



STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF
CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
PITTSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
CHATHAM COUNTY PARTNERSHIP FOR CHILDREN**

PITTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

DAVID ATKINSON, CHAIRMAN

ADMINISTRATIVE OFFICER

GENEVIEVE MEGGINSON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Chatham County Partnership for Children (Chatham Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Chatham 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 Chatham 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 Chatham Partnership is one of these local partnerships. As such, the Chatham 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 instances of noncompliance were detected:

Finding

02-02 Contracting Activities – Safe Start

02-03 Allowability of Costs – Safe Start

02-04 Compliance with Procurement Guidelines – Safe Start

These matters are described in the Schedule of Findings and Questioned Costs section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Chatham Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

02-01 Internal Control

This matter is described in the Schedule of Findings and Questioned Costs 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

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Chatham County Partnership for Children (Chatham 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 Chatham 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 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 Chatham County Partnership for Children 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 28, 2003 on our consideration of the Chatham 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 Chatham County Partnership for Children taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." This schedule, and the additional 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 28, 2003

Chatham County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$5,765)	\$ 1,100,485	\$ 12,000	\$ 0	\$ 1,112,485
Federal Awards		402,196	26,804	429,000
Local Awards			1,000	1,000
Private Contributions		47,950	43,886	91,836
Interest and Investment Earnings		3,467		3,467
Sales Tax Refunds		2,372		2,372
Other Receipts		25,773		25,773
Total Receipts	1,100,485	493,758	71,690	1,665,933
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		27,640	(27,640)	
	1,100,485	521,398	44,050	1,665,933
Expenditures:				
Programs:				
Child Care and Education Quality	260,444	21,250		281,694
Child Care and Education Accessibility and Availability	5,229	209		5,438
Child Care and Education Affordability	148,935			148,935
Health and Safety	119,379	2,283		121,662
Family Support	313,641	20,420		334,061
Safe Start		402,214		402,214
Support:				
Management and General	119,942	35,735		155,677
Program Evaluation	57,487			57,487
Program Coordination	58,236	5,786		64,022
Strategic Planning		916		916
Other:				
Sales Tax Paid		3,505		3,505
Refund of Prior Year Grant		140		140
Total Expenditures	1,083,293	492,458		1,575,751
Excess of Receipts Over Expenditures	17,192	28,940	44,050	90,182
Net Assets at Beginning of Year	5,765	13,446	29,427	48,638
Net Assets at End of Year	\$ 22,957	\$ 42,386	\$ 73,477	\$ 138,820
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 3,481	\$ 42,386	\$ 73,477	\$ 119,344
Refunds Due From Contractors	19,476			19,476
	\$ 22,957	\$ 42,386	\$ 73,477	\$ 138,820

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

Chatham County Partnership for Children
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	\$ 260,444							260,444	
Child Care and Education Accessibility and Availability	\$ 5,229							5,229	
Child Care and Education Affordability	\$ 148,935							148,935	
Health and Safety	\$ 119,379							119,379	
Family Support	\$ 313,641							313,641	
	\$ 847,628	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 847,628	\$ 0
Support:									
Management and General	\$ 119,942	97,839	844	1,735	9,466	9,045	1,013		
Program Evaluation	\$ 57,487	47,144	428	811	5,558	3,080	466		
Program Coordination	\$ 58,236	44,420	403	1,064	9,079	2,980	290		
	\$ 235,665	\$ 189,403	\$ 1,675	\$ 3,610	\$ 24,103	\$ 15,105	\$ 1,769	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,083,293	\$ 189,403	\$ 1,675	\$ 3,610	\$ 24,103	\$ 15,105	\$ 1,769	\$ 847,628	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 21,250		750					20,500	
Child Care and Education Accessibility and Availability	\$ 209				59	150			
Health and Safety	\$ 2,283					2,283			
Family Support	\$ 20,420		9,185	81	207	2,447	8,500		
Safe Start	\$ 402,214	158,075	123,563	6,678	35,757	18,023	28,208	27,027	4,883
	\$ 446,376	\$ 158,075	\$ 133,498	\$ 6,759	\$ 36,023	\$ 22,903	\$ 36,708	\$ 47,527	\$ 4,883
Support:									
Management and General	\$ 35,735	26,036	186	349	6,915	1,859	390		
Program Coordination	\$ 5,786		263		4,995		445		83
Strategic Planning	\$ 916				478	245			193
	\$ 42,437	\$ 26,036	\$ 449	\$ 349	\$ 12,388	\$ 2,104	\$ 835	\$ 0	\$ 276
Other:									
Sales Tax Paid	\$ 3,505			3,505					
Refund of Prior Year Grant	\$ 140				140				
	\$ 3,645	\$ 0	\$ 0	\$ 3,505	\$ 140	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 492,458	\$ 184,111	\$ 133,947	\$ 10,613	\$ 48,551	\$ 25,007	\$ 37,543	\$ 47,527	\$ 5,159

CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Chatham County Partnership for Children (Chatham Partnership) is a legally separate nonprofit organization incorporated on June 30, 1994. The Chatham Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Chatham 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 Chatham 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.

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 Chatham Partnership did not have any 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.

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. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets –Regulatory Basis and consists of cash on deposit with private bank accounts and money market 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. 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 Chatham Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Chatham Partnership to a concentration of credit risk. At June 30, 2002, the Chatham Partnership’s bank deposits in excess of the FDIC insured limit was \$98,912.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Chatham 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 Chatham Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Chatham Partnership was awarded and has received \$1,106,250 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 \$19,476 of this contract 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.

Safe Start Program – The Chatham Partnership’s additional major source of revenue and support was from the U.S. Department of Justice for the federally funded Safe Start Initiative. The Chatham Partnership is one of nine program sites selected for the 5 1/2 year demonstration projects. Funding is based on completion of specified phases of the project. In the current year, the Chatham Partnership received \$429,000. The Partnership expects to receive continued funding through the Safe Start Program contracts with the Department of Justice.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Chatham Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Chatham 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, child care resource and referral, professional development, health/safety training for child care professionals, and health/safety intervention in child care.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increasing child care availability.

Child Care and Education Affordability - Used to account for service activities associated with child care cost supports (DCD).

Health and Safety - Used to account for service activities including a mobile health unit, special needs – early intervention services, and special needs – specialized therapy.

Family Support - Used to account for service activities including family resource centers, parenting education and skills training, ongoing parenting education, general family support, support services for children and families in crisis, literacy projects, family literacy, outreach materials, orientation to kindergarten, and community playgrounds.

Safe Start – Used to develop a demonstration initiative to prevent and reduce the impact of family and community violence on young children (primarily from birth to six years of age) by helping communities to expand existing partnerships between service providers (such as law enforcement, mental health, health, early childhood education and others) to create a comprehensive service delivery system.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Strategic Planning – Expenditures that are incurred in planning of service activities related to reducing the impact of violence in the lives of children ages 0–8 years as part of the Safe Start Initiative.

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, and communication costs (telephone and printing) were allocated based utilization data.

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	\$ 41,024
2004	41,324
2005	35,292
2006	14,928
2007	4,595
Total Minimum Lease Payments	\$ 137,163

Rental expense for all operating leases during the year was \$35,471.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. Capital Lease Obligations** - Capital lease obligations relating to copier equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2003	\$ 1,647
2004	1,647
2005	<u>1,509</u>
Total Minimum Lease Payments	\$ <u>4,803</u>

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Chatham Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Chatham Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Chatham Partnership contributed 3% of gross wages for the year ended June 30, 2002. The Chatham Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Chatham Partnership contributed \$8,993 for pension benefits during the year.
- B. IRC Section 403(b) Plan** - All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs were incurred by the Chatham Partnership. The voluntary contributions by employees amounted to \$4,629 during the year ended June 30, 2002.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments on Contracts - The Chatham Partnership had outstanding commitments of \$588,732 on cost-reimbursement contracts that had not been paid at June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Aprendiendo	\$ 85
Bennett School Pre-K	16,259
FRC - Goldkist	375
Kids Outdoors – Pilot/Model Outdoor Learning Environment	28,090
Lady Bug Subscriptions	351
Liberty Chapel	200
Meetings – Safe Start	20
Safe Start	26,804
UNC Hospital – Focus on Fathers	1,107
Week of the Young Child	186
	\$ 73,477

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
CP&L	\$ 500
Kids Outdoors	18,326
Lady Bug Subscriptions	268
Meetings – Safe Start	375
Safe Start	17
Smart Start - Interest	3,050
Success by Six	4,163
Transportation	941
	\$ 27,640

**Chatham County Partnership for Children
 Schedule of Contract and Grant Expenditures - Regulatory Basis
 For the Year Ended June 30, 2002**

Schedule

Organization Name	Smart Start Fund		Other Funds		
	Amount Advanced	Refund Due	Amount Advanced	Refund Due	
Chatham County Health Department	*	221,812	(16,114)		
Chatham County Network, Inc.	*	414,608			
Chatham County Schools	*	37,135	(3,362)		
Chatham Family Resource Center		55,008			
Early Intervention and Family Services				20,500	
Family Violence and Rape Crisis		71,917		19,313	
Heads Up! Therapeutic Riding Services, Inc.		23,460			
Orange/Person/Chatham Community Mental Health	*	43,164			
		\$ 867,104	\$ (19,476)	\$ 39,813	\$ 0
Individuals:					
In-Home Therapeutic Services		\$ 0	\$ 0	\$ 7,714	\$ 0
		\$ 867,104	\$ (19,476)	\$ 47,527	\$ 0

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

Chatham County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Chatham County Department of Social Services *	430,393		\$ 430,393
Child Care Services Association-WAGES Program	52,670		\$ 52,670
	\$ 483,063	\$ 0	\$ 483,063
* 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.			

Chatham County Partnership for Children
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:				
US Department of Justice				
Pass-through from Chatham County				
Reduction and Prevention of Children's Exposure to Violence (Safe Start)	16.730	** #2000-JW-VX-K002	\$ 429,000	\$ 402,214
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)		#1-01-2-04-001	(5,765)	
Early Childhood Initiatives Program (Current Year)	*	#1-12-1-04-001	1,106,250	1,083,293
Multi-County Accounting and Contracting Grant			12,000	12,000
Total State Awards			<u>1,112,485</u>	<u>1,095,293</u>
Total Federal and State Awards			<u>\$ 1,541,485</u>	<u>\$ 1,497,507</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				
** Major Programs per OMB Circular A-133				

Chatham County Partnership for Children
Schedule of Property and Equipment
For the Year Ended June 30, 2002

Schedule 4

	Furniture and Non-Computer Equipment	\$	26,089
	Computer Equipment/Printers		47,603
	Motor Vehicles		2,754
	Total Property and Equipment	\$	<u>76,446</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.		

**Chatham County Partnership for Children
 Schedule of Qualifying Match (Non-GAAP)
 For the Year Ended June 30, 2002**

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 520,837
In-Kind Goods and Services	30,692
	<u>\$ 551,529</u>

Match Provided at the Contractor Level:

Cash	\$ 153,268
In-Kind Goods and Services	109,688
	<u>\$ 262,956</u>

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



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

We have audited the financial statements of the Chatham County Partnership for Children (Chatham Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 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 Chatham 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 Chatham Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial

**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)**

reporting that, in our judgment, could adversely affect the Chatham Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Schedule of Findings and Questioned Costs section of this report:

Finding

02-01 - Internal Control

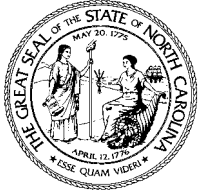
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

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



Ralph Campbell, Jr.
State Auditor

February 28, 2003



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Chatham County Partnership for Children
Pittsboro, North Carolina

Compliance

We have audited the compliance of the Chatham County Partnership for Children (Chatham Partnership) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2002. Chatham Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Chatham Partnership's management. Our responsibility is to express an opinion on Chatham Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chatham Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chatham Partnership's compliance with those requirements.

As described in item 02-04 – Compliance with Procurement Guidelines – Safe Start in the accompanying Schedule of Findings and Questioned Costs, the Chatham Partnership did not comply with requirements regarding Procurement and Suspension and Debarment that are

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

applicable to its Safe Start Initiative program. Compliance with such requirements is necessary, in our opinion, for the Chatham Partnership to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Chatham Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-02 – Contracting Activities – Safe Start and 02-03 – Allowability of Costs – Safe Start.

Internal Control Over Compliance

The management of Chatham Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Chatham Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment could adversely affect the Chatham Partnership's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as item 02-01 – Internal Control.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

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 28, 2003

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

I. SUMMARY OF AUDITOR'S RESULTS **YES** **NO**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified
- Reportable conditions identified that are not considered to be material weaknesses

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs:

- Material weaknesses identified
- Reportable conditions identified that are not considered to be material weaknesses

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>
16.730	Safe Start Initiative

Dollar threshold used to distinguish between Type A and Type B Programs **\$300,000**

Auditee qualified as low-risk auditee

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002(CONTINUED)**

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

02-01: INTERNAL CONTROL

Our review of the internal control system for the Partnership identified weaknesses in the authorizing and processing of transactions including:

- Evidence was not found to document prior approval for the disbursement of funds. In addition, approvals were lacking for both the receipting and journal entry processes.
- Improper segregation of duties was noted with the receipting function as the Administrative Assistant performed all functions without evidence of proper oversight.
- We identified deficiencies in the processing of payments related to verification of mathematical accuracy, adequate supporting documentation, and proper cancellation.

Recommendation: We recommend that the Partnership review its current internal control processes and make appropriate changes to ensure that the authorization and processing of transactions is documented in accordance with established policy. In addition, the receipting process should be properly segregated.

Partnership's Response: The Partnership has reviewed the processes for authorizing and processing transactions and identified the areas where documentation of adherence to policy was not occurring. Procedures have been implemented to correct the process to document each step of the policy requirements. In addition the receipting process has been segregated.

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF FEDERAL AWARDS

02-01: INTERNAL CONTROL

Our review of the internal control system for the Partnership identified weaknesses in the authorizing and processing of transactions including:

- Evidence was not found to document prior approval for the disbursement of funds. In addition, approvals were lacking for both the receipting and journal entry processes.
- Improper segregation of duties was noted with the receipting function as the Administrative Assistant performed all functions without evidence of proper oversight.
- We identified deficiencies in the processing of payments related to verification of mathematical accuracy, adequate supporting documentation, and proper cancellation.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002(CONTINUED)**

Recommendation: We recommend that the Partnership review its current internal control processes and make appropriate changes to ensure that the authorization and processing of transactions is documented in accordance with established policy. In addition, the receipting process should be properly segregated.

Partnership's Response: The Partnership has reviewed the processes for authorizing and processing transactions and identified the areas where documentation of adherence to policy was not occurring. Procedures have been implemented to correct the process to document each step of the policy requirements. In addition the receipting process has been segregated.

02-02: CONTRACTING ACTIVITIES – SAFE START

Our review of contracting activities for the Safe Start Initiative identified the following issues:

- An instance was noted where payments were not made in accordance with contract terms and conditions. Instances were noted where contracts were signed after the effective dates and work had begun. In addition, amendments were not executed in a timely manner.
- An instance was identified where the executive committee approved a specific condition for a particular contract; however, that condition was never made a part of the contract.
- Payments totaling \$1,799 were made to contractors outside the effective dates of the contract period resulting in questioned costs.

Recommendation: We recommend that the Partnership implement a tracking system to adequately monitor the processing of contracts and to ensure compliance with established terms and conditions.

Partnership's Response: A contract tracking procedure has been implemented to ensure that the terms and conditions of contracts are being followed and monitored by Partnership management.

02-03: ALLOWABILITY OF COSTS – SAFE START

Our review of disbursement activities for the Safe Start Initiative identified several items that do not appear to be allowable in accordance with the applicable federal guidelines. Items noted included:

- A former Partnership employee traveled to Puerto Vallarta, Mexico for the purpose of attending an Immersion course on Spanish. Travel outside of the United States is

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002(CONTINUED)**

defined as foreign travel and specifically requires prior approval from the awarding federal agency. Total costs incurred for this trip were \$4,733. Included in this amount is \$146 related to passport charges that the Department of Justice Financial Guide defines as unallowable costs. This amount should be repaid to the federal awarding agency. The travel to Mexico for Spanish language training does not appear to be a reasonable expenditure of federal funds. In addition, appropriate prior approval was not obtained for this activity. As such, costs totaling \$4,587 are considered to be questioned costs.

Salary charges to the Safe Start Initiative were based on budgeted projections of time worked for administrative personnel. OMB Circular A-122, *Cost Principles for Non-Profit Organizations* requires that an after-the-fact adjustment be prepared to ensure that federal awards are charged only for actual salary costs. Our review of actual timesheets identified potential overcharges to the Safe Start Initiative of \$5,100 related to salary costs and \$2,514 in other operating costs that were allocated to the grant based on the budgeted projections of time worked. Total questioned costs related to the Partnership's failure to adjust budgeted salary and other operating charges to actual is \$7,614.

The Department of Justice Financial Guide and OMB Circular A-122 establishes the allowability of costs for the Safe Start Initiative.

Recommendation: We recommend that the Chatham Partnership implement oversight procedures for the disbursement of federal funds to ensure that costs incurred are allowable in accordance with applicable federal guidelines. The Partnership should consult with the Office of Controller for the Department of Justice to determine proper resolution for the identified questioned and unallowable costs 02-04:

Partnership's Response: The Partnership will improve oversight of the disbursements of federal grant funds to assure compliance with federal guidelines. Additional staff will be trained to enhance the knowledge of these guidelines and improve compliance. The Safe Start Program Officer with the Department of Justice has been contacted to initiate the process for resolution of identified questioned and unallowable costs.

02-04: COMPLIANCE WITH PROCUREMENT GUIDELINES – SAFE START

The Chatham Partnership entered into an evaluation contract for the Safe Start Initiative in the amount of \$360,729. The Partnership sole-sourced the contract without obtaining prior written approval from its federal awarding agency. Per the Department of Justice Financial Guide, all sole-source procurements in excess of \$100,000 must be justified with an explanation and receive prior written approval from the awarding federal agency.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002(CONCLUDED)**

Recommendation: We recommend that the Chatham Partnership implement appropriate procedures to ensure adherence to the procurement standards established by the federal guidelines. The Partnership should consult with the Office of the Controller for the Department of Justice to determine what corrective action should be taken to address the above issue of noncompliance.

Partnership's Response: The Partnership has contacted the Safe Start Program Officer with the Department of Justice to initiate the process for resolving the non-compliance contracting. The Partnership will implement corrective actions recommended by the Department of Justice in compliance with their direction as approved by the Program Officer and the Office of the Controller.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

There were no prior year audit findings.

**CHATHAM COUNTY PARTNERSHIP FOR CHILDREN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Contact Person Phone Number	Corrective Action Planned
02-01	Genevieve Megginson (919) 542-7449	Internal Control
		The Chatham Partnership will immediately implement procedures to ensure that authorization and processing of transactions are documented in accordance with policy. The receipting process has been reviewed and appropriate action taken to address the segregation of duties.
02-02	Genevieve Megginson (919) 542-7449	Contracting Activities – Safe Start
		A review of the contracting procedures will be performed to ensure proper processing of contracts and to ensure compliance with contract terms. A request will be made to the Department of Justice for the allowance of the costs totaling \$1,799 paid outside of the original contract terms based on amendments prepared.
02-03	Genevieve Megginson (919) 542-7449	Allowability of Costs – Safe Start
		A request will be submitted to the Department of Justice for retroactive approval for the foreign travel totaling \$4,587. The \$146 costs related to the passport charges will be refunded to the awarding agency. Salary costs are being reviewed based on guidance provided during the audit. The Partnership plans to perform at least annual adjustments to the salary charges to ensure that only after-the-fact charges are incurred on the grant. Documentation will be submitted to the Department of Justice related to the \$7,614 in questioned salary costs.
02-04	Genevieve Megginson (919) 542-7449	Compliance with Procurement Guidelines – Safe Start
		The Chatham Partnership will provide documentation related to the evaluation contract to the Department of Justice and seek retroactive approval.

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In accordance with General Statutes § 147-64.5 and 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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	North Carolina Partnership for Children, Inc.
	Executive Director
	North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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

March 31, 2003

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