

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
MARTIN/PITT PARTNERSHIP FOR CHILDREN, INC.
GREENVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
MARTIN/PITT PARTNERSHIP FOR CHILDREN, INC.**

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

JAMES R. HORTON, CHAIRMAN

ADMINISTRATIVE OFFICER

THERESA VANHOOK, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Martin/Pitt Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership is one of these local partnerships. As such, the Martin/Pitt 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 Martin/Pitt 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. Authorizing and Processing of Transactions

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

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



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of State Awards - Regulatory Basis	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS	17
DISTRIBUTION OF AUDIT REPORT	19



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Martin/Pitt Partnership for Children, Inc.
Greenville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership for Children, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2002 on our consideration of the Martin/Pitt 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 Martin/Pitt Partnership for Children, 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

April 12, 2002

Martin/Pitt Partnership for Children, Inc.**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 \$262,017)	\$ 2,072,183	\$ 24,000	\$ 0	\$ 2,096,183
Private Contributions		2,633	6,675	9,308
Interest and Investment Earnings		258		258
Sales Tax Refunds		12,553		12,553
Other Receipts	51,168	3,730		54,898
Total Receipts	2,123,351	43,174	6,675	2,173,200
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		11,521	(11,521)	0
	2,123,351	54,695	(4,846)	2,173,200
Expenditures:				
Programs:				
Child Care and Education Quality	1,411,296	4,581		1,415,877
Child Care and Education Accessibility and Availability	108,067			108,067
Child Care and Education Affordability	126,782			126,782
Health and Safety	70,795			70,795
Family Support	110,502			110,502
Flood Relief	68,241	12,347		80,588
Support:				
Management and General	281,195	24,089		305,284
Program Evaluation	25,720			25,720
Other:				
Sales Tax Paid		21,444		21,444
Total Expenditures	2,202,598	62,461	0	2,265,059
Excess of Receipts Over Expenditures	(79,247)	(7,766)	(4,846)	(91,859)
Net Assets at Beginning of Year	210,849	(505)	11,521	221,865
Net Assets at End of Year	\$ 131,602	\$ (8,271)	\$ 6,675	\$ 130,006
Net Assets Consisted of:				
Cash on Deposit	\$ 12,323	\$ (8,271)	\$ 6,675	\$ 10,727
Refunds Due From Contractors	119,279			119,279
	\$ 131,602	\$ (8,271)	\$ 6,675	\$ 130,006

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

Martin/Pitt Partnership for Children, 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
Smart Start Fund:									
Programs:									
Child Care and Education Quality	1,411,296	164,193	28,351	96,690	63,499	47,703	91,490	917,699	1,671
Child Care and Education Accessibility and Availability	108,067							108,067	
Child Care and Education Affordability	126,782							126,782	
Health and Safety	70,795							70,795	
Family Support	110,502							110,502	
Flood Relief	68,241	6,795						61,446	
	1,895,683	170,988	28,351	96,690	63,499	47,703	91,490	1,395,291	1,671
Support:									
Management and General	281,195	161,539	27,845	16,988	34,375	30,950	9,498		
Program Evaluation	25,720	19,601	108	902	1,899	809	2,401		
	306,915	181,140	27,953	17,890	36,274	31,759	11,899	0	0
Total Smart Start Fund Expenditures	2,202,598	352,128	56,304	114,580	99,773	79,462	103,389	1,395,291	1,671
Other Funds:									
Programs:									
Child Care and Education Quality	4,581			2,549	2,032				
Flood Relief	12,347							12,347	
	16,928	0	0	2,549	2,032	0	0	12,347	0
Support:									
Management and General	24,089	63	24,000	5	0	21	0	0	0
Other:									
Sales Tax Paid	21,444	0	0	21,444	0	0	0	0	0
Total Other Funds Expenditures	62,461	63	24,000	23,998	2,032	21	0	12,347	0

MARTIN/PITT PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Martin/Pitt Partnership for Children, Inc. (Martin/Pitt Partnership) is a legally separate nonprofit organization incorporated on November 5, 1997. The Martin/Pitt Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership did not have any permanently restricted net assets at June 30, 2001.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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

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

NOTE 2 - DEPOSITS

All funds of the Martin/Pitt 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 Martin/Pitt Partnership to a concentration of credit risk. At June 30, 2001, the Martin/Pitt Partnership's bank deposits in excess of the FDIC insured limit was \$211,911.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Martin/Pitt 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 Martin/Pitt 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 Martin/Pitt Partnership was awarded \$2,341,539 under current year Smart Start contracts with NCPC and has received \$2,334,200 of this amount. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$131,602 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

NOTES TO THE FINANCIAL STATEMENT (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 Martin/Pitt Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Martin/Pitt 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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, child care resource and referral, child care provider support, and school readiness programs.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with inclusion support.

Child Care and Education Affordability - Used to account for service activities associated with public preschool classes.

Health and Safety - Used to account for service activities associated with outreach nurses.

Family Support - Used to account for service activities including parenting skills training and ongoing parent education.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Flood Relief – Used to account for service activities related to alleviating the damage caused by hurricane Floyd including replacement of damaged supplies, flood service coordination for children ages 0-5, their families and child care providers.

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

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	\$ 88,605
2003	85,936
2004	27,929
2005	11,171
2006 and beyond	<u>2,136</u>
Total Minimum Lease Payments	<u>\$ 215,777</u>

Total rental expenditure for all operating leases was \$73,297 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

The Martin/Pitt Partnership implemented a Simplified Employee Pension (SEP) plan covering all full-time employees beginning January 1, 2001. Each full-time employee of the Martin/Pitt Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

insurance company. The contribution percentage is set by the Board and varies for each six-month period. The Martin/Pitt Partnership contributed 8% of gross wages for the six-month period of January 1, 2001 through June 30, 2001. The Martin/Pitt Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Partnership contributed \$15,484 for pension benefits during the year.

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Martin/Pitt Partnership. The voluntary contributions by employees amounted to \$2,775 during the year ended June 30, 2001.

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:

Purpose	Amount
Child Care Services Association – Flood Relief	\$ <u>6,675</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:

Purpose	Amount
Child Care Services Association – Flood Relief	\$ <u>11,521</u>

Martin/Pitt Partnership for Children, 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
Betty's Day Care	9,411			
Community Christian Child Care	37,378			
East Carolina University	* 760,631	(109,938)		
Evelyn's Day Care	4,862		1,400	
Family Support Network of Eastern North Carolina	25,501			
Flood Relief Grants to Day Care Centers	32,025		10,947	
Martin County Board of Education	127,379	(52)		
Martin-Tyrell-Washington Health Department	* 79,376	(7,740)		
Ms. Lil's Day Care	9,055			
Outdoor Environment Enhancement Grants to Day Care Centers	32,845			
Pitt County Health Department	* 33,014			
Pitt County Memorial Hospital	52,150	(1,004)		
Pitt County Public Schools	* 184,572	(545)		
Suggs 1 2 3	18,304			
United Cerebral Palsy of North Carolina	* 108,067			
	1,514,570	(119,279)	12,347	0

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

Martin/Pitt Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES	227,251
Martin/Pitt Counties Departments of Social Services	1,036,144
	1,263,395
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.	
The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.	

Martin/Pitt Partnership for Children, Inc.
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 Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	\$ (1,889)	\$ 0
Early Childhood Initiatives Program (Prior Year)	* 1-90-5-18-001	(260,128)	
Early Childhood Initiatives Program (Current Year)	* 1-01-5-18-001	2,265,959	2,134,357
Early Childhood Initiatives Program (Current Year)	1-01-5-18-001E	68,241	68,241
Multi-County Accounting and Contracting Grant		24,000	24,000
Total State Awards		\$ 2,096,183	\$ 2,226,598
* Programs with compliance requirements that have a direct and material effect on the financial statement.			

Martin/Pitt Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

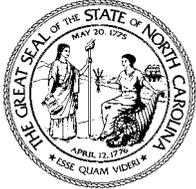
Match Provided at the Partnership Level:

Cash	\$ 9,307
In-Kind Goods and Services	17,240
	<u>\$ 26,547</u>

Match Provided at the Contractor Level:

Cash	\$ 248,246
In-Kind Goods and Services	91,235
	<u>\$ 339,481</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Martin/Pitt Partnership for Children, Inc.
Greenville, North Carolina

We have audited the financial statements of the Martin/Pitt Partnership for Children, Inc. (Martin/Pitt Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 12, 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 Martin/Pitt 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 Martin/Pitt 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

**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)**

financial reporting that, in our judgment, could adversely affect the Martin/Pitt 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. Authorizing and Processing of Transactions

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

April 12, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control.

1. CONTRACT MANAGEMENT AND MONITORING

The prior year audit reported that the Martin/Pitt Partnership did not have an adequate contract management and monitoring system to document site visits, to comply with the budget revision policy, or to prevent payments from being made before contracts were put in place.

This finding is partially resolved. Improvements were noted in the Partnership's compliance with the budget revision policy and the processing of contracts prior to the issuance of payments. However, we noted the following conditions during our current year review:

- Documentation was not available to support programmatic monitoring activities.
- Payments were made for Outdoor Environment Enhancement grant activities that exceeded Partnership established award amounts without justification for the greater disbursements. In addition, instances were noted where award letters had the wrong amounts listed as per established grant criteria.
- Documentation was not available to support the award of the Flood Grants. A review committee was to examine each grant application and recommend funding for each day care center; however, evidence was not available to support either the existence of the review committee or its decision-making process.

Recommendation: We recommend that the Partnership continue to enhance its contract management and monitoring system. The system should address procedures for documenting the award process, ensuring compliance with established grant criteria and guidelines, and documenting programmatic monitoring activities.

Partnership's Response: Enhancements to our contract management and monitoring systems continue. Program Monitoring visits for the 2001-2002 fiscal year have been completed. New procedures for documenting the award process and for ensuring compliance with established grant criteria/guidelines are scheduled to be approved by the June 2002 Board meeting.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. AUTHORIZING AND PROCESSING OF TRANSACTIONS

The prior year audit reported concerns related to bank reconciliations not being approved, bank balances not being monitored for NSF situations, and the failure to properly post prior audit adjustments to the Partnership's accounting records.

This finding is partially resolved. Improvements were noted in each of the areas noted above; however, other deficiencies noted included:

- Payments were made prior to the documented approval.
- Instances were noted where payments were not supported by original documentation contrary to the Partnership's cash disbursement policy.
- Instances were noted where invoices were not consistently recalculated for accuracy, supporting documentation was not adequately canceled, and documentation to verify the receipt of goods and/or services was unavailable.

Recommendation: We recommend that the Martin/Pitt Partnership continue to refine its disbursement procedures for the authorizing and processing of transactions. The purchase order system should be used for its designed purpose of authorizing the purchase of goods and services. Payments should be made based on original documentation and in accordance with approved policies and procedures. Documentation should support all aspects of the disbursement process including approval for payment, verification of clerical accuracy, receipt of the goods/services, and be properly canceled.

Partnership's Response: Disbursement procedures for authorizing and processing transactions continue to be refined and improved. Fiscal policy has for some time required approval prior to actual payment. We have enhanced our documentation of the payment process so that evidence is now present in file regarding payment approval. The Fiscal Director or the Executive Director now approves all payments on the invoice rather than the Purchase Order, as was the practice.

Credit card payments now require receipts for all purchases and payment is made from the receipt, not the statement. In addition, procedures have been developed to require a separate Receiving Form that must evidence receipt of goods and be signed by the person verifying the received goods. Finally, invoices are now stamped PAID before the check is mailed out.

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Buell	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	North Carolina Partnership for Children, Inc.
	Executive Director
Ms. Karen Ponder	North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gullett	Representative Ruth M. Easterling
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Luther H. Jordan, Jr.	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Larry T. Justus
Senator R. L. Martin	Representative Edd Nye
Senator William N. Martin	Representative Warren C. Oldham
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Fountain Odom	Representative E. David Redwine
Senator Aaron W. Plyler	Representative R. Eugene Rogers
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Dan Robinson	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Ronald L. Smith
Senator Robert G. Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Gregg Thompson
Senator Ed N. Warren	Representative Russell E. Tucker
Senator David F. Weinstein	Representative Thomas E. Wright
Senator Allen H. Wellons	Representative Douglas Y. Yongue

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

June 19, 2002

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647