



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ROWAN PARTNERSHIP FOR CHILDREN, INC.

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ROWAN PARTNERSHIP FOR CHILDREN, INC.

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

AMELIA J. WATTS, BOARD CHAIR

ADMINISTRATIVE OFFICER

ROSEMARIE G. ALLEN, 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, Rowan Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Rowan Partnership for Children, Inc. (Rowan 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 Rowan 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 Rowan 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 Rowan Partnership is one of these local partnerships. As such, the Rowan 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:

Findings

1. Competitive Bidding
2. Prepayment Activities

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 Rowan Partnership's ability to record, process, summarize, and report financial data in the financial statements.

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

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rowan Partnership for Children, Inc.
Salisbury, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Rowan Partnership for Children, Inc. (Rowan 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 Rowan 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 Rowan 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 October 4, 2002 on our consideration of the Rowan 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 Rowan 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

October 4, 2002

Rowan 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 \$31,367)	\$ 1,751,922	\$ 0	\$ 0	\$ 1,751,922
Private Contributions		5,805	1,000	6,805
Special Fund Raising Events		4,600		4,600
Interest and Investment Earnings		4,667		4,667
Sales Tax Refunds		3,033		3,033
Other Receipts		18,819		18,819
Total Receipts	1,751,922	36,924	1,000	1,789,846
Expenditures:				
Programs:				
Child Care and Education Quality	747,122	20,872		767,994
Child Care and Education Accessibility and Availability	112,357			112,357
Child Care and Education Affordability	130,852			130,852
Health and Safety	130,232	3,654		133,886
Family Support	163,966			163,966
Support:				
Management and General	221,500	16,233		237,733
Program Evaluation	168,581			168,581
Other:				
Sales Tax Paid		3,269		3,269
Refund of Prior Year Grant		11,250		11,250
Total Expenditures	1,674,610	55,278		1,729,888
Excess of Receipts Over Expenditures	77,312	(18,354)	1,000	59,958
Net Assets at Beginning of Year	38,799	58,831		97,630
Restatement (Note 9)	48			48
Net Assets at Beginning of Year After Restatement	38,847	58,831		97,678
Net Assets at End of Year	\$ 116,159	\$ 40,477	\$ 1,000	\$ 157,636
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 103,652	\$ 40,477	\$ 1,000	\$ 145,129
Refunds Due From Contractors	12,507			12,507
	\$ 116,159	\$ 40,477	\$ 1,000	\$ 157,636
The accompanying notes to the financial statements are an integral part of this statement.				

Rowan 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 Quality	\$ 747,122	196,871	2,081	15,622	28,024	51,021	2,328	451,175	
Child Care and Education Accessibility and Availability	\$ 112,357							112,357	
Child Care and Education Affordability	\$ 130,852							130,852	
Health and Safety	\$ 130,232							130,232	
Family Support	\$ 163,966							163,966	
	\$ 1,284,529	\$ 196,871	\$ 2,081	\$ 15,622	\$ 28,024	\$ 51,021	\$ 2,328	\$ 988,582	\$ 0
Support:									
Management and General	\$ 221,500	147,614	7,500	11,731	28,943	24,670	1,042		
Program Evaluation	\$ 168,581	105,202	21,825	2,912	14,403	23,819	420		
	\$ 390,081	\$ 252,816	\$ 29,325	\$ 14,643	\$ 43,346	\$ 48,489	\$ 1,462	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,674,610	\$ 449,687	\$ 31,406	\$ 30,265	\$ 71,370	\$ 99,510	\$ 3,790	\$ 988,582	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 20,872			3,766	8,637		3,593	4,876	
Health and Safety	\$ 3,654							3,654	
	\$ 24,526	\$ 0	\$ 0	\$ 3,766	\$ 8,637	\$ 0	\$ 3,593	\$ 8,530	\$ 0
Support:									
Management and General	\$ 16,233	\$ 5,840	\$ 0	\$ 7,717	\$ 2,441	\$ 235	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,269			3,269					
Refund of Prior Year Grant	\$ 11,250					11,250			
	\$ 14,519	\$ 0	\$ 0	\$ 3,269	\$ 0	\$ 11,250	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 55,278	\$ 5,840	\$ 0	\$ 14,752	\$ 11,078	\$ 11,485	\$ 3,593	\$ 8,530	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Rowan Partnership for Children, Inc. (Rowan Partnership) is a legally separate nonprofit organization incorporated on February 22, 1994. The Rowan Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Rowan 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 Rowan 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 Rowan Partnership did not have any permanently restricted net assets at June 30, 2002.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Rowan 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 Rowan Partnership to a concentration of credit risk. At June 30, 2002, the Rowan Partnership's bank deposits in excess of the FDIC insured limit was \$113,777.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Rowan Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Rowan Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Rowan Partnership was awarded and has received \$1,783,289 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 \$96,648 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

Service Provider Contracts with Board Member Organizations - The board members of the Rowan Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Rowan Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by NCPC and 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, child care substitutes, salary supplements, provider training, behavior intervention, and curriculum enhancements.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with inclusion support.

Child Care and Education Affordability - Used to account for service activities associated with public pre-K classes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities including dental education, comprehensive health services, prenatal/newborn services, and comprehensive health support.

Family Support - Used to account for service activities including parenting education and skills training and ongoing parenting education.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on estimates of utilization.

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 29,636
2004	20,391
2005	13,788
2006	5,199
2007	255
Total Minimum Lease Payments	\$ 69,269

Rental expense for all operating leases during the year was \$92,576.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - All permanent employees who are full-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. The Rowan Partnership contributes 6% of each employee's salary to the plan. For the year ended June 30, 2002, the Rowan Partnership contributed \$20,051. The voluntary contributions by employees amounted to \$5,372 during the year ended June 30, 2002.

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Kindergarten Readiness Program	\$ <u>1,000</u>

NOTE 9 - PRIOR PERIOD RESTATEMENT

Our review of beginning net asset balances noted a remaining cash balance of \$48 from a prior year Smart Start fund that was not included with the June 30, 2001 cash balance presentations. As a result, the Unrestricted – Smart Start net asset balance in the accompanying financial statement has been restated to properly present the activities of the Rowan Partnership.

	Unrestricted - Smart Start Funds	Unrestricted - Other Funds	Total
Net Assets – June 30, 2001 as Previously Reported	\$38,799	\$58,831	\$97,630
Additional Cash Balance	48		48
Net Assets – June 30, 2001 as Restated	\$38,847	\$58,831	\$97,678

Rowan 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
Adolescent and Family Enrichment Council of Rowan County, Inc.	132,150	(3,138)		
Partners in Learning Child Development Center *	112,605	(249)		
Rowan County Cooperative Extension *	36,495	(1,541)		
Rowan County Health Department *	136,919	(6,687)	3,654	
Rowan Public Library *	46,271			
Rowan-Salisbury Board of Education *	131,744	(892)		
Various Day Care Providers	137,840		4,776	
	\$ 734,024	\$ (12,507)	\$ 8,430	\$ 0
Individuals:				
Salary Supplements	267,065			
Teacher Awards			100	
	\$ 267,065	\$ 0	\$ 100	\$ 0
	\$ 1,001,089	\$ (12,507)	\$ 8,530	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Rowan 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
National Society to Prevent Blindness - North Carolina			35,000	\$ 35,000
Rowan County Department of Social Services	*	939,546		\$ 939,546
		\$ 939,546	\$ 35,000	\$ 974,546
* 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				

Rowan Partnership for Children, Inc.
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)	1-01-4-12-001	\$ (31,367)	\$ (177)
Early Childhood Initiatives Program (Current Year)	* 1-12-4-12-001	1,783,289	1,674,787
Total State Awards		<u>\$ 1,751,922</u>	<u>\$ 1,674,610</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	15,228
	Computer Equipment/Printers		51,905
	Total Property and Equipment	\$	<u>67,133</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.		

Rowan 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	\$ 6,805
In-Kind Goods and Services	23,738
	\$ 30,543

Match Provided at the Contractor Level:

Cash	\$ 223,380
In-Kind Goods and Services	159,321
	\$ 382,701

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
Rowan Partnership for Children, Inc.
Salisbury, North Carolina

We have audited the financial statements of the Rowan Partnership for Children, Inc. (Rowan Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 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 Rowan 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*.

Findings

1. Competitive Bidding
2. Prepayment Activities

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan 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

**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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

October 4, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

Recommendation: We recommend that the Rowan Partnership maintain documentation to support compliance with the legislatively mandated bid requirements.

Partnership's Response: The Rowan Partnership for Children supports the intent of legislative competitive bidding requirements. The Board enhanced its competitive bidding policies and procedures in November 2001. In January 2002, the Partnership followed all the requirements for compliance to competitive bidding policies and procedures with potential direct service providers for the subsequent fiscal year.

2. PREPAYMENT ACTIVITIES

Our review of disbursements identified prepayments related to quality enhancement activities funded by the Rowan Partnership. In each case, the Partnership advanced funds for a particular activity during the 2002 fiscal year; however, Letters of Agreement allowed recipients to expend the funds subsequent to June 30, 2002. Based on our review of supporting documentation, it was determined that \$12,648 of advanced funds was unspent at June 30 and represents prepayment activities.

The Smart Start Accountability Plan developed by the North Carolina Partnership for Children, Inc. (NCPC) states that local partnerships must develop and implement a Board-approved written policy that prohibits the payment of goods or services prior to the receipt of said goods and services. In addition, NCPC guidelines require that the disbursements be recorded in the proper accounting period. The Rowan Partnership has policies and procedures that prohibit prepayment activities; however, they were not consistently followed.

Recommendation: We recommend that the Rowan Partnership comply with its established policies and procedures which prohibit the prepayment of goods and services.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: The Partnership is committed to encouraging early childhood professionals to strive toward the highest quality of care through improving education, skill level and star licensure. In all quality enhancement activities, child care providers sign letters of agreement which stipulate requirements for Smart Start resources. We disbursed funds prior to year-end because requirements had been met through verification by staff and RPC's Early Care and Education Committee members. We did not consider this process and Partnership expenditures as prepayments. In the future, we will ensure that the expenditure of Smart Start funds by all recipients must occur within the fiscal year to comply with this accounting requirement.

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
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December 27, 2002

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