



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF PARTNERS FOR CHILDREN AND FAMILIES, INC.

SOUTHERN PINES, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**PARTNERS FOR CHILDREN AND FAMILIES, INC.**

**SOUTHERN PINES, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2001**

**BOARD OF DIRECTORS**

**DONNA LYNN THOMPSON, CHAIR**

**ADMINISTRATIVE OFFICER**

**TERRY REYNOLDS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Partners for Children and Families, Inc.

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

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

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

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

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

**Results** - 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 Moore 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**

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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Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
Partners for Children and Families, Inc.  
Southern Pines, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Partners for Children and Families, Inc. (Moore 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 Moore 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 Partners for Children and Families, Inc. as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2002 on our consideration of the Moore 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 Partners for Children and Families, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.  
State Auditor

May 22, 2002

**Partners for Children and Families, Inc.****Statement of Receipts, Expenditures, and Net Assets - Regulatory****For the Year Ended June 30, 2001****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$15,187)	\$ 1,576,690	\$ 12,000	\$ 0	\$ 1,588,690
Federal Awards		54,382	6,001	60,383
Private Contributions		6,558	1,368	7,926
Sales Tax Refunds		2,606		2,606
Other Receipts		43	270	313
<b>Total Receipts</b>	<b>1,576,690</b>	<b>75,589</b>	<b>7,639</b>	<b>1,659,918</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	620,815			620,815
Child Care and Education Affordability	224,080			224,080
Health and Safety	313,485	52,665		366,150
Family Support	189,074			189,074
Support:				
Management and General	118,838	21,455		140,293
Program Evaluation	50,000			50,000
Program Coordination	51,354	296		51,650
Other:				
Sales Tax Paid		2,483		2,483
<b>Total Expenditures</b>	<b>1,567,646</b>	<b>76,899</b>	<b>0</b>	<b>1,644,545</b>
<b>Excess of Receipts Over Expenditures</b>	<b>9,044</b>	<b>(1,310)</b>	<b>7,639</b>	<b>15,373</b>
<b>Net Assets at Beginning of Year</b>	<b>15,187</b>	<b>2,042</b>	<b>56</b>	<b>17,285</b>
<b>Net Assets at End of Year</b>	<b>\$ 24,231</b>	<b>\$ 732</b>	<b>\$ 7,695</b>	<b>\$ 32,658</b>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 20,198	\$ 732	\$ 7,695	\$ 28,625
Refunds Due From Contractors	4,033			4,033
	<b>\$ 24,231</b>	<b>\$ 732</b>	<b>\$ 7,695</b>	<b>\$ 32,658</b>
The accompanying notes to the financial statement are an integral part of this statement.				



*Partners for Children and Families, Inc.*  
*Schedule of Functional Expenditures - Regulatory Basis*  
*For the Year Ended June 30, 2001*

*Exhibit B*

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	620,815							620,815	
Child Care and Education Affordability	224,080							224,080	
Health and Safety	313,485							313,485	
Family Support	189,074							189,074	
	<b>1,347,454</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,347,454</b>	<b>0</b>
<b>Support:</b>									
Management and General	118,838	63,632	13,865	7,236	16,065	15,565	2,475		
Program Evaluation	50,000		50,000						
Program Coordination	51,354	29,279	900	7,441	2,597		11,137		
	<b>220,192</b>	<b>92,911</b>	<b>64,765</b>	<b>14,677</b>	<b>18,662</b>	<b>15,565</b>	<b>13,612</b>	<b>0</b>	<b>0</b>
<b>Total Smart Start Fund Expenditures</b>	<b>1,567,646</b>	<b>92,911</b>	<b>64,765</b>	<b>14,677</b>	<b>18,662</b>	<b>15,565</b>	<b>13,612</b>	<b>1,347,454</b>	<b>0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Health and Safety	52,665	0	240	6,220	1,277	0	0	44,928	0
<b>Support:</b>									
Management and General	21,455		12,000	227	9,228				
Program Coordination	296			296					
	<b>21,751</b>	<b>0</b>	<b>12,000</b>	<b>523</b>	<b>9,228</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other:</b>									
Sales Tax Paid	2,483			2,483					
<b>Total Other Funds Expenditures</b>	<b>76,899</b>	<b>0</b>	<b>12,240</b>	<b>9,226</b>	<b>10,505</b>	<b>0</b>	<b>0</b>	<b>44,928</b>	<b>0</b>

**PARTNERS FOR CHILDREN AND FAMILIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Partners for Children and Families, Inc. (Moore Partnership) is a legally separate nonprofit organization incorporated on August 8, 1994. The Moore Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Moore 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 Moore 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 Moore 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)

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

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.

### NOTE 2 - DEPOSITS

All funds of the Moore 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 Moore Partnership to a concentration of credit risk. At June 30, 2001, the Moore Partnership's bank deposits in excess of the FDIC insured limit was \$94,555.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Moore 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 Moore 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.

The Moore Partnership was awarded and has received \$1,591,877 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 \$24,231 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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

## **NOTES TO THE FINANCIAL STATEMENT (CONTINUED)**

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### **NOTE 4 - RELATED PARTY TRANSACTIONS**

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

### **NOTE 5 - FUNCTIONAL EXPENDITURES**

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

#### **A. Program Functions**

**Child Care and Education Quality** - Used to account for service activities including program upgrade projects, child care resource and referral, child care substitutes, salary supplements, provider training, and school readiness programs.

**Child Care and Education Affordability** - Used to account for service activities including kindergarten orientation programs, public preschool classes, and a scholarship program.

**Health and Safety** - Used to account for service activities including immunization support, dental treatment, comprehensive screenings, comprehensive health services, prenatal/newborn services, special needs – early intervention services, special needs – specialized therapy, transportation to health services, and information and resources.

**Family Support** - Used to account for service activities including parenting education, community leadership, literacy projects, information and resources, community playgrounds, and a family specialist.

## NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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### 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.

### NOTE 6 - PENSION PLAN

**IRC Section 403(b)** - Each employee of the Moore Partnership is provided, as part of a benefits package, an additional 15% of his/her salary that may be applied against all benefits including a retirement plan. 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 Partnership contributed \$8,886 for retirement benefits during the year. There were no voluntary contributions by employees during the year ended June 30, 2001.

### NOTE 7 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Fatherhood Summit	\$ 447
Health Consultant	5,825
Health Fair	1,423
	<u>\$ 7,695</u>

**Partners for Children and Families, Inc.**  
**Schedule of Contract and Grant Expenditures - Regulatory Basis**  
**For the Year Ended June 30, 2001**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Child Care Connections, Inc. of Moore County	*	571,985		
FirstHealth Dental Care Centers		20,000		
FirstHealth of the Carolinas	*	16,865	44,928	(65)
Moore County Department of Aging	*	2,225		
Moore County Health Department	*	20,759		(1,438)
Moore County Literacy Council		20,000		
Moore County Parks and Recreation		41,921		
Moore County Schools	*	224,683		(535)
NC Cooperative Extension Service	*	45,213		(1,489)
Praxis Research		15,000		
Sandhills Center for Mental Health	*	62,008		
Sandhills Children's Center		85,615		(486)
Sandhills Community College	*	156,020		(20)
Sandhills Regional Library		35,840		
Various Other Organizations		33,353		
		<b>1,351,487</b>	<b>44,928</b>	<b>0</b>

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

**Partners for Children and Families, Inc.**  
**Schedule of State Level Service Provider Contracts**  
**For the Year Ended June 30, 2001**

**Schedule 2**

Organization Name		DHHS Contracts	
Moore County Social Services	*	410,532	
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>			
<p>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.</p>			



**Partners for Children and Families, Inc.**

**Schedule of Federal and State Awards - Regulatory Basis**

**For the Year Ended June 30, 2001**

**Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
Administration for Children and Families, Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from the University of North Carolina at Chapel Hill Child Care Health Consultation Services	93.575	#5-57082	\$ 11,648	\$ 11,648
Administration for Children and Families, Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Pass-through from the University of North Carolina at Chapel Hill Child Care Health Consultation Services	93.575	#5-57308	39,104	33,280
Administration for Children and Families, Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Fatherhood Summit	93.597	#00448-01	9,631	9,184
<b>Total Federal Awards</b>			<u>60,383</u>	<u>54,112</u>
<b>State Awards:</b>				
North Carolina Department of Health and Human Services Division of Child Development Pass-through from the North Carolina Partnership for Children, Inc. Early Childhood Initiatives Program (Prior Year)		#1-90-4-11-001	(15,187)	0
Early Childhood Initiatives Program (Current Year)		#1-01-4-11-001R	4,136	4,136
Early Childhood Initiatives Program (Current Year)		#1-01-4-11-001E	26,711	26,711
Early Childhood Initiatives Program (Current Year)	*	#1-01-4-11-001	1,561,030	1,536,799
Multi-Partnership Accounting and Contracting Grant		N/A	12,000	12,000
<b>Total State Awards</b>			<u>1,588,690</u>	<u>1,579,646</u>
<b>Total Federal and State Awards</b>			<u>\$ 1,649,073</u>	<u>\$ 1,633,758</u>

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

*Partners for Children and Families, Inc.*  
*Schedule of Property and Equipment*  
*For the Year Ended June 30, 2001*

*Schedule 4*

Furniture and Non-Computer Equipment	\$	16,581
Computer Equipment/Printers		17,636
Total Property and Equipment	\$	<u>34,217</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.

**Partners for Children and Families, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2001**

**Schedule 5**

**Match Provided at the Partnership Level:**

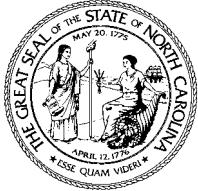
Cash	\$ 7,926
In-Kind Goods and Services	660
	<u>\$ 8,586</u>

**Match Provided at the Contractor Level:**

Cash	\$ 144,597
In-Kind Goods and Services	136,121
	<u>\$ 280,718</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.

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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**

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Board of Directors  
Partners for Children and Families, Inc.  
Southern Pines, North Carolina

We have audited the financial statements of the Partners for Children and Families, Inc. (Moore Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 22, 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 Moore Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Moore Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A 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,

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

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in our judgment, could adversely affect the Moore 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**

Contract Management 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

May 22, 2002

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

*Current Year Finding and Recommendation* - The following finding and recommendation was identified during the current audit and represent a significant deficiency in internal control.

#### CONTRACT MANAGEMENT AND MONITORING

The Partners for Children and Families, Inc. did not have an adequate contract management and monitoring system in place. Items noted during our review included:

- Contract management/monitoring policies and procedures were not fully implemented by the partnership.
- Documentation was not available to support programmatic monitoring activities.
- Written contract agreements were not executed to support service related activities totaling \$50,000. In addition, the Partnership failed to obtain proper approvals from the North Carolina Partnership for Children, Inc. prior to funding these activities.

The achievement of the 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 fully develop and implement the contract management/monitoring policies and procedures. Those procedures should provide for the execution of proper contract documents and the documentation of programmatic monitoring activities. In addition, we recommend that the Partnership seek the required approvals from its funding agency to ensure the allowability of costs.

*Partnership's Response:* While we understand and accept the finding, please be aware that until recently we were operating with policies and procedures that we understood to be acceptable to NCPC and appropriate for our organization. However, during examinations by your staff our contract management and monitoring policies were judged to be inadequate; consequently, we lacked sufficient documentation to support our monitoring activities. In consultation with your staff and NCPC, we have added specific programmatic questions to our monitoring checklist and implemented those changes June 1, 2002. NCPC programming and fiscal staff are scheduled to be in our office in July to further review our policies and procedures.

Your staff also informed us that our partnership had failed to obtain proper approvals for approximately \$50,000 in expenditures during FY 00/01. Those expenditures were originally made from "administrative" funds allocated to our office. The day following our exit interview, Partnership staff met with NCPC officials to discuss this issue. During that

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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meeting, we reviewed those expenditures in detail and learned that they should have been considered “service” costs due to their direct impact upon the children of Moore County. Based on those discussions and conversations with your staff, we have completed appropriate reclassifications of those expenditures and now understand how to correctly classify our costs in this and subsequent fiscal years.



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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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Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

June 28, 2002

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