

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

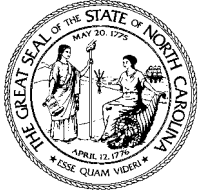
RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS
JEREMY HOLLINGSWORTH, BOARD CHAIR

ADMINISTRATIVE OFFICER
JEAN ONTIVEROS-SQUIER, 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, Hoke County Partnership for Children and Families

This report presents the results of our financial statement audit of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke 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 Hoke Partnership is one of these local partnerships. As such, the Hoke 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 - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

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

Results - The following significant deficiencies were detected in internal control over financial reporting:

Finding

1. Contract Management and Monitoring
2. Internal Control

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

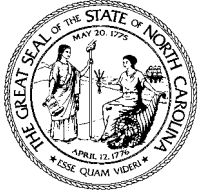
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke County Partnership for Children and Families 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 Hoke 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 Hoke County Partnership for Children and Families 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

June 27, 2003

Hoke County Partnership for Children and Families
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 \$55,817)	\$ 1,170,734	\$ (7,108)	\$ 0	\$ 1,163,626
Federal Awards (less refunds of \$97)		(97)		(97)
Private Contributions		9,445	17	9,462
Special Fund Raising Events			25	25
Interest and Investment Earnings		13		13
Sales Tax Refunds		1,081		1,081
Other Receipts		1,984		1,984
Total Receipts	1,170,734	5,318	42	1,176,094
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		11,625	(11,625)	
	1,170,734	16,943	(11,583)	1,176,094
Expenditures:				
Programs:				
Child Care and Education Quality	246,363	100		246,463
Child Care and Education Affordability	544,416	240		544,656
Health and Safety	111,106	4,352		115,458
Family Support	88,005	243		88,248
Support:				
Management and General	138,066	8,473		146,539
Program Evaluation	20,000			20,000
Program Coordination	37,415			37,415
Other:				
Sales Tax Paid		499		499
Total Expenditures	1,185,371	13,907		1,199,278
Excess of Receipts Over Expenditures	(14,637)	3,036	(11,583)	(23,184)
Net Assets at Beginning of Year	50,925	1,494	11,625	64,044
Net Assets at End of Year	\$ 36,288	\$ 4,530	\$ 42	\$ 40,860
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 21,044	\$ 11,436	\$ 42	\$ 32,522
Refunds Due From Contractors	15,406			15,406
	36,450	11,436	42	47,928
Less: Funds Held for Others	162	6,906		7,068
	\$ 36,288	\$ 4,530	\$ 42	\$ 40,860
The accompanying notes to the financial statements are an integral part of this statement.				

**Hoke County Partnership for Children and Families
 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	\$ 246,363		440	2,202	350	203		243,168	
Child Care and Education Affordability	\$ 544,416	84,064		5,792	5,158	45,794	149	403,459	
Health and Safety	\$ 111,106	900			100			110,106	
Family Support	\$ 88,005			978				87,027	
	\$ 989,890	\$ 84,964	\$ 440	\$ 8,972	\$ 5,608	\$ 45,997	\$ 149	\$ 843,760	\$ 0
Support:									
Management and General	\$ 138,066	85,579	7,118	2,891	18,627	23,851			
Program Evaluation	\$ 20,000							20,000	
Program Coordination	\$ 37,415	34,056		464	1,462	1,433			
	\$ 195,481	\$ 119,635	\$ 7,118	\$ 3,355	\$ 20,089	\$ 25,284	\$ 0	\$ 20,000	\$ 0
Total Smart Start Fund Expenditures	\$ 1,185,371	\$ 204,599	\$ 7,558	\$ 12,327	\$ 25,697	\$ 71,281	\$ 149	\$ 863,760	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 100			100					
Child Care and Education Affordability	\$ 240							240	
Health and Safety	\$ 4,352	2,285			345	222		1,500	
Family Support	\$ 243			243					
	\$ 4,935	\$ 2,285	\$ 0	\$ 343	\$ 345	\$ 222	\$ 0	\$ 1,740	\$ 0
Support:									
Management and General	\$ 8,473	\$ 0	\$ 8,217	\$ 141	\$ 115	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 499	\$ 0	\$ 0	\$ 499	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 13,907	\$ 2,285	\$ 8,217	\$ 983	\$ 460	\$ 222	\$ 0	\$ 1,740	\$ 0

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

HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Hoke County Partnership for Children and Families (Hoke Partnership) is a legally separate nonprofit organization incorporated on October 17, 1994. The Hoke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hoke 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 Hoke 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 Hoke 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of petty cash, cash on deposit with private bank accounts, and savings 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. 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. The Hoke Partnership acts as a fiscal agent for the Healthy Hoke Task Force.
- G. 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 Hoke 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 Hoke Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Associated with these contracts, the Hoke Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Hoke Partnership was awarded and has received \$1,219,443 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 \$34,029 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

B. Other Related Parties - The Hoke Partnership is party to a contract with the County of Hoke for a recreational vehicle that is used as a mobile resource center. A representative from the County of Hoke is a board member of the Partnership. Also, the Hoke Partnership contracted for rental space with a private business associated with a board member of the Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Occupancy Cost	\$ 29,568
Mobile Resource Center	<u>35,616</u>
	<u>\$ 65,184</u>

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, health/safety training for child care professionals, and curriculum enhancements.

Child Care and Education Affordability – Used to account for service activities including public pre-K classes, child care subsidy, and part day care programs.

Health and Safety – Used to account for service activities including, speech and hearing screenings, comprehensive health services, special needs – early intervention services, and special needs – specialized therapy.

Family Support – Used account for service activities including family resource centers, ongoing parenting education, and literacy projects.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

Special Fund Raising Events - Expenditures of special fund raising events in which the donor receives a direct benefit.

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 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.

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	\$ 42,420
2004	32,460
2005	<u>34,020</u>
Total Minimum Lease Payments	<u>\$ 108,900</u>

Rental expense for all operating leases during the year was \$31,466.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Loan Commitment - The Hoke Partnership has a note with a balance of \$33,998 at June 30, 2002 that is secured by the mobile resource center and payable to County of Hoke in an annual installment of \$35,616. This amount includes principal and interest computed at an annual rate of 4.76%.

The future scheduled maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2003	<u>\$ 33,998</u>	<u>\$ 1,618</u>

NOTES TO THE FINANCIAL STATEMENTS (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:

<u>Purpose</u>	<u>Amount</u>
Pre-literacy ESL Class	\$ 17
Preschool Mobile Resource Center	<u>25</u>
	<u>\$ 42</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>
Healthy Hoke Task Force Healthy Carolinian	\$ 8,217
Play Room Grant from Progress Energy	<u>3,408</u>
	<u>\$ 11,625</u>

Hoke County Partnership for Children and Families
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 Care Connections, Inc.	227,819	(1,901)		
Cumberland County Hospital System, Inc. d/b/a Cape Fear Valley Health System	18,744	(6,158)		
Hawkeye Indian Cultural Center	5,232			
Hoke County Cooperative Extension	77,626	(377)		
Hoke County Health Department	81,520			
Hoke County Schools	307,942	(6,094)		
Sandhill Community College	24,796	(250)		
Sandhills Center for Mental Health, Developmental Disabilities & Substance Abuse Services	16,000			
Sandhills Regional Library System	17,250			
Various	626	(626)	1,740	
	\$ 777,555	\$ (15,406)	\$ 1,740	\$ 0
Individuals:				
Evaluation Services	20,000			
Scholarship Program	81,611			
	\$ 101,611	\$ 0	\$ 0	\$ 0
	\$ 879,166	\$ (15,406)	\$ 1,740	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Hoke County Partnership for Children and Families
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002***

Schedule 2

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Office of the Secretary				
NC Council on Developmental Disabilities				
Family Support Network Parent-to-Parent Program	93.630	N/A	\$ (97)	\$ 0
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)		1-01-4-07-001	(48,709)	(43)
Early Childhood Initiatives Program (Current Year)	*	1-12-4-07-001	1,219,443	1,185,414
North Carolina Office of the Governor				
Office of Juvenile Justice				
Support Our Students Program (Prior Years)		N/A	(7,108)	
Total State Awards			<u>1,163,626</u>	<u>1,185,371</u>
Total Federal and State Awards			<u>\$ 1,163,529</u>	<u>\$ 1,185,371</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

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

Schedule 3

	Furniture and Non-Computer Equipment	\$	29,721
	Computer Equipment/Printers		28,984
	Motor Vehicles		127,000
	Total Property and Equipment	\$	<u>185,705</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.		

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

Schedule 4

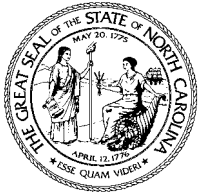
Match Provided at the Partnership Level:

Cash	\$	24,777
In-Kind Goods and Services		16,829
	\$	<u>41,606</u>

Match Provided at the Contractor Level:

Cash	\$	32,855
In-Kind Goods and Services		74,965
	\$	<u>107,820</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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2 S. Salisbury Street
20601 Mail Service Center
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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
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the financial statements of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant our judgment, could adversely affect the Hoke 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:

**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)**

Finding

1. Contract Management and Monitoring
2. Internal Control

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

June 27, 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. CONTRACT MANAGEMENT AND MONITORING

We reported in prior years audit reports that the Hoke Partnership did not have an adequate contract management and monitoring system in place. We noted that the Partnership had not implemented written contract management/monitoring policies and procedures, payments were made without contracts, and scholarship qualifications were not clearly documented. In addition, documented site visits were not available for review.

This finding is unresolved. The Partnership has not fully implemented contract management and monitoring polices and procedures. We continued to identify errors in the following areas:

- Contract payments were made prior to the execution of formal agreements.
- Scholarship payments were made prior to obtaining documentation to support recipient eligibility. In addition, we noted payments to various daycare centers that failed to meet the established criteria for the scholarship activity. Based upon our limited testwork, we identified \$1,461 of ineligible payments that are considered questioned costs.
- No evidence was available to support the performance of programmatic monitoring for the scholarship program as per the contract terms. There was evidence for the monitoring of direct service provider contracts; however, the Partnership did not monitor all activities within a contract and performed limited or inadequate fiscal monitoring of direct service providers.

Recommendation: We recommend that the Hoke Partnership continue with its implementation of contract management and monitoring procedures. Written agreements should be in force before contract payments are made. Documentation should be maintained to support verification of recipient eligibility and fiscal and programmatic results. The Hoke Partnership should consult the North Carolina Partnership for Children, Inc. for assistance with updating and implementing effective contract management and monitoring policies and procedures and the resolution of the above-identified questioned costs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Partnership's Response

- Contracting Policies and Procedures have been customized for the Hoke Partnership and were adopted by the board in February 2003.
- Contract payments for subsequent fiscal years have been made after execution of formal agreements.
- The Scholarship program was delayed in being transferred from an in-house program to the local Department of Social Services until June 1, 2002 due to a late contract execution between North Carolina Partnership for Children, Inc. and the Hoke Partnership which did not make it financially feasible for the Department of Social Services to administer the program until such said date. Since June 2002, this program has been administered by the Department of Social Services and monitored by the Division of Child Development under Statewide contract.
- Service Provider Monitoring Policies and Procedures have been revised and adopted by the Board as of March 2003 and more intensive programmatic and fiscal monitoring was performed in the subsequent fiscal year.

2. INTERNAL CONTROL

In the prior fiscal year, we found the Hoke Partnership's financial accounting policies and procedures did not sufficiently address the organization's needs. The policies referred to the accrual basis of accounting rather than the cash basis of accounting by which the Partnership operates. In addition, inadequacies of the policies and procedures contributed to processing errors in the receipting and disbursement functions as well as the documentation of journal entries.

This finding is unresolved. The Partnership adopted financial accounting policies and procedures on the cash basis during the fiscal year. However, the Partnership failed to customize the policies and procedures to the operations of the Partnership. The following deficiencies were identified during our testwork:

- Errors were noted with the disbursement functions of the Partnership. Documentation was not consistently noted in the authorization, recalculation, and cancellation processes for paid invoices.
- There was no consistent authorization for journal entries and documentation to support the justification for entries was deficient.
- The cash receipting process was not consistently performed. Evidence was limited to support the performance of the bank reconciliation process or its review by an appropriate official.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: We recommend that the Hoke Partnership review its current policies and procedures and revise as necessary to support the operations of the Partnership. Emphasis should be placed on documenting the authorizing and processing of transactions, particularly those that change the original books of entry. The Hoke Partnership should seek appropriate guidance from the North Carolina Partnership for Children, Inc. in updating and implementing effective accounting policies and procedures.

Partnership's Response

- Accounting Policies and Procedures were revised and adopted by the Board as of February 2003.
- The Hoke Partnership has been more diligent in adhering to the accounts payable process in subsequent fiscal years in regards to the authorization, recalculation, and cancellation of paid invoices.
- The Hoke Partnership contracted with an approved Multi-Accounting and Contracting Site (MAC) beginning July 1, 2002. Since this accounting transition, the authorization of documentation of justification of journal entries are consistently transacted through the use of a form.
- The MAC Site Accountant prepares the bank reconciliation for review and approval by the Executive Director.
- The MAC Site Accountant reconciles Cash Receipts Log against deposits posted through the Deposit Code Sheets.

In regards to seeking appropriate guidance from the North Carolina Partnership for Children, Inc., the Hoke Partnership has developed and compiled with all Performance Improvement Plan requirements thus far since September 2002. Participation in that Plan has resulted in the actions noted in this response.

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September 2, 2003

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