

# **STATE OF NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DUPLIN COUNTY PARTNERSHIP FOR CHILDREN**

**KENANSVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DUPLIN COUNTY PARTNERSHIP FOR CHILDREN**

**KENANSVILLE, NORTH CAROLINA**

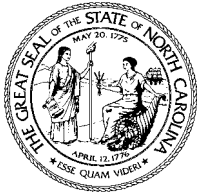
**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**ANGELA MILLER, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**CECIL BEAMAN, 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>

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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, Duplin County Partnership for Children

This report presents the results of our financial statement audit of the Duplin County Partnership for Children (Duplin 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 Duplin 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 Duplin Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Duplin Partnership is one of these local partnerships. As such, the Duplin Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 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** – To 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** – To 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** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Duplin 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. Contract Management and Monitoring
2. Internal Control Procedures

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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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  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Duplin County Partnership for Children  
Kenansville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Duplin County Partnership for Children (Duplin 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 Duplin 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 Duplin 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 April 4, 2003 on our consideration of the Duplin 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)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Duplin 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor  
April 4, 2003

**Duplin 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		
<b>Receipts:</b>				
State Awards (less refunds of \$22,204)	\$ 895,736	\$ 12,000	\$ 0	\$ 907,736
Federal Awards		32,311		32,311
Private Contributions		46,311	14,153	60,464
Interest and Investment Earnings		2,222		2,222
Sales Tax Refunds		4,406		4,406
Other Receipts	846	40,675		41,521
<b>Total Receipts</b>	<b>896,582</b>	<b>137,925</b>	<b>14,153</b>	<b>1,048,660</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		3,281	(3,281)	
	<b>896,582</b>	<b>141,206</b>	<b>10,872</b>	<b>1,048,660</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	217,895	80,875		298,770
Child Care and Education Affordability	240,536	1,450		241,986
Health and Safety	191,605	7,169		198,774
Family Support	45,625	8,224		53,849
Support:				
Management and General	113,538	23,303		136,841
Program Evaluation	36,630	1,203		37,833
Program Coordination	41,163			41,163
Other:				
Sales Tax Paid		4,438		4,438
Refund of Prior Year Grant		2,833		2,833
<b>Total Expenditures</b>	<b>886,992</b>	<b>129,495</b>		<b>1,016,487</b>
<b>Excess of Receipts Over Expenditures</b>	<b>9,590</b>	<b>11,711</b>	<b>10,872</b>	<b>32,173</b>
<b>Net Assets at Beginning of Year</b>	<b>22,204</b>	<b>21,697</b>	<b>53,381</b>	<b>97,282</b>
<b>Net Assets at End of Year</b>	<b>\$ 31,794</b>	<b>\$ 33,408</b>	<b>\$ 64,253</b>	<b>\$ 129,455</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 25,352	\$ 33,408	\$ 64,253	\$ 123,013
Refunds Due From Contractors	6,442			6,442
	<b>\$ 31,794</b>	<b>\$ 33,408</b>	<b>\$ 64,253</b>	<b>\$ 129,455</b>
The accompanying notes to the financial statements are an integral part of this statement.				



**Duplin 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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 217,895	97,183	2,620	3,954	16,088	17,133		80,333	584
Child Care and Education Affordability	\$ 240,536							240,536	
Health and Safety	\$ 191,605			3,940				187,665	
Family Support	\$ 45,625	30,676	2,352	816	4,104	7,677			
	\$ 695,661	\$ 127,859	\$ 4,972	\$ 8,710	\$ 20,192	\$ 24,810	\$ 0	\$ 508,534	\$ 584
<b>Support:</b>									
Management and General	\$ 113,538	93,643	2,887	4,495	11,266		1,247		
Program Evaluation	\$ 36,630	32,099	588	191	1,532	2,220			
Program Coordination	\$ 41,163	34,455	1,114	296	2,302	2,996			
	\$ 191,331	\$ 160,197	\$ 4,589	\$ 4,982	\$ 15,100	\$ 5,216	\$ 1,247	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 886,992</b>	<b>\$ 288,056</b>	<b>\$ 9,561</b>	<b>\$ 13,692</b>	<b>\$ 35,292</b>	<b>\$ 30,026</b>	<b>\$ 1,247</b>	<b>\$ 508,534</b>	<b>\$ 584</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 80,875	37,562	1,000	1,883	2,550	6,210		31,670	
Child Care and Education Affordability	\$ 1,450							1,450	
Health and Safety	\$ 7,169		83		4,709			2,377	
Family Support	\$ 8,224	6,907		611	706				
	\$ 97,718	\$ 44,469	\$ 1,083	\$ 2,494	\$ 7,965	\$ 6,210	\$ 0	\$ 35,497	\$ 0
<b>Support:</b>									
Management and General	\$ 23,303		12,000	100		11,203			
Program Evaluation	\$ 1,203		500	283	420				
	\$ 24,506	\$ 0	\$ 12,500	\$ 383	\$ 420	\$ 11,203	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 4,438			4,438					
Refund of Prior Year Grant	\$ 2,833					2,833			
	\$ 7,271	\$ 0	\$ 0	\$ 4,438	\$ 0	\$ 2,833	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 129,495</b>	<b>\$ 44,469</b>	<b>\$ 13,583</b>	<b>\$ 7,315</b>	<b>\$ 8,385</b>	<b>\$ 20,246</b>	<b>\$ 0</b>	<b>\$ 35,497</b>	<b>\$ 0</b>

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

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Duplin County Partnership for Children (Duplin Partnership) is a legally separate nonprofit organization incorporated on August 24, 1994. The Duplin Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Duplin 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 Duplin 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 Duplin 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)

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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. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists 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. 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

The Duplin Partnership has an Automated Investment Plan to invest excess balances over \$55,000. The investment is in the bank's commercial paper securities and is not insured by the FDIC. Consequently, the Duplin Partnership bank deposits in excess of the FDIC insured limit totaled \$97,106 at June 30, 2002.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Duplin 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 Duplin Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Duplin Partnership was awarded and has received \$917,940 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 \$19,344 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.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Duplin Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Duplin 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 for upgrades, child care resource and referral, professional development, and NC Child Care Corps.

**Child Care and Education Affordability** - Used to account for service activities including public pre-K classes and transportation to child care.

**Health and Safety** - Used to account for service activities including comprehensive health services, prenatal/newborn services, child care

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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health consultants/outreach nurses, special needs – early intervention services, and developmental screenings.

**Family Support** - Used to account for service activities including mobile family resource center and community outreach.

### **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.

### **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 on estimates of utilization or utilization data.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LEASE OBLIGATIONS

**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	\$ 27,000
2004	<u>6,750</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 33,750</u></b>

Rental expense for all operating leases during the year was \$24,750.

### NOTE 7 - PENSION PLAN

**Retirement Plans** - The Duplin Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Duplin Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Duplin Partnership contributed 3% of gross wages for the year ended June 30, 2002. The Duplin 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 Duplin Partnership had a total payroll of \$270,673, a percentage of which was covered under the plan. The Partnership contributed \$7,615 for pension benefits during the year.

### NOTE 8 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Bilingual Coordinator Project	\$ 102
Guilford Mills	12,794
Mobile Child Care Facility	50,000
School Readiness Workshop	1,207
Smart Start Academy	<u>150</u>
	<b><u>\$ 64,253</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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- 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
Bilingual Coordinator Project	\$ 281
School Readiness Workshop	3,000
	<u>\$ 3,281</u>

***Duplin County Partnership for Children  
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
Duplin County Board of Education	*	253,974		2,377	
Duplin County Cooperative Extension	*	39,138	(14)		
Duplin County Health Department	*	121,516	(6,428)		
Duplin County Schools Head Start	*	1,181		251	
Duplin County Transportation Department		17,827		1,450	
James Sprunt Community College	*	44,789		16,201	
Lynda's Play and Learn Too, Inc.	*	4,753		288	
Starr Christian Academy	*	7,431		359	
Lou Anna's Child Care	*			1,160	
Various Providers		24,367		13,411	
		<b>\$ 514,976</b>	<b>\$ (6,442)</b>	<b>\$ 35,497</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.					



***Duplin 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
Child Care Services Association - WAGES Program		39,628		\$ 39,628
Duplin County Department of Social Services		* 752,620		\$ 752,620
		\$ 792,248	\$ 0	\$ 792,248
* 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.				

**Duplin 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
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block Grant	93.575	5860	\$ 6,163	\$ 0
Child Care and Development Block Grant	93.575	5995	26,148	33,230
<b>Total Federal Awards</b>			<b>32,311</b>	<b>33,230</b>
<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)		Various	(9,693)	(11,047)
Early Childhood Initiatives Program (Prior Year)		1-01-2-06-001	(12,511)	(349)
Early Childhood Initiatives Program (Current Year)	*	1-12-2-06-001	917,940	898,388
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
<b>Total State Awards</b>			<b>907,736</b>	<b>898,992</b>
<b>Total Federal and State Awards</b>			<b>\$ 940,047</b>	<b>\$ 932,222</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

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

***Schedule 4***

	Furniture and Non-Computer Equipment	\$	39,677
	Computer Equipment/Printers		30,154
	Leasehold Improvements		2,000
	Total Property and Equipment	\$	71,831
	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.		

***Duplin 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	\$	62,420
In-Kind Goods and Services		11,863
		<hr/>
	\$	74,283
		<hr/>

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

Cash	\$	184,690
In-Kind Goods and Services		3,074
		<hr/>
	\$	187,764
		<hr/>

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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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 STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
Duplin County Partnership for Children  
Kenansville, North Carolina

We have audited the financial statements of the Duplin County Partnership for Children (Duplin Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 4, 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 Duplin 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 Duplin 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

**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)**

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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 Duplin Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

**Finding**

1. Contract Management and Monitoring
2. Internal Control Procedures

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

April 4, 2003

## 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 finding and recommendation was identified during the current and prior audit and represents a significant deficiency in internal control.

#### 1. CONTRACT MANAGEMENT AND MONITORING

Our prior year audit identified weaknesses with the Partnership's contract management and monitoring system including the Partnership's failure to execute contract amendments for playground grants and the maintaining of adequate documentation to support programmatic and financial monitoring activities.

*This finding is partially resolved.* The Partnership discontinued the playground grant activities during the current audit period; however, we noted other instances where contract amendments were not properly executed. Documentation was available to support the financial and programmatic monitoring of direct service providers; however, limited evidence was available to support the programmatic monitoring of the Quality Enhancement grants. In addition, our tests of the eligibility requirements for the Quality Enhancement grants and the Dental Follow-Up program were not adequately verified. This resulted in questioned costs in the amounts of \$2,144 and \$2,647, respectively.

*Recommendation:* We recommend that the Partnership further enhance its contract management and monitoring plan to ensure that amendments are properly executed to support contract changes and that documentation is available to support the monitoring of all funded activities. Also, the Duplin Partnership should consult with the North Carolina Partnership for Children, Inc. to resolve the issues related to the identified questioned cost items.

*Partnership's Response:* DCPC will continue to enhance its management and monitoring plan. DCPC will strive to insure that amendments are properly executed and documentation is noted for support of the funded activities. DCPC has consulted with NCPC to resolve the issues of questionable cost.



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

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

### **2. INTERNAL CONTROL PROCEDURES**

Our review of the Partnership's internal controls identified weaknesses in the authorizing and processing of transactions including:

- We noted deficiencies in the consistent documentation of the approval processes for the payment of invoices, the review of daily deposits, and the reconciliation of the cash receipts log to the bank statements. In addition, some purchase orders were not properly authorized.
- We identified deficiencies in the control processes related to the verification of mathematical accuracy of invoices for payment, maintenance of cash receipts logs and deposit code sheets, and adequate supporting documentation for journal entries. In addition, documentation to support incoming receipts was not maintained in accordance with established procedures.

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities.

*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.

*Partnership's Response:* DCPC has reviewed, updated and implemented policy and procedures regarding internal control processes and made appropriate changes to ensure that the authorization and processing of transaction will be documented in accordance with established policy.

## **DISTRIBUTION OF AUDIT REPORT**

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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.

### **EXECUTIVE BRANCH**

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

### **LEGISLATIVE BRANCH**

#### Appointees to the Joint Legislative Commission on Governmental Operations

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### **Other Legislative Officials**

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

July 9, 2003

## **ORDERING INFORMATION**

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Copies of this report may be obtained by contacting the:

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