



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

DR. CHARLES HUGGINS, BOARD CHAIR

ADMINISTRATIVE OFFICER

HEATHER MURRELL, 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, Lee County Partnership for Children

This report presents the results of our financial statement audit of the Lee County Partnership for Children (Lee 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 Lee 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 Lee Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statute 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 Lee Partnership is one of these local partnerships. As such, the Lee Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - The following instance of noncompliance was detected:

Finding

3. 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** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lee 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. Control Environment
2. Contract Management and Monitoring

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.

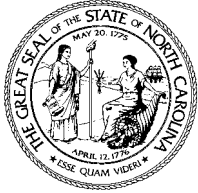
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of State Awards - Regulatory Basis	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT	19



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lee County Partnership for Children
Sanford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Lee County Partnership for Children (Lee 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 Lee 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 Lee 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 October 25, 2002 on our consideration of the Lee 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 Lee 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.



Ralph Campbell, Jr.
State Auditor

October 25, 2002

Lee 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 \$92,691)	\$ 782,617	\$ 12,000	\$ 0	\$ 794,617
Local Awards			500	500
Private Contributions		4,403	14,520	18,923
Special Fund Raising Events		196		196
Interest and Investment Earnings		274		274
Sales Tax Refunds		2,714		2,714
Other Receipts	80		41	121
Total Receipts	782,697	19,587	15,061	817,345
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		14,370	(14,370)	
	782,697	33,957	691	817,345
Expenditures:				
Programs:				
Child Care and Education Quality	289,362	12,466		301,828
Child Care and Education Affordability	103,920			103,920
Health and Safety	23,535			23,535
Family Support	192,112	14,281		206,393
Support:				
Management and General	142,013	12,165		154,178
Program Evaluation	40,917			40,917
Program Coordination	43,303			43,303
Other:				
Sales Tax Paid		3,801		3,801
Refund of Prior Year Grant		153		153
Total Expenditures	835,162	42,866		878,028
Excess of Receipts Over Expenditures	(52,465)	(8,909)	691	(60,683)
Net Assets at Beginning of Year	92,691	8,775	67,867	169,333
Net Assets at End of Year	\$ 40,226	\$ (134)	\$ 68,558	\$ 108,650
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 39,480	\$ (134)	\$ 68,558	\$ 107,904
Refunds Due From Contractors	746			746
	\$ 40,226	\$ (134)	\$ 68,558	\$ 108,650

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

**Lee 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	\$ 289,362	118,884	62,836	12,179	22,827	13,719	2,109	56,808	
Child Care and Education Affordability	\$ 103,920							103,920	
Health and Safety	\$ 23,535							23,535	
Family Support	\$ 192,112	117,389	2,500	4,983	12,530	7,171	354	47,185	
	\$ 608,929	\$ 236,273	\$ 65,336	\$ 17,162	\$ 35,357	\$ 20,890	\$ 2,463	\$ 231,448	\$ 0
Support:									
Management and General	\$ 142,013	114,913	5,682	4,293	9,346	6,190	1,589		
Program Evaluation	\$ 40,917	31,667	788	902	4,014	3,401	145		
Program Coordination	\$ 43,303	29,248	2,331	3,568	4,544	3,612			
	\$ 226,233	\$ 175,828	\$ 8,801	\$ 8,763	\$ 17,904	\$ 13,203	\$ 1,734	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 835,162	\$ 412,101	\$ 74,137	\$ 25,925	\$ 53,261	\$ 34,093	\$ 4,197	\$ 231,448	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 12,466	3,267		736	713	26	350	1,051	6,323
Family Support	\$ 14,281		625	3,042	10,006	328	280		
	\$ 26,747	\$ 3,267	\$ 625	\$ 3,778	\$ 10,719	\$ 354	\$ 630	\$ 1,051	\$ 6,323
Support:									
Management and General	\$ 12,165	\$ 0	\$ 12,000	\$ 0	\$ 0	\$ 165	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,801			3,801					
Refund of Prior Year Grant	\$ 153					153			
	\$ 3,954	\$ 0	\$ 0	\$ 3,801	\$ 0	\$ 153	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 42,866	\$ 3,267	\$ 12,625	\$ 7,579	\$ 10,719	\$ 672	\$ 630	\$ 1,051	\$ 6,323

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Lee County Partnership for Children (Lee Partnership) is a legally separate nonprofit organization incorporated on January 8, 1997. The Lee Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lee 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 Lee 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 Lee 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 petty cash and cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Lee 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 Lee Partnership to a concentration of credit risk. At June 30, 2002, the Lee Partnership's bank deposits in excess of the FDIC insured limit was \$55,354.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lee 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 Lee 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) are presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Lee Partnership was awarded \$926,972 under current year Smart Start contracts with NCPC and has received \$875,308 of this amount. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$39,578 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Lee Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lee 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, childcare resource and referral, child care substitutes, salary supplements, and mentoring programs.

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (DCD), public pre-K classes, and child care cost supports (DCD).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities including comprehensive screenings and comprehensive health support.

Family Support - Used to account for service activities including ongoing parenting education and family literacy.

B. Support Functions

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

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on estimates of utilization or utilization data. The Partnership allocated a total of \$56,710 in other costs.

Summarized below are the cost allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 8,072
Supplies and Materials	2,628
Communications	8,401
Utilities	10,923
Repair and Maintenance	558
Fixed Charges and Other Expenses	<u>26,128</u>
Total Allocated Costs	<u>\$ 56,710</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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	\$ 3,714
2004	3,714
2005	3,714
2006	3,714
2007	<u>670</u>
Total Minimum Lease Payments	\$ <u>15,526</u>

Rental expense for all operating leases during the year was \$27,884.

NOTE 7 - 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 Care Resource and Referral - Individual	\$ 110
Local Interagency Coordinating Council – Minigrant	80
Parents as Teachers – County of Lee	33,433
Parents as Teachers – Food Lion	1,021
Parents as Teachers - Individuals	1,192
Parents as Teachers – Reading is Fundamental	500
Parents as Teachers – United Way	<u>32,222</u>
	\$ <u>68,558</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>
Local Interagency Coordinating Council - Minigrant	\$ 420
Parents as Teachers – County of Lee	5,788
Parents as Teachers – Food Lion	1,151
Parents as Teachers – United Way	<u>7,011</u>
	\$ <u>14,370</u>

*Lee 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
Central Carolina Community College *	18,546			
Creative Experiences	6,042			
Even Start *	5,281			
Kelly's Day Care	3,287			
Lee County Board of Education *	151,276	(171)		
Lee County Public Health Department *	24,111	(575)		
Nanna Ma's	3,718			
New Dawn *	1,318			
North Lee Child Development Center	8,872			
United Cerebral Palsy	9,743			
WAGES			1,051	
	\$ 232,194	\$ (746)	\$ 1,051	\$ 0

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

**Lee County Partnership for Children
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2002**

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	42,338
Lee County Department of Social Services	* 527,151
	\$ 569,489
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations</p>	
<p>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</p>	

Lee County Partnership for Children
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
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)	Various	\$ (8,784)	\$ (164)
Early Childhood Initiatives Program (Prior Year)	* 1-01-4-09-001	(83,907)	(288)
Early Childhood Initiatives Program (Encumbrance)	N/A	25,443	25,155
Early Childhood Initiatives Program (Current Year)	* 1-12-4-09-001	801,529	776,078
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Capacity Building Grant	* 1-12-5-11-002	48,336	34,381
Total State Awards		\$ 794,617	\$ 847,162
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	38,557
	Computer Equipment/Printers		35,358
	Leasehold Improvements		4,336
	Total Property and Equipment	\$	78,251
	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.		

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

Schedule 5

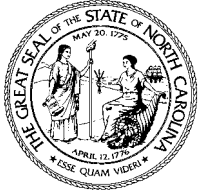
Match Provided at the Partnership Level:

Cash	\$ 16,208
In-Kind Goods and Services	29,176
	<u>\$ 45,384</u>

Match Provided at the Contractor Level:

Cash	<u>\$ 371,487</u>
------	-------------------

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lee County Partnership for Children
Sanford, North Carolina

We have audited the financial statements of the Lee County Partnership for Children (Lee Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee 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 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 Lee 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
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)**

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 Lee 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. Control Environment
2. Contract Management and Monitoring

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 believe none of the reportable conditions described above is a material weakness.

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

October 25, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. CONTROL ENVIRONMENT

The prior year audit reported that the Partnership had not implemented adequate policies and procedures for the operations of the Partnership. We also noted that the Partnership had failed to properly address previously reported audit issues dating from the 1998 fiscal year.

This finding is partially resolved. The Partnership has adequately addressed issues related to financial presentations and the authorizing and processing of transactions. We also noted that the Partnership board approved and implemented policies and procedures. However, we continued to identify instances where the operations of the Partnership were not consistent with the approved policies and procedures.

Recommendation: We recommend that the Partnership continue to refine its operational procedures to ensure compliance with authorized guidance from the local Board and statewide goals and objectives.

Agency Response: We have engaged the former Executive Director of the Mecklenburg Partnership for Children to assist us in editing our Policies and Procedures Manual, refining our operational procedures, and writing policies and procedures for contract management and monitoring. We anticipate having this project completed and approved by the Board of Directors by their March 2003 meeting.

2. CONTRACT MANAGEMENT AND MONITORING

The prior year audit identified weaknesses with the Partnership's contract management and monitoring system including the failure to implement contracting policies and procedures, contract payments prior to the initial date of the contract, and insufficient evidence to support the financial monitoring activities.

This finding is partially resolved. We did not identify any contract payments prior to established contract terms. We also noted that documentation was available to support Partnership monitoring activities; however, defined policies and procedures for contract management and monitoring have not been established and adopted by the Board.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: We recommend that the Partnership implement contract management and monitoring policies and procedures similar to contracting guidance provided by the North Carolina Partnership for Children, Inc.

Agency Response: The Lee County Partnership for Children is participating in the North Carolina Partnership's Local Partnership Performance Improvement Plan. As a participant in this Plan, the Partnership will receive intensive training and technical assistance.

Other Current Year Findings and Recommendations - The following finding and recommendation was identified during the current audit and represents noncompliance with laws, regulations, contracts, or grants.

3. COMPETITIVE BIDDING

Adequate documentation was not available to support the Partnership's compliance with legislatively mandated competitive bidding requirements.

Recommendation: We recommend that the Partnership document its compliance with the competitive bidding guidelines as established by the North Carolina Partnership for Children and the General Statutes.

Agency Response: We began January 2, 2003 complying with the competitive bidding requirements.

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

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

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

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

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

January 28, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647