

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.

SHALLOTTE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.**

SHALLOTTE, NORTH CAROLINA

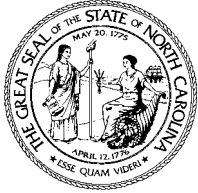
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

STEVE STONE, BOARD CHAIR

ADMINISTRATIVE OFFICER

LORI BATES, 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, Brunswick County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Brunswick County Partnership for Children, Inc. (Brunswick 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 Brunswick 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 Brunswick Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Brunswick Partnership is one of these local partnerships. As such, the Brunswick Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instances of noncompliance were detected:

Finding

3. Noncompliance with Contract Provisions
4. Program Compliance/Obstruction of Audit

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.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Brunswick 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. Financial Presentations
2. Authorizing and Processing Transactions

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

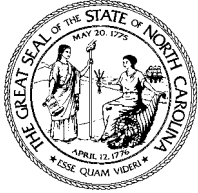
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brunswick County Partnership for Children, Inc.
Shallotte, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Brunswick County Partnership for Children, Inc. (Brunswick 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 Brunswick 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 Brunswick County Partnership for Children, Inc. as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2003 on our consideration of the Brunswick 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 Brunswick County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.
State Auditor
January 15, 2003

Brunswick County Partnership for Children, Inc.
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 \$33,625)	\$ 1,137,629	\$ 22,296	\$ 0	\$ 1,159,925
Federal Awards		54,582		54,582
Local Awards		10,000		10,000
Private Contributions		97,187	22,814	120,001
Special Fund Raising Events		5,243		5,243
Interest and Investment Earnings		2,833		2,833
Sales Tax Refunds		1,871		1,871
Sales and Services		418,240		418,240
Other Receipts	23	3,486		3,509
Total Receipts	1,137,652	615,738	22,814	1,776,204
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		5,554	(5,554)	
	1,137,652	621,292	17,260	1,776,204
Expenditures:				
Programs:				
Child Care and Education Accessibility and Availability	27,378			27,378
Child Care and Education Affordability	118,831	5,310		124,141
Child Care and Education Quality	210,575	66,694		277,269
Family Support	284,930	38,925		323,855
Health and Safety	118,999	49,152		168,151
More at Four		20,676		20,676
Pediatric Dental Clinic	72,150	454,948		527,098
Support:				
Management and General	160,355	28,105		188,460
Program Evaluation/Coordination	146,011	425		146,436
Other:				
Refund of Prior Year Grant		910		910
Sales Tax Paid		2,917		2,917
Total Expenditures	1,139,229	668,062		1,807,291
Excess of Receipts Over Expenditures	(1,577)	(46,770)	17,260	(31,087)
Net Assets at Beginning of Year	36,975	51,686	11,109	99,770
Net Assets at End of Year	\$ 35,398	\$ 4,916	\$ 28,369	\$ 68,683
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 17,597	\$ 4,916	\$ 28,369	\$ 50,882
Refunds Due From Contractors	17,801			17,801
	\$ 35,398	\$ 4,916	\$ 28,369	\$ 68,683
The accompanying notes to the financial statements are an integral part of this statement.				

Brunswick County Partnership for Children, Inc.
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Accessibility and Availability	\$ 27,378	11,904	483	3,595	3,658	6,541	516		681
Child Care and Education Affordability	\$ 118,831	1,015	26		790			117,000	
Child Care and Education Quality	\$ 210,575	126,791	6,637	13,656	32,336	19,847	3,040	7,769	499
Family Support	\$ 284,930	119,555	6,184	8,747	31,383	16,682	975	101,204	200
Health and Safety	\$ 118,999							118,999	
Pediatric Dental Clinic	\$ 72,150	68,848	3,302						
	\$ 832,863	\$ 328,113	\$ 16,632	\$ 25,998	\$ 68,167	\$ 43,070	\$ 4,531	\$ 344,972	\$ 1,380
Support:									
Management and General	\$ 160,355	109,374	5,795	9,331	17,737	17,271	572		275
Program Evaluation	\$ 146,011	96,799	6,900	8,023	14,680	17,826	1,658		125
	\$ 306,366	\$ 206,173	\$ 12,695	\$ 17,354	\$ 32,417	\$ 35,097	\$ 2,230	\$ 0	\$ 400
Total Smart Start Fund Expenditures	\$ 1,139,229	\$ 534,286	\$ 29,327	\$ 43,352	\$ 100,584	\$ 78,167	\$ 6,761	\$ 344,972	\$ 1,780
Other Funds:									
Programs:									
Child Care and Education Affordability	\$ 5,310			91				5,219	
Child Care and Education Quality	\$ 66,694	33,146	1,750	7,249	9,407	4,214	10,613		315
Family Support	\$ 38,925	23,368	853	3,113	1,540			10,051	
Health and Safety	\$ 49,152	38,146	5,924	1,732	586	2,764			
More at Four	\$ 20,676			12,692	3,159		4,825		
Pediatric Dental Clinic	\$ 454,948	323,738	30,100	42,125	20,548	30,284	7,703		450
	\$ 635,705	\$ 418,398	\$ 38,627	\$ 67,002	\$ 35,240	\$ 37,262	\$ 23,141	\$ 15,270	\$ 765
Support:									
Management and General	\$ 28,105	224	1,028	4,417	14,712	1,835	5,889		
Program Evaluation	\$ 425						425		
	\$ 28,530	\$ 224	\$ 1,028	\$ 4,417	\$ 14,712	\$ 1,835	\$ 6,314	\$ 0	\$ 0
Other:									
Refund of Prior Year Grant	\$ 910					910			
Sales Tax Paid	\$ 2,917			2,917					
	\$ 3,827	\$ 0	\$ 0	\$ 2,917	\$ 0	\$ 910	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 668,062	\$ 418,622	\$ 39,655	\$ 74,336	\$ 49,952	\$ 40,007	\$ 29,455	\$ 15,270	\$ 765

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

BRUNSWICK COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Brunswick County Partnership for Children, Inc. (Brunswick Partnership) is a legally separate nonprofit organization incorporated on August 1, 1994. The Brunswick Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Brunswick 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 Brunswick 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 Brunswick 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 STATEMENT (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 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.
- G. Personnel Costs** – The Brunswick Partnership entered into a co-employment relationship with Staff America, Inc., a professional employer organization, beginning April 1, 2001. This relationship is in accordance with Section 414(N) of the Internal Revenue Code and creates a dual employment relationship for the Brunswick Partnership’s existing workforce. Under an administrative agreement, Staff America, Inc. assumed responsibilities for preparation of monthly payroll and the payment of all applicable federal, state, and local employment taxes. All payroll related costs paid in accordance to this agreement are reported as personnel costs in the Schedule of Functional Expenses – Regulatory Basis.

NOTE 2 - DEPOSITS

All funds of the Brunswick 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 Brunswick Partnership to a concentration of credit risk. At June 30, 2002, the Brunswick Partnership’s bank deposits in excess of the FDIC insured limit was \$28,224.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Brunswick 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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

the State could have an adverse effect on the operations of the Brunswick Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Brunswick 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 Brunswick 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.

The Brunswick Partnership was awarded and has received \$1,171,254 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 \$28,810 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 Care Resource and Referral Program - The Brunswick 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 (CCR&R) Program.

The Brunswick Partnership was awarded \$54,690 under a current year CCR&R contract with DHHS and received \$50,564 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new CCR&R Program contracts with the State.

More At Four – The Brunswick Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Brunswick Partnership was awarded \$37,800 and received \$21,296 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

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

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

Child Care and Education Affordability - Used to account for service activities including child care subsidy and preschool (0-4) classes.

Health and Safety - Used to account for service activities including comprehensive dental services, childcare health consultants/outreach nurses, or comprehensive health support programs.

Family Support - Used to account for service activities including parenting education and skills training, ongoing parenting education, general family support, or support services for children and families in crisis.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

More at Four – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

Pediatric Dental Clinic – Used to account for the dental health project service activity. The Brunswick Partnership operates a dental clinic to provide dental care for Brunswick County youth under the age of 21, with a focus on preschool children, who are serviced by Medicaid or North Carolina Health Choice.

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/Coordination – Evaluation expenditures 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. Coordination expenditures are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, there are 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 utilization data.

NOTES TO THE FINANCIAL STATEMENT (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	\$ 16,829
2004	16,228
2005	13,226
2006	11,926
2007	<u>10,450</u>
Total Minimum Lease Payments	\$ <u>68,659</u>

Rental expense for all operating leases during the year was \$89,146.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - 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. The Brunswick Partnership contributed \$22,556 for retirement benefit costs during the year. The voluntary contributions by employees amounted to \$24,221 during the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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:

Purpose	Amount
Be An Angel	\$ 1,671
Teen Family Development Project	1,651
Male Involvement Program	982
Fatherhood Project	2,015
Preschool Music Program	1,000
Marine Exhibit	3,288
Fathers & Family Resource Center	15,780
Pediatric Dental Clinic	1,500
Glaxo Grant	482
	<u>\$ 28,369</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:

Purpose	Amount
Be An Angel	\$ 4,829
Glaxo Grant	45
Direct Service Provider Library	680
	<u>\$ 5,554</u>

NOTE 9 - OTHER MATTERS

The Brunswick Partnership ceased operations of the Pediatric Dental Clinic in June 2002. The Brunswick Partnership is currently in negotiations to conclude all contractual obligations related to the termination of this activity.

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

Schedule 1

Organization Name		Smart Start Fund		Other Funds	
		Amount Advanced	Refund Due	Amount Advanced	Refund Due
Brunswick Community College	*	8,419	(850)		
Brunswick County Health Department	*	124,647	(5,647)		
Brunswick County Schools	*	110,000	(8,796)		
Communities in Schools of Brunswick County, Inc.		117,000			
Various Organizations		2,707	(2,508)	15,270	
		\$ 362,773	\$ (17,801)	\$ 15,270	\$ 0

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

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

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Brunswick County Department of Social Services	763,753		\$ 763,753
Child Care Services Association - WAGES Program	52,500		\$ 52,500
	\$ 816,253	\$ 0	\$ 816,253
* 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			

Brunswick County Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health Community-Based Father Focused Projects	93.558	15161009	\$ 5,271	\$ 0
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development Child Care Resource and Referral	93.575	5987	49,311	50,564
Total Federal Awards			<u>54,582</u>	<u>50,564</u>
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)		#1-01-4-03-001	(33,625)	(902)
Early Childhood Initiatives Program (Current Year)		* #1-12-4-03-001	1,171,254	1,140,131
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program		#2090002913	21,296	20,676
North Carolina Arts Council Pass-through from the Brunswick Arts Council Grassroots Arts Program		N/A	1,000	1,000
Total State Awards			<u>1,159,925</u>	<u>1,160,905</u>
Total Federal and State Awards			<u>\$ 1,214,507</u>	<u>\$ 1,211,469</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				
The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four program.				

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	41,224
	Computer Equipment/Printers		74,673
	Buildings		342,941
	Leasehold Improvements		184,326
	Motor Vehicles		23,155
	Total Property and Equipment	\$	<u>666,319</u>
	Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year of purchase.		

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

Schedule 5

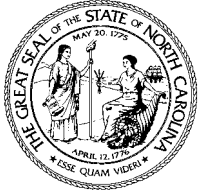
Match Provided at the Partnership Level:

Cash	\$	136,944
In-Kind Goods and Services		16,051
	\$	<u>152,995</u>

Match Provided at the Contractor Level:

Cash	\$	156,743
In-Kind Goods and Services		154,506
	\$	<u>311,249</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

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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
Brunswick County Partnership for Children, Inc.
Shalotte, North Carolina

We have audited the financial statements of the Brunswick County Partnership for Children, Inc. (Brunswick Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 15, 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 Brunswick 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 Findings and Recommendations section of this report, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Finding

3. Noncompliance with Contract Provisions
4. Program Compliance/Obstruction of Audit

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Brunswick 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

**INDEPENDENT AUDITOR'S REPORT
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internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Brunswick 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. Financial Presentations
2. Authorizing and Processing Transactions

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
January 15, 2003

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. FINANCIAL PRESENTATIONS

We have reported in previous audit years the material misstatement of the Brunswick Partnership's financial presentations. Errors have been consistently noted in the classification of revenue and expenditure transactions resulting in inaccurate reporting of the activities of the Partnership.

This finding is unresolved. The Partnership indicated in the prior year response that identified errors had been reconciled and that the timeliness of the audit had greatly enhanced its ability to address similar issues in the future. However, we continued to identify deficiencies in the Partnership's reporting of financial transactions. In addition, the Partnership has failed to address the closure of inactive funds and account balances.

Recommendation: We recommend that Partnership management review the current accounting processes for review and classification of financial transactions. Attention should be given to simplifying the Partnership's presentations by cleaning-up inactive and nonessential account activities. If necessary, the Brunswick Partnership should request technical assistance from the state-level oversight agency, the North Carolina Partnership for Children, Inc.

Partnership's Response: We agree with the recommendation that Brunswick County Partnership for Children management review our current processes as well as clean-up inactive and nonessential account activities. In early January 2003, the Brunswick County Partnership for Children management staff drafted and mailed letters to funders of inactive accounts in an attempt to unrestrict or return the funds. As of date, about 3 to 4 inactive accounts have been closed and the funds returned to the grantor.

The Brunswick County Partnership for Children management staff has also received two technical assistance visits from North Carolina Partnership for Children, Inc. regarding the overall fiscal environment of the organization, as well as numerous e-mails and telephone conversations. When we have questions or are unclear on a financial matter, we look to the North Carolina Partnership for Children, Inc. to provide us with guidance.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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

2. AUTHORIZING AND PROCESSING TRANSACTIONS

During the audit, we identified procedural weaknesses with the Brunswick Partnership's authorizing and processing of transactions. Issues noted:

- We found evidence where management control superceded established internal control processes. Instances were noted where the former Executive Director was involved in both the authorizing and processing functions for transactions. In addition, we noted where journal entries were prepared at the direction of the former Executive Director to reclassify transactions to inappropriate funds resulting in questioned costs.
- Instances were noted where documentation to support accounting transactions was either inadequate or missing. We identified payments made and journal entries prepared without adequate supporting documentation. Processing procedures such as cancellation of invoices paid and verification of mathematical accuracy were not consistently documented.

Recommendation: We recommend that the Board review the current operations of the Partnership. Emphasis should be placed on the implementation of effective policies and procedures to address the authorization and processing requirements for fiscal accountability. In addition, appropriate Board oversight should occur for management activities.

Partnership's Response: We agree with the recommendation that Brunswick County Partnership for Children Board should review the current operations of the Partnership and provide appropriate oversight. The Executive Director for fiscal year 2001-2002 is no longer an employee of the Brunswick County Partnership for Children. The current Executive Director follows all fiscal policies and procedures as approved by the local Board.

The Finance Committee is in the process of reviewing and refining current fiscal policies and procedures in an attempt to provide greater fiscal accountability. The Board is now much more intimately involved in the oversight and management of the Partnership.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. NONCOMPLIANCE WITH CONTRACT PROVISIONS

Our review of activities by the Brunswick Partnership identified instances of noncompliance with its contract provisions with the North Carolina Partnership for Children, Inc. (NCPC).

- The Brunswick Partnership funded an activity entitled the State of the Child conference. A total of \$14,589 was spent on the community outreach activity; however, this event was not a part of the strategic plan approved by the NCPC. The majority of the costs incurred were related to speaker fees, speaker accommodations, and related reference materials. The Smart Start contract states that funds provided by NCPC shall be used by the local partnership only for the purposes and activities specified in the contract.
- In reviewing the More at Four activity, we identified a disbursement in the amount of \$620 for office furniture found in the former Executive Director's office. The purchase activity was initiated and approved by the former Executive Director. We found no evidence to support the allowability of the costs charged to the More at Four activity. The More at Four contract provides that funds be used by the local partnership only for the purposes and activities specified in the contract.

Each of the above items represents a failure by the Brunswick Partnership to comply with contract terms with its state level funding agencies. The State of the Child activity was not an approved activity and costs totaling \$14,589 are considered to be questioned costs. Costs totaling \$620 are also questioned for the purchase of office furniture unrelated to the More at Four activity.

Recommendation: The Brunswick Partnership should consult with NCPC and the More at Four oversight agency to resolve questioned costs related to the expenditure of funds on non-approved activities. The Brunswick Partnership should establish internal procedures to ensure that all contract requirements are properly identified and adhered to by the Partnership.

Partnership's Response: We agree with the recommendation that Brunswick County Partnership for Children should consult with North Carolina Partnership for Children, Inc. and More at Four regarding resolving questioned costs related to the expenditures of funds on non-approved activities.

The Brunswick County Partnership for Children and Board Chair Steve Stone has consulted and continues to consult with North Carolina Partnership for Children, Inc. and More at Four regarding questioned costs related to the expenditure of funds on non-approved activities. In the future, public funds will not be used to support any non-approved activities.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

4. PROGRAM COMPLIANCE/OBSTRUCTION OF AUDIT

Our review of the Be An Angel program identified areas of concern related to the distribution guidelines and oversight for the disbursement of funds. The purpose of the program was to support child victims, prevention activities, and community awareness surrounding abuse and neglect throughout the county. All requests for funding these activities required recommendation and prior approval from one of two local service agencies. We noted instances where these third party recommendations were not available for review. When we requested documentation to support the disbursement of funds, the former Executive Director faxed documents to us that were identified as being from the local service agencies. We were later advised by a Brunswick Partnership official that the documents submitted by the former Executive Director were not authentic.

General Statute 147-64.7A provides that any person who shall willfully make or cause to be made to the State Auditor or his designated representative any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation, or to hinder or obstruct the State Auditor or the State Auditor's designated representatives in the performance of their duties, shall be guilty of a Class 2 misdemeanor.

Recommendation: The Brunswick Partnership should review the operations of the Be An Angel program and develop appropriate guidance for the distribution of funds. Evidence of third party recommendations should be on file to support disbursement of funds.

General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are referring this finding to the Governor, the Attorney General and other appropriate officials.

Partnership's Response: We agree with the recommendation to review the operations of the Be An Angel fund and maintain documentation of the disbursement of funds. The Board of Directors has already approved official guidelines and application process to access Be An Angel funds. Also, the Executive Director must report the activity of the fund to the Board monthly. The Board took prompt action with regard to the unauthentic documents as soon as their lack of authenticity was verified.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 47-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable 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.
	Executive Director North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

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Appointees to the Joint Legislative Commission on Governmental Operations

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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

May 19, 2003

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