



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PERSON COUNTY PARTNERSHIP FOR CHILDREN

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PERSON COUNTY PARTNERSHIP FOR CHILDREN

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

MARK PHILLIPS, BOARD CHAIR

ADMINISTRATIVE OFFICER

CINDY WATKINS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Person County Partnership for Children (Person 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 Person 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 Person 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 Person Partnership is one of these local partnerships. As such, the Person 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)

2. **Objective** – To present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

Competitive Bidding

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.

3. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Person Partnership's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

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
Person County Partnership for Children
Roxboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Person County Partnership for Children (Person 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 Person 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 Person 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 June 27, 2003 on our consideration of the Person 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 Person 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

June 27, 2003

Person 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 \$5,253)	\$ 836,395	\$ 12,000	\$ 0	\$ 848,395
Federal Awards		189,202	4,075	193,277
Local Awards		10,500		10,500
Private Contributions		33,257	4,625	37,882
Interest and Investment Earnings		385		385
Sales Tax Refunds		1,724		1,724
Other Receipts		1,741		1,741
Total Receipts	836,395	248,809	8,700	1,093,904
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		11,675	(11,675)	
	836,395	260,484	(2,975)	1,093,904
Expenditures:				
Programs:				
Child Care and Education Quality	209,502	148,578		358,080
Child Care and Education Affordability	116,347			116,347
Health and Safety	114,566			114,566
Family Support	221,173	75,599		296,772
Support:				
Management and General	100,949	25,393		126,342
Program Evaluation	51,115			51,115
Other:				
Sales Tax Paid		1,098		1,098
Total Expenditures	813,652	250,668		1,064,320
Excess of Receipts Over Expenditures	22,743	9,816	(2,975)	29,584
Net Assets at Beginning of Year	5,253	50,685	11,675	67,613
Net Assets at End of Year	<u>\$ 27,996</u>	<u>\$ 60,501</u>	<u>\$ 8,700</u>	<u>\$ 97,197</u>
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 25,839	\$ 60,501	\$ 8,700	\$ 95,040
Refunds Due From Contractors	2,157			2,157
	<u>\$ 27,996</u>	<u>\$ 60,501</u>	<u>\$ 8,700</u>	<u>\$ 97,197</u>

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

Person 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	\$ 209,502	66,539	2,259	5,122	3,806	8,457	40	123,279	
Child Care and Education Affordability	\$ 116,347	3,619	45	47	168	399		112,069	
Health and Safety	\$ 114,566		173					114,393	
Family Support	\$ 221,173	50,068	6,725	2,426	2,787	4,307	427	154,433	
	\$ 661,588	\$ 120,226	\$ 9,202	\$ 7,595	\$ 6,761	\$ 13,163	\$ 467	\$ 504,174	\$ 0
Support:									
Management and General	\$ 100,949	78,160	962	4,627	10,567	6,103	530		
Program Evaluation	\$ 51,115	43,564	356	580	3,273	3,342			
	\$ 152,064	\$ 121,724	\$ 1,318	\$ 5,207	\$ 13,840	\$ 9,445	\$ 530	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 813,652	\$ 241,950	\$ 10,520	\$ 12,802	\$ 20,601	\$ 22,608	\$ 997	\$ 504,174	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 148,578	22,813	2,540	3,262	4,727	2,783	195	112,258	
Family Support	\$ 75,599	44,735	9,870	12,554	3,531	4,909			
	\$ 224,177	\$ 67,548	\$ 12,410	\$ 15,816	\$ 8,258	\$ 7,692	\$ 195	\$ 112,258	\$ 0
Support:									
Management and General	\$ 25,393	\$ 0	\$ 12,000	\$ 3,255	\$ 341	\$ 5,373	\$ 0	\$ 4,424	\$ 0
Other:									
Sales Tax Paid	\$ 1,098	\$ 0	\$ 0	\$ 1,098	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 250,668	\$ 67,548	\$ 24,410	\$ 20,169	\$ 8,599	\$ 13,065	\$ 195	\$ 116,682	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Person County Partnership for Children (Person Partnership) is a legally separate nonprofit organization incorporated on January 20, 1994. The Person Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Person 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 Person 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 Person 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.
- 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 Person Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Person Partnership to a concentration of credit risk. At June 30, 2002, the Person Partnership's bank deposits in excess of the FDIC insured limit was \$41,415.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Person Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Person Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provider contracts entered into by NCPC and/or DHHS are presented on Schedule 2 accompanying the financial statements.

The Person Partnership was awarded and has received \$841,648 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 \$23,877 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.

Child and Adult Care Food Program - The Person Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child and Adult Care Food Program.

The Person Partnership was awarded \$134,907 under a current year contract with DHHS. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new Child and Adult Care Food Program contracts with the State.

Child Care Resource and Referral Program – The Person Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Child Care Resource and Referral Program.

The Person Partnership was awarded \$59,408 under a current year contract with DHHS and has received \$58,370. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new Child Care Resource and Referral Program contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Person Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Person 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 NCPC and/or DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, salary supplements, mentoring programs, behavior intervention, or curriculum enhancements.

Child Care and Education Affordability - Used to account for service activities including Head Start wraparound, child care subsidy, transportation to child care, or supplements for quality.

Health and Safety - Used to account for service activities including dental treatment, comprehensive dental services, prenatal/newborn services, child care health consultants/outreach nurses, special needs – early intervention services, or special needs – specialized therapy.

Family Support - Used to account for service activities including family resource centers, parenting education and skills training, teen parent/child programs, general family support, support services for children and families in crisis, transportation services, or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each function.

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.

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	\$ 26,142
2004	25,347
2005	5,512
2006	943
2007	707
Total Minimum Lease Payments	<u><u>\$ 58,651</u></u>

Rental expense for all operating leases during the year was \$27,980.

NOTE 7 - PENSION PLAN

A. Retirement Plans - The Person Partnership has a defined contribution plan covering all employees. Each full-time employee of the Person Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Person Partnership contributed \$75 per month for each employee for the year ended June 30, 2002. The Person Partnership does not own the annuities nor is liable for any other cost other than the required contribution.

The Partnership contributed \$6,300 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,

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 Person Partnership. The voluntary contributions by employees amounted to \$2,100 during the year ended June 30, 2002.

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>
Child and Adult Care Food Program	\$ 4,075
Week of the Young Child	1,213
Child Health Awareness and Promotion Project	<u>3,412</u>
	<u>\$ 8,700</u>

- 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:

<u>Purpose</u>	<u>Amount</u>
Child and Adult Care Food Program	\$ 7,523
Week of the Young Child	<u>4,152</u>
	<u>\$ 11,675</u>

Person 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
Early Intervention & Family Services	*	74,367			
Family Support Network of Orange, Chatham & Person County		4,000			
Person Area Transportation System	*	49,217			
Person County Board of Education	*	163,301	(1,553)	1,682	
Person County Cooperative Extension	*	20,500			
Person County Department of Parks and Recreation	*	8,272			
Person County Health Department	*	44,082	(604)	2,842	
Person Family Medical Center		36,702			
Piedmont Community College	*	26,075			
Various Providers		37,537			
Youth for Christ of Person County		10,112			
		\$ 474,165	\$ (2,157)	\$ 4,524	\$ 0
Individuals:					
Child Care Expense Reimbursements				112,060	
Emergency Crisis Payments		5,684			
Salary Supplements		26,482		98	
		\$ 32,166	\$ 0	\$ 112,158	\$ 0
		\$ 506,331	\$ (2,157)	\$ 116,682	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.					

***Person 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
North Carolina State University			3,300	\$ 3,300
Person County Department of Social Services	*	260,052		\$ 260,052
		\$ 260,052	\$ 3,300	\$ 263,352

* 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.

Person 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:					
U.S. Department of Agriculture Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health Child and Adult Care Food Program	10.558	* 7095	\$ 134,907	\$ 141,095	
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 Development Fund, Discretionary	93.575	* 6005	58,370	59,257	
Total Federal Awards			193,277	200,352	
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)		1-01-2-10-001	(5,253)		
Early Childhood Initiatives Program (Current Year)		* 1-12-2-10-001	841,648	813,652	
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000	
Total State Awards			848,395	825,652	
Total Federal and State Awards			\$ 1,041,672	\$ 1,026,004	
* Programs with compliance requirements that have a direct and material effect on the financial statements.					

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	5,905
	Computer Equipment/Printers		25,475
	Leasehold Improvements		2,860
	Total Property and Equipment	\$	34,240
	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.		

**Person 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	\$	38,503
In-Kind Goods and Services		7,621
	\$	46,124

Match Provided at the Contractor Level:

Cash	\$	74,072
In-Kind Goods and Services		6,520
	\$	80,592

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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**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
Person County Partnership for Children
Roxboro, North Carolina

We have audited the financial statements of the Person County Partnership for Children (Person Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated June 27, 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 Person 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, which are reported in the Audit Finding and Recommendation section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Person 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over

**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)**

financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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.

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

Ralph Campbell, Jr.
State Auditor

June 27, 2003

AUDIT FINDING AND RECOMMENDATION

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

COMPETITIVE BIDDING

In the prior audit we noted the Partnership was not in compliance with competitive bidding requirements. This issue is unresolved. In the current year the Partnership did not adequately bid the direct service provider activities.

Recommendation: We recommend that the Partnership place appropriate emphasis on complying with the legislatively mandated bid requirements.

Partnership's Response: The Person County Partnership for Children has placed additional emphasis on legislative mandates regarding bid requirements. Since the 2001-02 fiscal year the Partnership has bid all activities, services, and purchases as required by State law. Additionally, direct service providers have complied with requirements to provide the necessary proposals and budgets to support their program requests.

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September 2, 2003

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