



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**RICHMOND COUNTY PARTNERSHIP FOR CHILDREN**  
**ROCKINGHAM, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**RICHMOND COUNTY PARTNERSHIP FOR CHILDREN**  
**ROCKINGHAM, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**BOARD OF DIRECTORS**

**G. R. KINDLEY, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**CINDY WELLS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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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, Richmond County Partnership for Children

This report presents the results of our financial statement audit of the Richmond County Partnership for Children (Richmond 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 Richmond 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 Richmond 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 Richmond Partnership is one of these local partnerships. As such, the Richmond 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 Richmond 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
2. Authorizing and Processing Transactions
3. Financial Presentations
4. Contract Management and Monitoring

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

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

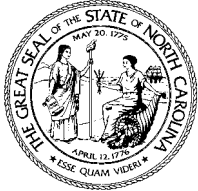


Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Richmond County Partnership for Children  
Rockingham, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2001 on our consideration of the Richmond Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Richmond County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.  
State Auditor

September 12, 2001

**Richmond County Partnership for Children**  
**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis**  
**For the Year Ended June 30, 2001**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$156,443)	\$ 604,242	\$ 2,362	\$ 0	\$ 606,604
Private Contributions		3,516	79	3,595
Interest and Investment Earnings		640		640
Other Receipts	1,224	8,343		9,567
<b>Total Receipts</b>	<b>605,466</b>	<b>14,861</b>	<b>79</b>	<b>620,406</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	307,617			307,617
Child Care and Education Affordability	9,639			9,639
Health and Safety	160,674			160,674
Family Support	102,952	3,421		106,373
Support:				
Management and General	120,206	9,169		129,375
Other:				
Sales Tax Paid		2,892		2,892
<b>Total Expenditures</b>	<b>701,088</b>	<b>15,482</b>		<b>716,570</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(95,622)</b>	<b>(621)</b>	<b>79</b>	<b>(96,164)</b>
<b>Net Assets at Beginning of Year</b>	<b>146,092</b>	<b>9,747</b>		<b>155,839</b>
<b>Net Assets at End of Year</b>	<b>\$ 50,470</b>	<b>\$ 9,126</b>	<b>\$ 79</b>	<b>\$ 59,675</b>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 39,779	\$ 9,128	\$ 79	\$ 48,986
Refunds Due From Contractors	10,691			10,691
	50,470	9,128	79	59,677
Less: Funds Held for Others		2		2
	\$ 50,470	\$ 9,126	\$ 79	\$ 59,675

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



**Richmond County Partnership for Children  
Statement of Functional Expenditures - Regulatory Basis  
For the Year Ended June 30, 2001**

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	307,617	109,284	6,382	32,382	25,884	6,774	12,357	114,554	
Child Care and Education Affordability	9,639							9,639	
Health and Safety	160,674			(621)	191			161,104	
Family Support	102,952			(64)	(235)			103,251	
	580,882	109,284	6,382	31,697	25,840	6,774	12,357	388,548	0
<b>Support:</b>									
Management and General	120,206	54,145	17,437	16,222	16,580	7,812	8,010	0	0
<b>Total Smart Start Fund Expenditures</b>	<b>701,088</b>	<b>163,429</b>	<b>23,819</b>	<b>47,919</b>	<b>42,420</b>	<b>14,586</b>	<b>20,367</b>	<b>388,548</b>	<b>0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Family Support	3,421	0	0	0	0	0	0	3,421	0
<b>Support:</b>									
Management and General	9,169	0	9,192	0	(23)	0	0	0	0
<b>Other:</b>									
Sales Tax Paid	2,892	0	0	2,892	0	0	0	0	0
<b>Total Other Funds Expenditures</b>	<b>15,482</b>	<b>0</b>	<b>9,192</b>	<b>2,892</b>	<b>(23)</b>	<b>0</b>	<b>0</b>	<b>3,421</b>	<b>0</b>

**RICHMOND COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Richmond County Partnership for Children (Richmond Partnership) is a legally separate nonprofit organization incorporated on December 13, 1996. The Richmond Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Richmond 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 Richmond 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 Richmond 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)

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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.

**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 Richmond 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 Richmond Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Richmond 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 Richmond 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 Richmond Partnership was awarded and has received \$751,047 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$24,122 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 Richmond Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Richmond 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, child care resource and referral, professional development, provider training, and outreach plans to assess services.

**Child Care and Education Affordability** - Used to account for service activities associated with transportation to child care programs.

**Health and Safety** - Used to account for service activities including immunization support, comprehensive health services, outreach nurses, comprehensive health support, special needs – specialized therapy, transportation to health services, and outreach materials.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Family Support** - Used to account for service activities including parenting skills training, literacy projects, school readiness program, and family specialists.

### 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.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Allocated based on employee time reports.

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

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

A. **Leases** - The minimum rental payments required under noncancelable lease terms as of June 30, 2001 is \$4,055.

Total rental expenditure for all operating leases was \$4,185 for the year ended June 30, 2001.

B. **Loan Commitment** - The Richmond Partnership has a note with a balance of \$61,888 at June 30, 2001 that is secured by the Partnership's building and land and payable to BB&T in monthly installments of \$900. This amount includes principal and interest computed at an annual rate of 7.75%. At the end of the initial five-year loan, the Richmond Partnership has the options of paying off the balance of the loan or refinancing the outstanding debt for an additional five-year period.

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2002	\$ 6,222	\$ 4,578
2003	6,721	4,079
2004	5,393	2,707
Balloon Payment Due	<u>43,552</u>	<u>          </u>
<b>Total Loan Payments</b>	<u><u>\$ 61,888</u></u>	<u><u>\$ 11,364</u></u>

**NOTE 7 - PENSION PLAN**

**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 Richmond Partnership. The voluntary contributions by employees amounted to \$1,465 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:

<u>Purpose</u>	<u>Amount</u>
Literacy Program	<u><u>\$ 79</u></u>

**Richmond County Partnership for Children  
 Schedule of Contract and Grant Expenditures - Regulatory Basis  
 For the Year Ended June 30, 2001**

**Schedule 1**

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Creative Child Care Solutions	88,000	(71)		
Pediatric Development Therapy	1,506			
Richmond Community College	*	10,000 (2,250)		
Richmond County Even Start	*	68,890 (251)		
Richmond County Health Department	*	105,776 (8,119)		
Richmond County Literacy Council		2,321		
Richmond County Schools	*	26,435		
Sandhills Center for Mental Health, Developmental Disabilities and Substance Abuse Services	*	16,959		
Sandhills Children's Center		42,000		
Sandhills Regional Library System	*	24,391		
Various Daycares		12,961	3,421	
	<b>399,239</b>	<b>(10,691)</b>	<b>3,421</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.

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

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - Wages	43,146
Richmond County Department of Social Services	834,550
	<b>877,696</b>
<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>	



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

**Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<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)	* #1-90-5-26-001	\$ (146,805)	\$ 0
Early Childhood Initiatives Program (Current Year)	* #1-01-5-26-001	751,047	701,088
Multi-Partnership Accounting and Contracting Grant (Prior Year)	N/A	(9,638)	
Multi-Partnership Accounting and Contracting Grant (Current Year)	N/A	12,000	9,191
<b>Total State Awards</b>		<b>\$ 606,604</b>	<b>\$ 710,279</b>
* Programs with compliance requirements that have a direct and material effect on the financial statement.			

<i>Richmond County Partnership for Children</i>			
<i>Schedule of Property and Equipment</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$	12,272
	Computer Equipment/Printers		17,816
	Buildings		43,500
	Land		11,500
	Leasehold Improvements		23,077
	<b>Total Property and Equipment</b>	<b>\$</b>	<b>108,165</b>
	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.	

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

**Schedule 5**

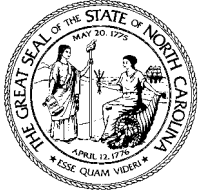
***Match Provided at the Partnership Level:***

Cash	\$ 3,595
In-Kind Goods and Services	6,650
	<u>\$ 10,245</u>

***Match Provided at the Contractor Level:***

Cash	<u>\$ 162,606</u>
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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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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  
Richmond County Partnership for Children  
Rockingham, North Carolina

We have audited the financial statements of the Richmond County Partnership for Children (Richmond Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 12, 2001. We conducted our audit in accordance with 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 Richmond 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 Richmond Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Richmond Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**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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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
2. Authorizing and Processing Transactions
3. Financial Presentations
4. Contract Management and 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 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

September 12, 2001

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **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 noted in the prior audit that the Board had not effectively addressed issues related to policies and procedures and obtaining adequate insurance coverage.

*This finding is partially resolved.* The Partnership obtained proper insurance coverage during the 2001 fiscal year. However, the Partnership did not address the issue of policies and procedures until late in the fiscal year when the Board approved the North Carolina Partnership's policy manual template. Further refinement of those policies and procedures are necessary to address the specific operations of the Richmond Partnership.

*Recommendation:* The Partnership should continue to place emphasis on developing strong accounting and contracting procedures to support the operations of the Partnership. In addition, the Board needs to approve and implement personnel policies.

*Partnership's Response:* The Richmond County Partnership for Children staff is currently reviewing all procedures outlined in the North Carolina Partnership for Children Manuals. It is our goal to determine which of NCPC's policies are applicable to our local partnership. Our Board has approved the use of the Executive Director's discretion in deciding which procedures should be implemented for our local partnership. Emphasis is being placed on developing personnel and accounting issues, as well as implementing written policies and procedures to effectively address these issues.

#### 2. AUTHORIZING AND PROCESSING TRANSACTIONS

In the prior audit, we noted numerous deficiencies related to authorizing and processing of transactions. Issues included:

- Inadequate segregation of duties related to the receipting function
- Inadequate documentation for the preparation, review, and approval of all the monthly bank reconciliations

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

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- Inadequate documentation of the disbursement process
- Disorderly filing system

*This finding is partially resolved.* Improvements were noted in the documenting of the receipting function, preparation of bank reconciliations and the establishment of a more centralized and orderly filing system. We continued to note deficiencies in the documented review/approval of the monthly bank reconciliations and the processing of payments from copies rather than original source documentation. In addition, evidence to support the verification of mathematical accuracy was not always evident.

*Recommendation:* The Partnership's further refinement of its policies and procedures as discussed in Finding 1 above should help to address the continuing issues. The implemented procedures should address documentation standards for the processing of transactions.

*Partnership's Response:* The Richmond County Partnership for Children has developed an internal system that defines segregation of duties. Bank reconciliations are prepared on a timely basis, supported by accounting records, and approved by the appropriate management designee at our Partnership. Documentation to support the Partnership transactions will be continually maintained and filed in an orderly manner.

### 3. FINANCIAL PRESENTATIONS

During the prior year, we noted that the Richmond Partnership's financial presentations were materially incorrect, transactions were unaccounted for on the records of the Partnership, and costs were incorrectly allocated between administrative and service activities.

*This finding is partially resolved.* All activities of the Partnership were accounted for in the records of the Richmond Partnership. However, the finding continues as significant adjustments were necessary to correct the Partnership's financial presentations and the allocation of costs between the administrative and service activities.

*Recommendation:* The Partnership should seek appropriate guidance from the North Carolina Partnership to ensure proper classification and the allocation of financial transactions.

*Partnership's Response:* The Richmond County Partnership for Children will establish proper procedures for the review and classification of transactions. It is our priority to ensure that activities and grants are charged correctly in the general ledger. All transactions are and will continue to be recorded in the appropriate accounting records of our Partnership. We will implement a cost allocation plan that utilizes the accepted accounting principles. This proposed plan has been reviewed and approved by the North Carolina Partnership for Children.

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

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### 4. CONTRACT MANAGEMENT AND MONITORING

We reported in the prior year audit that the Richmond Partnership did not have an adequate contract management/monitoring system in place.

*This finding is unresolved.* Improvement was noted in the area of written contracts; however, we noted one instance where a contract did not exist. Reclassifications were still necessary for much of the noncash awards related to contract and grant activities. In addition, monitoring of contract and grant activities did not take place as the Partnership had only begun to define and establish procedures for an adequate contract monitoring system.

*Recommendation:* We recommend that the Partnership continue with the establishment and implementation of an adequate contract monitoring system. Activities related to parties outside of the Partnership should be classified as grant awards and documented through appropriate contracts and monitoring results.

*Partnership's Response:* The Richmond County Partnership for Children will execute formal contract agreements with all Direct Service Providers, as well as document the terms and outcomes of their approved activities. Contract and grant activities will be appropriately classified on Partnership records for accurate financial presentations. The Partnership has recruited personnel to monitor our subcontractors. Our staff will ensure that the subcontractors are in compliance with the terms of their contact(s) and that their activities are documented.



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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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December 20, 2001

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