



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

THE HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.

ROANOKE RAPIDS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

**THE HALIFAX-WARREN SMART START
PARTNERSHIP FOR CHILDREN, INC.**

ROANOKE RAPIDS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

GINNY ORVEDAHL, BOARD CHAIR

ADMINISTRATIVE OFFICER

MAGDA G. BALIGH, 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, The Halifax-Warren Smart Start Partnership for Children, Inc.

This report presents the results of our financial statement audit of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Halifax-Warren 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 Halifax-Warren 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 Halifax-Warren Partnership is one of these local partnerships. As such, the Halifax-Warren 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 that 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 Halifax-Warren Partnership's ability to record, process, summarize, and report financial data in the financial statements.

Results - The following significant deficiencies were detected in internal control over financial reporting:

Finding

1. Authorizing and Processing Transactions
2. Contract 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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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors

The Halifax-Warren Smart Start Partnership for Children, Inc.
Roanoke Rapids, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) as of June 30, 2002, and the related Statement of Functional Expenditures – Regulatory Basis for the year then ended. These financial statements are the responsibility of the Halifax-Warren 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 statements are free of material misstatements. 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 Halifax-Warren Smart Start Partnership for Children, Inc. as of June 30, 2002, 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 21, 2003 on our consideration of the Halifax-Warren 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 Halifax-Warren Smart Start 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 21, 2003

The Halifax-Warren Smart Start Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of \$53,011)	\$ 1,383,988	\$ 24,000	\$ 1,407,988
Federal Awards		60,946	60,946
Private Contributions		13,090	13,090
Special Fund Raising Events		1,269	1,269
Interest and Investment Earnings		262	262
Sales Tax Refunds		21,458	21,458
Other Receipts	3,170	43,379	46,549
Total Receipts	1,387,158	164,404	1,551,562
Expenditures:			
Programs:			
Child Care and Education Quality	135,424	60,175	195,599
Child Care and Education Affordability	734,924	21,533	756,457
Health and Safety	115,847		115,847
Family Support	185,641	1,350	186,991
Support:			
Management and General	181,952	55,919	237,871
Program Evaluation	18,000		18,000
Program Coordination	52,058	181	52,239
Other:			
Sales Tax Paid		2,956	2,956
Refund of Prior Year Grant		39	39
Total Expenditures	1,423,846	142,153	1,565,999
Excess of Receipts Over Expenditures	(36,688)	22,251	(14,437)
Net Assets at Beginning of Year	61,862	(15,690)	46,172
Net Assets at End of Year	\$ 25,174	\$ 6,561	\$ 31,735
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 24,046	\$ 6,561	\$ 30,607
Refunds Due From Contractors	1,145		1,145
	25,191	6,561	31,752
Less: Funds Held for Others	17		17
	\$ 25,174	\$ 6,561	\$ 31,735

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

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 135,424	69,588	2,386	10,825	38,635	3,807	8,206		1,977
Child Care and Education Affordability	\$ 734,924	145,527	45,716	6,000	6,957	6,683	93	523,948	
Health and Safety	\$ 115,847							115,847	
Family Support	\$ 185,641	48,641						137,000	
	\$ 1,171,836	\$ 263,756	\$ 48,102	\$ 16,825	\$ 45,592	\$ 10,490	\$ 8,299	\$ 776,795	\$ 1,977
Support:									
Management and General	\$ 181,952	110,069	10,397	7,614	28,931	15,286	9,655		
Program Evaluation	\$ 18,000		18,000						
Program Coordination	\$ 52,058	44,704		905	6,449				
	\$ 252,010	\$ 154,773	\$ 28,397	\$ 8,519	\$ 35,380	\$ 15,286	\$ 9,655	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,423,846	\$ 418,529	\$ 76,499	\$ 25,344	\$ 80,972	\$ 25,776	\$ 17,954	\$ 776,795	\$ 1,977
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 60,175	51,744			749	45		7,637	
Child Care and Education Affordability	\$ 21,533	21,533							
Family Support	\$ 1,350	1,350							
	\$ 83,058	\$ 74,627	\$ 0	\$ 0	\$ 749	\$ 45	\$ 0	\$ 7,637	\$ 0
Support:									
Management and General	\$ 55,919	45,275	50	1,313	5,676		3,605		
Program Coordination	\$ 181						181		
	\$ 56,100	\$ 45,275	\$ 50	\$ 1,313	\$ 5,676	\$ 0	\$ 3,786	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 2,956			2,956					
Refund of Prior Year Grant	\$ 39					39			
	\$ 2,995	\$ 0	\$ 0	\$ 2,956	\$ 0	\$ 39	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 142,153	\$ 119,902	\$ 50	\$ 4,269	\$ 6,425	\$ 84	\$ 3,786	\$ 7,637	\$ 0

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

THE HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) is a legally separate nonprofit organization incorporated on February 25, 1994. The Halifax-Warren Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Halifax-Warren 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 Halifax-Warren Partnership’s Board of Directors is responsible. Pursuant to the provisions of 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.

The Halifax-Warren Partnership did not have any temporarily or permanently restricted net assets at June 30, 2002.

- 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.

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consist of petty cash and cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that 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.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Halifax-Warren Partnership was holding amounts withheld from employee paychecks for distribution to insurance agents.

NOTE 2 - DEPOSITS

All funds of the Halifax-Warren Partnership are deposited with a commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Halifax-Warren Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Halifax-Warren 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, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Halifax-Warren Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC or DHHS are presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

The Halifax-Warren Partnership was awarded and has received \$1,436,999 under current year Smart Start contracts with NCPC. The unexpended balances of these contracts are subject to reversion to the State. The Partnership has returned \$10,761 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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 Halifax-Warren Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Halifax-Warren 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 and NCPC 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 for upgrades, quality enhancement grants for maintenance, or child care resource and referral.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes or Preschool (0-4) classes.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Health and Safety - Used to account for service activities including prenatal/newborn services, special needs – early intervention services, or nutrition programs.

Family Support - Used to account for service activities including family resource centers, parenting education and skills training, or ongoing parenting education.

B. Support Functions

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

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

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

NOTE 6 - LEASE OBLIGATIONS

A. **Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 10,302
2004	7,490
2005	6,929
2006	6,929
2007	3,920
Total Minimum Lease Payments	\$ 35,570

Rental expense for all operating leases during the year was \$10,772.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 7 - PENSION PLAN

Retirement Plans - The Halifax-Warren Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Halifax-Warren Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Halifax-Warren Partnership matches employee contributions dollar for dollar up to 3% of gross wages for the year ended June 30, 2002. The Halifax-Warren Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Halifax-Warren Partnership had a total payroll of \$332,181, all of which was covered under the plan. The Partnership contributed \$9,965 for pension benefits during the year. The employees contributed \$18,391 to the plan during the year.

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Halifax County Center, North Carolina Cooperative Extension Service	*	5,300		
Halifax County Schools	*	340,000		
Halifax County Health Department	*	76,000		(453)
Halifax/Northampton PRIDE		106,000		
RiverStone Counseling and Personal Development	*	35,000		
Roanoke Rapids Graded School District	*	42,000		
Warren County Schools	*	50,000		
Warren Family Institute	*	31,000		
Weldon City Schools	*	92,640		(692)
		\$ 777,940	\$ (1,145)	\$ 0 \$ 0
Individuals:				
Just for Kids Child Care Center	*		2,075	
Other Licensed Child Care Providers			5,562	
		\$ 0	\$ 7,637	\$ 0
		\$ 777,940	\$ (1,145)	\$ 7,637 \$ 0

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

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Child Care Services Association - WAGES Program	70,000		\$ 70,000
Department of Social Services of Halifax and Warren Counties	605,000		\$ 605,000
North Carolina State University		18,000	\$ 18,000
	\$ 675,000	\$ 18,000	\$ 693,000
* 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 either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards			

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Childcare Resource and Referral (Current Year)	93.575	5997	\$ 49,141	\$ 52,074
Childcare Resource and Referral (Prior Year)	93.575	5862	5,505	
Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health				
Fatherhood Initiative	93.558	15161010	6,300	
Total Federal Awards			60,946	52,074
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)	N/A	1-01-5-19-001	(32,777)	(1)
Early Childhood Initiatives Program (Current Year)	N/A	1-12-1-06-001 *	1,418,528	1,405,376
Early Childhood Initiatives Program (Encumbrance- Prior Year)	N/A	1-01-1-06-001E	(20,234)	
Early Childhood Initiatives Program (Encumbrance- Current Year)	N/A	1-12-1-06-001E	18,471	18,471
Multi-County Accounting and Contracting Grant	N/A		24,000	24,000
Total State Awards			1,407,988	1,447,846
Total Federal and State Awards			\$ 1,468,934	\$ 1,499,920

The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2002

Schedule 4

	Furniture and Non-Computer Equipment	\$	94,414
	Computer Equipment/Printers		59,963
	Buildings		179,761
	Land		32,219
	Leasehold Improvements		123,615
	Total Property and Equipment	\$	<u>489,972</u>
	Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year of purchase.		

***The Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002***

Schedule 5

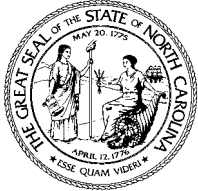
Match Provided at the Partnership Level:

Cash	\$ 32,402
In-Kind Goods and Services	212,067
	\$ 244,469

Match Provided at the Contractor Level:

Cash	\$ 113,662
In-Kind Goods and Services	119,890
	\$ 233,552

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

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

Board of Directors

The Halifax-Warren Smart Start Partnership for Children, Inc.
Roanoke Rapids, North Carolina

We have audited the financial statements of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. 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 Halifax-Warren 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 Halifax-Warren 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 Halifax-Warren Partnership's

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

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. Authorizing and Processing Transactions
2. Contract 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, 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 21, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. AUTHORIZING AND PROCESSING TRANSACTIONS

During the audit, we identified procedural weaknesses with the Halifax-Warren Partnership's authorizing and processing of transactions.

The Partnership's policies and procedures did not sufficiently address the approval process for payments and journal entries. Documentation of the approval for payment was not evident for invoice packages. Journal entries did not identify the preparer or approver of the transaction.

Recommendation: The financial policies and procedures provide direction to the staff for fiscal accountability. We recommend that the Partnership enhance its current policies and procedures to address the authorizing and processing requirements for financial accountability and the documentation of compliance with those standards.

Partnership's Response: The Partnership will review and revise policies and procedures to address authorizing and processing requirements for financial accountability and the documentation of compliance with those standards.

2. CONTRACT MONITORING

We identified weaknesses with the Partnership's monitoring of service provider activities. Evidence to support on-site fiscal and programmatic monitoring activities was inadequate or not available for review.

The achievement of the Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of subcontractor performance.

Recommendation: We recommend that the Partnership further refine and implement contract management and monitoring policies and procedures. Those procedures should address performing documented monitoring activities in accordance with established policies.

Partnership's Response: The Partnership will further refine and implement contract management and monitoring policies and procedures.

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March 28, 2003

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