



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

JULIE LINEHAN, BOARD CHAIR

ADMINISTRATIVE OFFICER

SUSAN CATAPANO, 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, Durham's Partnership for Children

This report presents the results of our financial statement audit of the Durham's Partnership for Children (Durham's Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A Chapter 147 of the General Statutes.

The accounts and operations of the Durham's 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 Durham's Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statute 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 Durham's Partnership is one of these local partnerships. As such, the Durham's 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** - 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 Durham Partnership's ability to record, process, summarize, and report financial data in the financial statements.

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

Finding

1. Internal Control Procedures

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

We also noted another matter involving an issue of a management control nature that is described in 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of Federal and State Awards - Regulatory Basis.....	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS	17
DISTRIBUTION OF AUDIT REPORT	18



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

Board of Directors
Durham's Partnership for Children
Durham, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Durham's Partnership for Children (Durham's 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 Durham's 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 Durham's 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 December 12, 2002 on our consideration of the Durham's 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 Durham's Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Ralph Campbell, Jr.
State Auditor

December 12, 2002

Durham's Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2002****Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$8,816)	\$ 3,750,438	\$ 12,000	\$ 3,762,438
Federal Awards		223,609	223,609
Local Awards		73,000	73,000
Private Contributions		17,829	17,829
Interest and Investment Earnings		2,262	2,262
Sales Tax Refunds		1,459	1,459
Total Receipts	3,750,438	330,159	4,080,597
Expenditures:			
Programs:			
Child Care and Education Quality	1,188,068	223,609	1,411,677
Child Care and Education Affordability	752,445	74,408	826,853
Health and Safety	585,796		585,796
Family Support	745,055		745,055
Support:			
Management and General	351,677	12,500	364,177
Program Evaluation	99,882	688	100,570
Other:			
Sales Tax Paid		2,318	2,318
Total Expenditures	3,722,923	313,523	4,036,446
Excess of Receipts Over Expenditures	27,515	16,636	44,151
Net Assets at Beginning of Year	15,633	4,896	20,529
Net Assets at End of Year	\$ 43,148	\$ 21,532	\$ 64,680
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 42,607	\$ 21,751	\$ 64,358
Refunds Due From Contractors	601		601
	43,208	21,751	64,959
Less: Funds Held for Others	60	219	279
	\$ 43,148	\$ 21,532	\$ 64,680
The accompanying notes to the financial statements are an integral part of this statement.			

Durham's 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	\$ 1,188,068							1,188,068	
Child Care and Education Affordability	\$ 752,445							752,445	
Health and Safety	\$ 585,796							585,796	
Family Support	\$ 745,055							745,055	
	\$ 3,271,364	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,271,364	\$ 0
Support:									
Management and General	\$ 351,677	195,343	59,131	10,331	34,285	45,420	5,612	475	1,080
Program Evaluation	\$ 99,882	63,497	27,990	3,924	3,945	500	26		
	\$ 451,559	\$ 258,840	\$ 87,121	\$ 14,255	\$ 38,230	\$ 45,920	\$ 5,638	\$ 475	\$ 1,080
Total Smart Start Fund Expenditures	\$ 3,722,923	\$ 258,840	\$ 87,121	\$ 14,255	\$ 38,230	\$ 45,920	\$ 5,638	\$ 3,271,839	\$ 1,080
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 223,609	2,199						221,410	
Child Care and Education Affordability	\$ 74,408	73,106	265		1,037				
	\$ 298,017	\$ 75,305	\$ 265	\$ 0	\$ 1,037	\$ 0	\$ 0	\$ 221,410	\$ 0
Support:									
Management and General	\$ 12,500		11,472		29	500	300	199	
Program Evaluation	\$ 688			688					
	\$ 13,188	\$ 0	\$ 11,472	\$ 688	\$ 29	\$ 500	\$ 300	\$ 199	\$ 0
Other:									
Sales Tax Paid	\$ 2,318	\$ 0	\$ 0	\$ 2,318	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 313,523	\$ 75,305	\$ 11,737	\$ 3,006	\$ 1,066	\$ 500	\$ 300	\$ 221,609	\$ 0

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

DURHAM'S PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Durham's Partnership for Children (Durham's Partnership) is a legally separate nonprofit organization incorporated on October 31, 1994. The Durham's Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Durham's 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 Durham's 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 Durham's 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 STATEMENTS (CONTINUED)

- 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 a private bank account and a money market account.
- 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 Durham's Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.

NOTE 2 - DEPOSITS

All funds of the Durham's 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 Durham's Partnership to a concentration of credit risk. At June 30, 2002, the Durham's Partnership's bank deposits in excess of the FDIC insured limit was \$77,687.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Durham's 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 Durham's 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)

The Durham's Partnership was awarded and has received \$3,759,254 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 \$32,978 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.

Early Learning Opportunities Act Discretionary Grant Program - The Durham's Partnership's other significant source of revenue and support is from a Federal Assistance Award from the Department of Health and Human Services (DHHS) – Administration for Children and Families. The award is based on a cost-reimbursement contract issued through the Early Learning Opportunities Act Discretionary Grant Program.

The Durham's Partnership was awarded \$677,634 under a current year contract with DHHS and has received \$223,609 of this amount. As allowed by program regulation, \$454,025 of the unexpended balance of the current year contract was approved for carry-forward to the subsequent year by DHHS.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, childcare resource and referral, and provider training.

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (DCD), transportation to childcare services, and Preschool (0-4) classes.

Health and Safety - Used to account for service activities including prenatal/newborn services, childcare health consultants/outreach nurses, and special needs – early intervention services.

Family Support - Used to account for service activities including family resource centers, general family support, intensive home visiting, and support services for children and families in crisis.

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.

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	\$ 38,378
2004	<u>3,142</u>
Total Minimum Lease Payments	<u>\$ 41,520</u>

Rental expense for all operating leases during the year was \$38,378.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Durham's Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Durham's Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Durham's Partnership contributed 8% of gross wages for the year ended June 30, 2002. The Durham's 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 Durham's Partnership had a total payroll of \$277,651, all of which was not covered under the plan. The Partnership contributed \$20,364 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 are incurred by the Durham's Partnership. The voluntary contributions by employees amounted to \$11,601 during the year ended June 30, 2002.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments on Contracts - The Durham's Partnership had an outstanding commitment of \$441,824 on a cost-reimbursement contract that had not been paid at June 30, 2002 for the Literacy and School Readiness Enhancement Pilot Project. This is a federally funded project through the Early Learning Opportunities Act Discretionary Grant Program.

*Durham's 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
Child and Parent Support Services	300,808			
Child Care Services Association *	1,180,089	(21)	221,410	
Durham Council for Infants and Young Children with Special Needs	72,548			
Durham County Health Department *	247,340	(580)		
Edgemont Community Center	33,333			
El Centro Hispano, Inc.	177,823			
Exchange Clubs Child Abuse Prevention Center in Durham, Inc.	109,300			
National Black Child Development Institute, Inc.	8,000			
Operation Breakthrough, Inc. *	719,112			
The Appalachian Regional Commission of Durham County	62,708			
The Durham Center/Welcome Baby	280,904			
The Little River Community Complex	80,000			
Various Organizations	475		199	
	\$ 3,272,440	\$ (601)	\$ 221,609	\$ 0

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

Durham's 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 *	399,800		\$ 399,800
Durham County Department of Social Services *	5,128,736		\$ 5,128,736
	\$ 5,528,536	\$ 0	\$ 5,528,536
* 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 the Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards			

Durham's 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:				
Department of Health and Human Services Administration for Children and Families				
Early Learning Opportunities Act Discretionary Grant Program	93.577	#90L0001601	\$ 223,609	\$ 223,609
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)		#1-01-2-07-001	(8,816)	
Early Childhood Initiatives Program (Current Year)		* #1-12-2-07-001	3,759,254	3,722,923
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			<u>3,762,438</u>	<u>3,734,923</u>
Total Federal and State Awards			<u>\$ 3,986,047</u>	<u>\$ 3,958,532</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

***Durham's Partnership for Children
Schedule of Property and Equipment
For the Year Ended June 30, 2002***

Schedule 4

Furniture and Non-Computer Equipment	\$	25,694
Computer Equipment/Printers		34,596
Leasehold Improvements		3,859
Total Property and Equipment	\$	64,149
<p>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.</p>		

Durham's Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002

Schedule 5

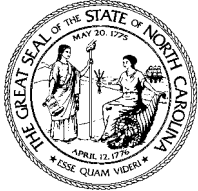
Match Provided at the Partnership Level:

Cash	\$	17,829
In-Kind Goods and Services		4,900
	\$	<u>22,729</u>

Match Provided at the Contractor Level:

Cash	\$	1,452,348
In-Kind Goods and Services		468,911
	\$	<u>1,921,259</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 STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Durham's Partnership for Children
Durham, North Carolina

We have audited the financial statements of the Durham's Partnership for Children (Durham's Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Durham's 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 Durham's 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 reporting that, in our judgment, could adversely affect the Durham's Partnership's ability to

**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)**

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 Audit Findings and Recommendations section of this report:

Finding

1. 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 condition described above to be a material weakness.

We also noted another matter involving an issue of a management control nature that is described in the Audit Findings and Recommendations section of this report.

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

December 12, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. INTERNAL CONTROL PROCEDURES

The prior year audit report identified weaknesses in the Partnership's internal control procedures. Policies and procedures were not supportive of the operations of the Partnership and the segregation of duties between the authorizing and processing functions was inadequate.

This finding is partially resolved. The Partnership made improvements to segregate the authorizing and processing of transactions; however, we continued to note inconsistencies in the documentation of the authorization process. In addition, the Partnership's implementation of updated policies and procedures did not take place until after the fiscal year end.

Recommendation: We recommend that the Partnership continue its review and implementation of revised policies and procedures to strengthen its internal control system for processing transactions.

Partnership Response: The audit for FY 00-01 did not conclude until June 24, 2002, six days before FY 01-02 ended. The Partnership responded immediately by implementing the procedural changes recommended by the auditors directed at improving internal controls. Unfortunately, with only six days remaining in the fiscal year the impact on the audit year 01-02 was negligible. The Accounting Policies and Procedures Manual was reviewed and updated by the Finance Committee and approved by the Board of Directors on September 19, 2002. The Partnership has operated under these new policies and procedures for the entire FY02-03.

Matters Not Related to Financial Reporting

Management Control Findings and Recommendations - The following finding and recommendation was identified during the current audit and represents a significant deficiency in the management control processes for matters not directly related to financial reporting or compliance objectives.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. CONTRACT MANAGEMENT AND MONITORING

The prior year audit identified a significant prepayment activity related to the purchase of modular building units as part of the Head Start Relocation Project. In addition, the project was not complete and occupied as of June 2002, one year subsequent to the payment date.

Our follow-up during the current year indicated that the Head Start Relocation Project continues to be delayed and the objective of the Smart Start funding unmet, eighteen months subsequent to the original investment.

Recommendation: We recommend that the Partnership seek resolution from its funded partners to ensure the completion of the project and the use of Smart Start funds for their intended purpose.

Partnership Response: The Head Start Relocation Project passed the final building inspection on January 17, 2003. The certificate of occupancy was requested by the general contractor on January 21, 2003.

DISTRIBUTION OF AUDIT REPORT

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

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Kever M. Clark	Representative James W. Crawford, Jr.
Senator Daniel G. Clodfelter	Representative William T. Culpepper, III
Senator Walter H. Dalton	Representative W. Pete Cunningham
Senator James Forrester	Representative Beverly M. Earle
Senator Linda Garrou	Representative Ruth M. Easterling
Senator Wilbur P. Gulley	Representative Stanley H. Fox
Senator Kay R. Hagan	Representative R. Phillip Haire
Senator David W. Hoyle	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Edd Nye
Senator R. L. Martin	Representative Warren C. Oldham
Senator William N. Martin	Representative William C. Owens, Jr.
Senator Stephen M. Metcalf	Representative E. David Redwine
Senator Fountain Odom	Representative R. Eugene Rogers
Senator Aaron W. Plyler	Representative Drew P. Saunders
Senator Eric M. Reeves	Representative Wilma M. Sherrill
Senator Dan Robinson	Representative Ronald L. Smith
Senator Larry Shaw	Representative Gregg Thompson
Senator Robert G. Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Russell E. Tucker
Senator Ed N. Warren	Representative Thomas E. Wright
Senator David F. Weinstein	Representative Douglas Y. Yongue
Senator Allen H. Wellons	

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

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

February 5, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647