at June 30, 2001 that is secured by the mobile resource center and payable to County of Hoke in annual installments of \$35,616. This amount includes principal and interest computed at an annual rate of 4.76%.

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

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2002	\$ 32,453	\$ 3,163
2003	<u>33,998</u>	<u>1,618</u>
Total Loan Payments	\$ <u>66,451</u>	\$ <u>4,781</u>

NOTE 7 - PENSION PLAN

The Hoke Partnership did not have a pension plan in place for its employees. However, each employee of the Hoke Partnership is provided, in lieu of a benefit package, an additional 10% of his/her salary that is available to be applied to an individual selected benefit package.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Healthy Hoke Task Force Healthy Carolinian	\$ 8,217
Play Room Grant from Progress Energy	<u>3,408</u>
	<u>\$ 11,625</u>

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

<u>Purpose</u>	<u>Amount</u>
Support Our Students	\$ 1,536
Family Support Network	<u>4,328</u>
	<u>\$ 5,864</u>

Hoke County Partnership for Children and Families
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
Child Care Connections, Inc.	321,177	(2,250)		
Cumberland County Hospital System, Inc. d/b/a Cape Fear Valley Health System	13,884			
Evaluation Resources, LLC	23,100			
Golden Gate Community Development Corporation *			15,319	
Hoke County Cooperative Extension Service *	124,151			
Hoke County Health Department *	90,822	(1,268)		
Hoke County Schools *	314,475	(8,814)		
Lumbee Regional Development Association	94,118	(182)		
Sandhills Center for Mental Health, Developmental Disabilities & Substance Abuse Services	11,041	(308)		
Sandhills Community College *	41,625	(5)		
Sandhills Regional Library	23,050	(705)		
	1,057,443	(13,532)	15,319	0
Individuals:				
Scholarships/Bonus Awards	119,100	0	0	0
	1,176,543	(13,532)	15,319	0

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

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

Schedule 2

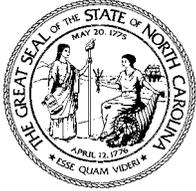
Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Office of the Secretary				
NC Council on Developmental Disabilities				
Family Support Network Parent-to-Parent Program	93.630	N/A	\$ 10,375	\$ 11,915
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)	N/A	* 1-90-4-07-001	(188,212)	
Early Childhood Initiatives Program (Current Year)		* 1-01-4-07-001	1,547,452	1,498,484
North Carolina Department of Health and Human Services				
Division of Public Health				
Pass-through from the Hoke County Health Department				
Healthy Carolinian	N/A	N/A	9,901	2,385
North Carolina Office of the Governor				
Office of Juvenile Justice				
Support Our Students Program (Prior Year)	N/A	N/A	(311)	
Support Our Students Program (Current Year)	N/A	N/A		13,784
Total State Awards			<u>1,368,830</u>	<u>1,514,653</u>
Total Federal and State Awards			<u>\$ 1,379,205</u>	<u>\$ 1,526,568</u>
*Programs with compliance requirements that have a direct and material effect on the financial statement.				
**Major Programs per OMB Circular A-133				

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

Schedule 3

	Furniture and Non-Computer Equipment	\$	29,721
	Computer Equipment/Printers		28,020
	Motor Vehicles		127,000
	Total Property and Equipment	\$	184,741
	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.		

<i>Hoke County Partnership for Children and Families</i>			
<i>Schedule of Qualifying Match (Non-GAAP)</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
Match Provided at the Partnership Level:			
Cash		\$	20,488
In-Kind Goods and Services			4,609
		\$	<u>25,097</u>
Match Provided at the Contractor Level:			
Cash		\$	62,314
In-Kind Goods and Services			56,485
		\$	<u>118,799</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
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the financial statements of the Hoke County Partnership for Children and Families (Hoke Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 12, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hoke 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 Hoke 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.

**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)**

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 Hoke 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. Contract Management and Monitoring
2. Financial Presentations
3. Policies and 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 material weaknesses:

Finding

1. Contract Management and Monitoring
3. Policies and Procedures

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

September 12, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Findings and Recommendations Also Reported in Prior Audit - The following finding and recommendation was identified during the current and prior audit and represents a significant deficiency in internal control.

1. CONTRACT MANAGEMENT AND MONITORING

We reported in the 1999 audit report that the Partnership did not have an adequate contract management and monitoring system in place. We noted that contract payments were processed without adequate documentation and limited evidence was available to support contract monitoring activities.

This finding is unresolved. The Hoke Partnership has failed to address the items previously identified as noted during our current testwork:

- The Partnership has not implemented written contract management/monitoring policies and procedures.
- Board minutes did not document the Partnership's approval of grant activities. In addition, required abstentions from voting were not found for related party activities.
- The Partnership paid \$42,100 without a written contract and increased another contract by \$32,000 without written documentation. Scholarship files did not clearly document the qualifications for each applicant. In addition, we noted where the Partnership prepaid a related party \$10,000 for an activity that was to occur subsequent to the June 30 year-end date.
- Documented site visits were not available for review.

Recommendation: We recommend that the Hoke Partnership develop written contract management and monitoring policies and procedures. Board minutes and contract documents should support the Partnership's grant activities. Documented site visits provide monitoring results for both programmatic and fiscal activities and ensure that planned results are achieved.

Partnership's Response: Staff was hired in May 2001 to better facilitate contract management/monitoring. The partnership has begun site visits to six Direct Service Providers (DSP's) for the purpose of contract management/monitoring. Policies and procedures have been developed and were used as a template for the first round of site visits starting October 22 and ending October 30. Board approval of the policies and procedures is scheduled for December 19, 2001. The remaining five site visits are to be scheduled in Spring 2002.

Beginning October 17, 2001, all DSP's contracts and grant activities were approved individually with abstentions noted for related parties.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

The partnership paid out reimbursements under an activity that had been categorized under “Contracts & Grants” on the Smart Start budget rather than in-house. The two activities reimbursed, had subsidy costs portioned out into the new activity from their original budget. One activity has been put into the in-house category for this fiscal year and the other activity contract was increased without written documentation. Beginning FY 2001-2002, all budget amendments will have amendments made to the actual legal contracts in addition to having initial budget amendment forms completed and signed by the local partnership, DSP, and North Carolina Partnership for Children (NCPC). The Scholarship program was reviewed and recommendations were implemented in the eligibility re-certification process and sufficient documentation is now being employed. Lastly, a related party was prepaid for an activity that did not occur until after the June 30 year-end date. Unfortunately, negotiations for the work on this activity were not completed until just before year-end and the work began the first week of July in the new fiscal year. In the future, the partnership will avoid prepayment and will take into account, possible delays when planning and implementing activity related projects.

Other 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.

2. FINANCIAL PRESENTATIONS

The financial presentations of the Hoke Partnership were materially misstated resulting in numerous audit adjustments.

- The trial balance information presented for audit by the Hoke Partnership required audit adjustments in excess of \$224,000.
- Errors were noted with both the functional and natural classification for transactions.

Recommendation: We recommend that the Partnership establish and implement proper procedures for the classification and review of transactions to ensure that grant activities as well as other expenses and revenues are recorded correctly in the general ledger.

Partnership's Response: Adjusted journal entries have been entered and proper procedures for the classification and review of transactions have been implemented. The partnership has requested and since received needed technical assistance from NCPC for its required accounting software.

3. POLICIES AND PROCEDURES

We found that the Hoke Partnership's financial accounting policies and procedures were not current and did not sufficiently address the organization's needs. The policies refer to the accrual basis of accounting rather than the cash basis of accounting by which the

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership operates. In addition, inadequacies of the current policies and procedures contributed to processing errors in the receipting and disbursement functions as well as the documentation of journal entries.

Written policies and procedures provide the direction to ensure assets are safeguarded, that accounting data is accurate and reliable, and that operational efficiencies and adherence to managerial policies are promoted.

Recommendation: We recommend that the Hoke Partnership obtain guidance from the North Carolina Partnership in updating and implementing effective accounting policies and procedures.

Partnership's Response: New accounting policies and procedures as put forth by NCPC were adopted and board approved in August 2001 to reflect current practices.

4. COMPETITIVE BIDDING

Adequate documentation was not available to support the Hoke Partnership's compliance with legislatively mandated competitive bidding requirements.

Recommendation: We recommend that the Partnership document its compliance with the competitive bid guidelines as established by the North Carolina Partnership for Children and the general statutes.

Partnership's Response: Compliance with the competitive bid guidelines as established by the NCPC and the general statutes will be adhered to, especially in the advertising of request for proposals for upcoming strategic plan activities. A more detailed request for proposals will include a specific length of time an activity can be bid for.

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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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February 15, 2002

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