

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.

BURGAW, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.**

BURGAW, NORTH CAROLINA

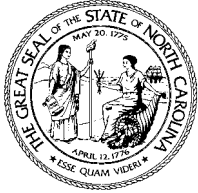
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DENNIS KINZER, CHAIRMAN

ADMINISTRATIVE OFFICER

SANDRA MILLER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - The following instance of noncompliance was detected:

Finding

2. Competitive Bidding

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

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Pender 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. Control Environment
3. Contract Management

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

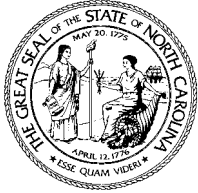
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender County 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 February 15, 2002 on our consideration of the Pender 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Pender County 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

February 15, 2002

Pender County 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 \$100,622)	\$ 739,813	\$ 24,000	\$ 0	\$ 763,813
Private Contributions		23,870		23,870
Interest and Investment Earnings		928		928
Other Receipts		70		70
Total Receipts	739,813	48,868		788,681
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		12,500	(12,500)	
	739,813	61,368	(12,500)	788,681
Expenditures:				
Programs:				
Child Care and Education Quality	398,096	76		398,172
Child Care and Education Affordability	154,974			154,974
Health and Safety	128,686	18,000		146,686
Support:				
Management and General	107,000	27,486		134,486
Program Evaluation	34,412			34,412
Other:				
Sales Tax Paid		4,892		4,892
Total Expenditures	823,168	50,454		873,622
Excess of Receipts Over Expenditures	(83,355)	10,914	(12,500)	(84,941)
Net Assets at Beginning of Year	101,437	(20,850)	21,854	102,441
Net Assets at End of Year	\$ 18,082	\$ (9,936)	\$ 9,354	\$ 17,500
Net Assets Consisted of:				
Cash on Deposit	\$ 4,961	\$ (9,936)	\$ 9,354	\$ 4,379
Refunds Due From Contractors	13,121			13,121
	\$ 18,082	\$ (9,936)	\$ 9,354	\$ 17,500

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

Pender County 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	398,096	80,165	2,807	19,810	16,122	3,180	19,565	256,447	
Child Care and Education Affordability	154,974							154,974	
Health and Safety	128,686							128,686	
	681,756	80,165	2,807	19,810	16,122	3,180	19,565	540,107	0
Support:									
Management and General	107,000	58,024	6,378	7,845	19,690	14,152	911		
Program Evaluation	34,412	27,027	40	1,150	2,510	1,520	2,165		
	141,412	85,051	6,418	8,995	22,200	15,672	3,076	0	0
Total Smart Start Fund Expenditures	823,168	165,216	9,225	28,805	38,322	18,852	22,641	540,107	0
Other Funds:									
Programs:									
Child Care and Education Quality	76	76							
Health and Safety	18,000							18,000	
	18,076	76	0	0	0	0	0	18,000	0
Support:									
Management and General	27,486	583	5,992	231	182	12,500	7,900	0	98
Other:									
Sales Tax Paid	4,892	0	0	4,892	0	0	0	0	0
Total Other Funds Expenditures	50,454	659	5,992	5,123	182	12,500	7,900	18,000	98

PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Pender County Partnership for Children, Inc. (Pender Partnership) is a legally separate nonprofit organization incorporated on December 17, 1998. The Pender Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pender 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 Pender 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 Pender Partnership did not have any permanently restricted net assets at June 30, 2001.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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 Pender 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 Pender Partnership to a concentration of credit risk. At June 30, 2001, the Pender Partnership's bank deposits in excess of the FDIC insured limit was \$44,090.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Pender 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 Pender 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 are presented on Schedule 2 accompanying the financial statements.

The Pender Partnership was awarded and has received \$840,435 under a current year Smart Start contract with NCPC. The unexpended balance of this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract is subject to reversion to the State. The Partnership has returned \$17,267 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Pender Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Pender 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 quality enhancement grants, early education enhancement programs, child care resource and referral, and salary supplements.

Child Care and Education Affordability - Used to account for service activities including elimination of the waiting list and public preschool classes.

Health and Safety - Used to account for service activities including comprehensive dental services, prenatal/newborn services, outreach nurses, and comprehensive health support programs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Support Functions

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

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each function.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 7,200
2003	<u>4,800</u>
Total Minimum Lease Payments	<u>\$ 12,000</u>

Total rental expenditure for all operating leases was \$16,086 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - 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>
Food Lion - Dental Program	<u>\$ 9,354</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>
Glaxo Wellcome - Dental Program	<u>\$ 12,500</u>

Pender County 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
Burgaw Elementary Public School *	7,000			
Little Town Learning Center *	40,452			
Malpass Corner Elementary Public School *	12,683			
Pender County Health Department *	106,440	(7,754)	18,000	
Pender County Maple Hill Head Start *	9,518			
Pender County Public Library *	87,020	(5,341)		
Pender County Public Schools *	155,000	(26)		
Pender High Head Start *	16,096			
Pender Memorial Hospital	30,000			
Rocky Point Elementary Public School *	2,800			
South Topsail Head Start *	11,465			
Various Day Care Providers	74,754			
	553,228	(13,121)	18,000	0

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

***Pender County 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 Program	4,775
Pender County Department of Social Services	250,548
	255,323
<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>	

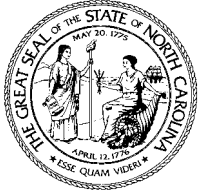
Pender County Partnership for Children, Inc.
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001

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)	* 1-90-5-23-001	\$ (100,622)	\$ 0
Early Childhood Initiatives Program (Current Year)	* 1-01-5-23-001	840,435	823,168
Multi-County Accounting and Contracting Grant	N/A	24,000	24,000
Total State Awards		\$ 763,813	\$ 847,168
*Programs with compliance requirements that have a direct and material effect on the financial statement.			

<i>Pender County Partnership for Children, Inc.</i>			
<i>Schedule of Property and Equipment</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$	19,079
	Computer Equipment/Printers		17,787
	Leasehold Improvements		36,080
	Motor Vehicles		2,825
	Total Property and Equipment	\$	75,771
	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>Pender County Partnership for Children, Inc.</i>				
<i>Schedule of Qualifying Match (Non-GAAP)</i>				
<i>For the Year Ended June 30, 2001</i>				<i>Schedule 5</i>
<i>Match Provided at the Partnership Level:</i>				
Cash		\$	23,940	
In-Kind Goods and Services			1,804	
		\$	<u>25,744</u>	
<i>Match Provided at the Contractor Level:</i>				
Cash		\$	85,349	
In-Kind Goods and Services			56,035	
		\$	<u>141,384</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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**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
Pender County Partnership for Children, Inc.
Burgaw, North Carolina

We have audited the financial statements of the Pender County Partnership for Children, Inc. (Pender Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 15, 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 Pender Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

2. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pender 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

**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)**

control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Pender 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. Control Environment

3. Contract Management

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

February 15, 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 or noncompliance with laws, regulations, contracts, or grants.

1. CONTROL ENVIRONMENT

We previously reported deficiencies in the Pender Partnership's control environment including:

- The Partnership Board's failure to meet established quorum requirements.
- Incomplete Board minutes or noncompliance with the open meetings law requirements.
- Inadequate financial policies and procedures for the operations of the partnership.
- Inadequate segregation of duties for cash disbursement and cash receipting functions.

This finding is partially resolved. We noted that Board minutes were available for review and there were no violations of the open meetings law. In addition, concerns with the segregation of duties over the cash disbursement functions were addressed. However, we continued to note Board attendance that failed to meet the quorum requirement of 33% of membership. Also, the Partnership should continue to enhance its financial policies and procedures to strengthen its financial operations as well as addressing proper segregation of the cash receipting functions.

Recommendation: We recommend that the Pender Partnership place immediate emphasis on addressing the above issues. Board quorum requirements are addressed by the Partnership's bylaws and should be adhered to in conducting business. Comprehensive financial policies and procedures are essential for accountability and the attainment of the Partnership's goals and objectives.

Partnership's Response: The Partnership will place immediate emphasis on addressing these issues and adhere to the bylaws in conducting business. The Partnership will establish a quorum before each meeting and document in the minutes. The Partnership will comply with the open meeting law requirements. The Partnership has revised and approved financial policies and procedures for the operations of the Partnership. The Partnership will assure that cash disbursement and cash receipting duties are segregated.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. COMPETITIVE BIDDING

We reported in the prior year that documentation was not available to support compliance with the competitive bidding requirements for the purchases of goods and services.

This finding is unresolved. The Pender Partnership made improvements in its bidding procedures; however, we continued to note deficiencies in the documentation of vendor selection. Errors were noted with 5 of our 9 sample items.

Recommendation: We recommend that the Pender Partnership continue to enhance its bidding policies to ensure documentation is maintained to support compliance with the legislatively mandated bid requirements.

Partnership's Response: The Partnership will continue to enhance and follow the bidding policies and to ensure documentation is maintained to support compliance with the mandated bid requirements.

Other Current Year Findings and Recommendations – The following finding and recommendation was identified during the current audit and represents a significant deficiency in internal control.

3. CONTRACT MANAGEMENT

During the 2001 fiscal year audit, we noted the following deficiencies in the quality enhancement grant program:

- Grants were awarded that did not follow the standard application process as several entities were not required to complete applications for playground grants.
- Grant activities occurred prior to board approval. We did not find evidence to support Board approval for one grant which was awarded by the Executive Director.
- Funds were spent for activities that appear to fall outside the scope of the grant. We noted several centers that exceeded their grant award as well as one center that received \$18,000 more than the grant amount. In the latter case, most of these additional funds were for building renovation costs that were not addressed in the activity approval received from the North Carolina Partnership for Children. Board approval was not found for this activity as well.

Recommendation: We recommend that the Partnership's Board approve standards for grant applications and that the Board minutes document approval of the grant amounts awarded. The Partnership should seek guidance from the North Carolina Partnership for Children for improvements to its quality enhancement grant process.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: The board has reviewed and revised the standards for grant applications and the board minutes have documented approval of the grant amounts awarded. The Partnership will continue to seek guidance from the North Carolina Partnership for Children for improvements in the quality enhancement grant process.

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April 24, 2002

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