



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.
ELIZABETHTOWN, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

ELIZABETHTOWN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

MARVIN ROUSE, BOARD CHAIR

ADMINISTRATIVE OFFICER

YVETTE WOMACK, 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, Bladen County Partnership for Children, Inc.

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

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

Results - The following instances of noncompliance were detected:

AUDITOR'S TRANSMITTAL (CONCLUDED)

Finding

3. Competitive Bidding
4. Prohibited Disbursements
5. Prepayment Activities
6. Noncompliance with Contract Provisions

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 Bladen 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
4. Prohibited Disbursements
5. Prepayment Activities
7. Authorizing and Processing Transactions
8. Salary/Benefit Payments
9. Control Environment

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.

In addition, a separate report has been issued by the Office of State Auditor related to an investigation of the Partnership's contracting activities.

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
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2002 on our consideration of the Bladen 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 Bladen County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.
State Auditor

October 1, 2002

Bladen County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

| | Unrestricted Funds | | Temporarily Restricted Funds | Total Funds |
|--|---------------------|----------------|------------------------------------|----------------|
| | Smart Start Fund | Other Funds | | |
| Receipts: | | | | |
| State Awards (less refunds of \$8,516) | \$ 421,922 | \$ 12,000 | \$ 0 | \$ 433,922 |
| Interest and Investment Earnings | | 199 | | 199 |
| Sales Tax Refunds | | 3,105 | | 3,105 |
| Total Receipts | 421,922 | 15,304 | | 437,226 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | | 5,000 | (5,000) | |
| | 421,922 | 20,304 | (5,000) | 437,226 |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Quality | 91,240 | 587 | | 91,827 |
| Health and Safety | 70,958 | | | 70,958 |
| Family Support | 49,897 | 188 | | 50,085 |
| Support: | | | | |
| Management and General | 117,859 | 18,061 | | 135,920 |
| Program Evaluation | 29,398 | 42 | | 29,440 |
| Other: | | | | |
| Sales Tax Paid | | 870 | | 870 |
| Refund of Prior Year Grant | | 219 | | 219 |
| Total Expenditures | 359,352 | 19,967 | | 379,319 |
| Excess of Receipts Over Expenditures | 62,570 | 337 | (5,000) | 57,907 |
| Net Assets at Beginning of Year | 8,920 | (1,464) | 5,000 | 12,456 |
| Restatement (Note 8) | 2,498 | (2,498) | | |
| Net Assets at Beginning of Year After Restatement | 11,418 | (3,962) | 5,000 | 12,456 |
| Net Assets at End of Year | \$ 73,988 | \$ (3,625) | \$ 0 | \$ 70,363 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ 69,102 | \$ (3,625) | \$ 0 | \$ 65,477 |
| Refunds Due From Contractors | 7,649 | | | 7,649 |
| | 76,751 | (3,625) | | 73,126 |
| Less: Funds Held for Others | 2,763 | | | 2,763 |
| | \$ 73,988 | \$ (3,625) | \$ 0 | \$ 70,363 |
| The accompanying notes to the financial statements are an integral part of this statement. | | | | |

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

Exhibit B

| | Total | Personnel | Contracted Services | Supplies and Materials | Other Operating Expenditures | Fixed Charges and Other Expenditures | Property and Equipment Outlay | Services/Contracts/Grants | Participant Training Expenditures |
|--|-------------------|-------------------|---------------------|------------------------|------------------------------|--------------------------------------|-------------------------------|---------------------------|-----------------------------------|
| Smart Start Fund: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 91,240 | 16,538 | 3,820 | 4,402 | 3,190 | 1,454 | 5,307 | 56,529 | |
| Health and Safety | \$ 70,958 | | | | | | | 70,958 | |
| Family Support | \$ 49,897 | | 666 | 3,584 | 647 | | | 45,000 | |
| | \$ 212,095 | \$ 16,538 | \$ 4,486 | \$ 7,986 | \$ 3,837 | \$ 1,454 | \$ 5,307 | \$ 172,487 | \$ 0 |
| Support: | | | | | | | | | |
| Management and General | \$ 117,859 | 74,034 | 12,577 | 3,725 | 16,050 | 10,294 | 1,179 | | |
| Program Evaluation | \$ 29,398 | 15,111 | 7,238 | 1,356 | 2,369 | 3,249 | 75 | | |
| | \$ 147,257 | \$ 89,145 | \$ 19,815 | \$ 5,081 | \$ 18,419 | \$ 13,543 | \$ 1,254 | \$ 0 | \$ 0 |
| Total Smart Start Fund Expenditures | \$ 359,352 | \$ 105,683 | \$ 24,301 | \$ 13,067 | \$ 22,256 | \$ 14,997 | \$ 6,561 | \$ 172,487 | \$ 0 |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 587 | | | | | | | 587 | |
| Family Support | \$ 188 | | | 188 | | | | | |
| | \$ 775 | \$ 0 | \$ 0 | \$ 188 | \$ 0 | \$ 0 | \$ 0 | \$ 587 | \$ 0 |
| Support: | | | | | | | | | |
| Management and General | \$ 18,061 | | 12,240 | | 5,435 | 386 | | | |
| Program Evaluation | \$ 42 | | | | | | | 42 | |
| | \$ 18,103 | \$ 0 | \$ 12,240 | \$ 0 | \$ 5,435 | \$ 386 | \$ 0 | \$ 42 | \$ 0 |
| Other: | | | | | | | | | |
| Sales Tax Paid | \$ 870 | | | 870 | | | | | |
| Refund of Prior Year Grant | \$ 219 | | | | | 219 | | | |
| | \$ 1,089 | \$ 0 | \$ 0 | \$ 870 | \$ 0 | \$ 219 | \$ 0 | \$ 0 | \$ 0 |
| Total Other Funds Expenditures | \$ 19,967 | \$ 0 | \$ 12,240 | \$ 1,058 | \$ 5,435 | \$ 605 | \$ 0 | \$ 629 | \$ 0 |

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Bladen County Partnership for Children, Inc. (Bladen Partnership) is a legally separate nonprofit organization incorporated on August 21, 1997. The Bladen Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Bladen 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 Bladen 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.

The Bladen Partnership did not have any temporarily or 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.

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 cash on deposit with a private bank account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. For the year ended, the Bladen Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.
- 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 Bladen 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 Bladen Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Bladen 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 Bladen 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 Bladen Partnership was awarded and has received \$430,438 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 \$56,983 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 Bladen Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Bladen 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, professional development, health/safety training for child care professionals, or health insurance benefits for child care providers.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities associated with child care health consultants/outreach nurses.

Family Support - Used to account for service activities including ongoing parenting education or community outreach.

B. Support Functions

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each functions 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 - PENSION PLAN

IRC Section 403(b) Plan – All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The plan is a defined contribution plan in which each employee of the Bladen Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Bladen Partnership contributed 7% of gross wages for the year ended June 30, 2002. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

For the year ended June 30, 2002, the Bladen Partnership contributed \$3,185 for pension benefits during the year.

NOTE 7 - RESTRICTIONS ON NET ASSETS

Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

| Purpose | Amount |
|------------|-----------------|
| CP&L Grant | <u>\$ 5,000</u> |

NOTE 8 - PRIOR PERIOD RESTATEMENT

During the prior year, the Bladen Partnership recorded \$2,498 of cash receipts to unrestricted other funds in error. The net assets in the accompanying financial statements have been restated to correct this misclassification as follows:

| | Net Assets as Previously Reported | Net Effect of Prior Year Misclassification | Net Assets as Restated July 1, 2001 |
|--|---|--|---|
| Unrestricted-Other: | | | |
| Cash on Deposit | \$ (1,464) | \$ (2,498) | \$ (3,962) |
| Total Unrestricted-Other Net Assets | <u>\$ (1,464)</u> | <u>\$ (2,498)</u> | <u>\$ (3,962)</u> |
| Unrestricted - Smart Start: | | | |
| Cash on Deposit | \$ 3,262 | \$ 2,498 | \$ 5,760 |
| Refunds Due from Contractors | 5,658 | | 5,658 |
| Total Unrestricted-Smart Start Net Assets | <u>\$ 8,920</u> | <u>\$ 2,498</u> | <u>\$ 11,418</u> |

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

Schedule 1

| Organization Name | Smart Start Fund | | Other Funds | |
|-------------------------------------|------------------|-------------------|-------------------|---------------|
| | Amount Advanced | Refund Due | Amount Advanced | Refund Due |
| Bladen Community College | * | 16,000 | | |
| Bladen County Health Department | * | 67,360 | | |
| Bladen Family Support Initiative | * | 45,000 | | |
| Creative Child Care Solutions, Inc. | | 40,000 | (7,649) | |
| Various Organizations | | 11,776 | 629 | |
| | | \$ 180,136 | \$ (7,649) | \$ 629 |
| | | | | \$ 0 |

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

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

Schedule 2

| Organization Name | DHHS Contracts | NCPC Contracts | Total Contracts |
|--|-------------------|-------------------|--------------------|
| Bladen County Department of Social Services * | 173,792 | | \$ 173,792 |
| Child Care Services Association - WAGES Program | 30,500 | | \$ 30,500 |
| North Carolina State University | | 34,000 | \$ 34,000 |
| | \$ 204,292 | \$ 34,000 | \$ 238,292 |
| * 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 | | | |

Bladen County Partnership for Children, Inc.

Schedule of Federal and 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) | #1-01-5-05-001 | \$ (8,516) | \$ (1,997) |
| Early Childhood Initiatives Program (Current Year) | * #1-12-5-05-001 | 430,438 | 361,349 |
| Multi-County Accounting and Contracting Grant | N/A | 12,000 | 12,000 |
| Total State Awards | | \$ 433,922 | \$ 371,362 |
| * Programs with compliance requirements that have a direct and material effect on the financial statements. | | | |

Bladen County Partnership for Children, Inc.

Schedule of Property and Equipment

For the Year Ended June 30, 2002

Schedule 4

| | | | |
|---|--|----|---------------|
| | | | |
| | | | |
| Furniture and Non-Computer Equipment | | \$ | 7,110 |
| Computer Equipment/Printers | | | 14,541 |
| Leasehold Improvements | | | 565 |
| | | | |
| Total Property and Equipment | | \$ | <u>22,216</u> |
| | | | |
| | | | |
| <p>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.</p> | | | |

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

Schedule 5

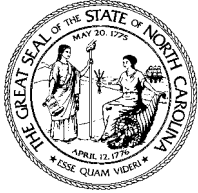
Match Provided at the Partnership Level:

| | | |
|----------------------------|----|--------------|
| Cash | \$ | 300 |
| In-Kind Goods and Services | | 4,758 |
| | \$ | <u>5,058</u> |

Match Provided at the Contractor Level:

| | | |
|----------------------------|----|---------------|
| Cash | \$ | 40,203 |
| In-Kind Goods and Services | | 10,205 |
| | \$ | <u>50,408</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.
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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
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

We have audited the financial statements of the Bladen County Partnership for Children, Inc. (Bladen Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 1, 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 Bladen Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Finding

3. Competitive Bidding
4. Prohibited Disbursements
5. Prepayment Activities
6. Noncompliance with Contract Provisions

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bladen Partnership's internal control over financial reporting in order to determine our auditing procedures for 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)**

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 deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Bladen 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. Contract Management and Monitoring
2. Internal Control
4. Prohibited Transactions
5. Prepayment Activities
7. Authorizing and Processing Transactions
8. Salary/Benefit Payments
9. Control Environment

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

October 1, 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. CONTRACT MANAGEMENT AND MONITORING

The prior year audit reported weaknesses in the Bladen Partnership's contract management and monitoring activities. Deficiencies noted included advancing funds prior to the receipt of adequate disbursement documentation, insufficient documentation to support the nature and extent of services provided, and the failure to adequately monitor its program providers.

This finding is unresolved. We continued to note deficiencies with the Bladen Partnership's contract management and monitoring activities including:

- Payments totaling \$17,083 were made to direct service providers prior to the execution of contract documents. We also noted one instance where no contract existed to support payments to a service provider, the Bladen Day Care Association (Association). The Bladen Partnership was to provide support for meeting activities of the Association. However, our review of expenditures noted \$350 for refreshments and catering costs for a Christmas party and \$600 for registration fees for day care providers to attend a workshop. These providers were not employees of the Association. These costs appear questionable as to the approved purpose of the activity.
- Evidence to support fiscal monitoring activities was not available. In addition, the monitoring activities performed were not in accordance with the Partnership's policies and procedures.
- The Partnership granted \$25,000 to a direct service provider, Creative Child Care Solutions, to administer and provide quality enhancement materials to eligible recipients. New legislation enacted for the 2002 fiscal year restricted the funding for quality enhancement activities resulting in specific guidance for eligibility criteria, expenditure guidelines, and monitoring responsibilities. The Bladen Partnership was unable to provide documentation to adequately support the eligibility of the recipients of this funding; therefore, all costs are considered to be questioned costs.

Recommendation: We recommend that the Bladen Partnership place immediate emphasis on correcting procedural weaknesses with its contract management/monitoring activities. The policies and procedures should be reviewed and updated to align with activities performed by the Partnership. All service providers should have valid written

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

contracts and no payment should be made prior to the execution of contract documents. Monitoring activities should be documented in accordance with approved policies and procedures. The Bladen Partnership should work with its funding agency, the North Carolina Partnership for Children, Inc., to resolve questioned costs totaling \$25,950 related to activities of the Association and eligibility concerns with the quality enhancement disbursements.

Response: The Bladen Partnership has provided responses to all of the findings and recommendations in a letter format. That letter, with the identified responses, is provided at the end of this section.

Auditor's Note: A separate report has been issued by the Office of State Auditor related to an investigation of the Partnership's contracting activities.

2. INTERNAL CONTROL

The prior audit identified a segregation of duties weakness in the Bladen Partnership's internal control. The Executive Director was involved in authorizing purchases, verifying the receipt of goods, and approving the final payment.

This finding is unresolved. Our review of processing controls continued to note incompatible functions being performed by Partnership staff. We noted the Administrative Assistant was performing all receipting functions. In addition, purchase orders were sometimes prepared and approved by the same staff member (Administrative Assistant or the Executive Director). There was no documented oversight by the Executive Director for the processing of disbursements.

Recommendation: We recommend that the Bladen Partnership review its current operations and make appropriate job assignments such that adequate segregation of duties exists for processing of transactions.

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

3. COMPETITIVE BIDDING

We noted that the Bladen Partnership did not have adequate documentation to support its compliance with competitive bidding requirements as specified in the general statutes.

Recommendation: We recommend that the Bladen Partnership implement procedures that ensure documentation is maintained to support the competitive bidding process.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. PROHIBITED DISBURSEMENTS

The Bladen Partnership disbursed state funds during the year for capital expenditures. We noted costs totaling \$565 for a leasehold improvement related to the installation of a phone system. Legislation enacted for the 2002 fiscal year prohibits local partnerships from using state funds for capital expenditures; therefore, this disbursement is deemed unallowable.

We also identified an expenditure of Smart Start funds in the amount of \$400 to transport day care providers to the legislature to advocate on behalf of the Smart Start Initiative. Per the contract with the North Carolina Partnership for Children, Inc., the Bladen Partnership cannot use state funds to “carry on propaganda or otherwise attempt to influence legislation....”

Recommendation: The costs incurred by the Bladen Partnership for capital expenditures and lobbying efforts are considered unallowable and should be refunded to its state level-funding agency, the North Carolina Partnership for Children, Inc. In addition, the Bladen Partnership should establish proper operating procedures to prevent future occurrences of noncompliance with finance-related laws, regulations, and contracts.

5. PREPAYMENT ACTIVITIES

Our review of disbursements identified several prepayments incurred during the last weeks of the fiscal year including:

- Three computers were purchased on June 28, 2002 based on an estimate in the amount of \$5,243. The actual purchase date per the supporting documentation was August 7, 2002.
- A payment was made to a telephone vendor based on a proposal to install a phone system. The proposal was actually an estimate of future line charges. Costs totaling \$2,398 represents a prepayment of telephone service costs and are being applied against current year services.
- Payments totaling \$2,355 were made for promotional items purchased and received subsequent to year-end.
- A reimbursement for postage costs totaling \$204 was made to the Bladen Day Care Association; however, the expense was not incurred by the association until August 6, 2002.

Based on our review of supporting documentation, it was determined that disbursements totaling \$10,200 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

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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.

Recommendation: We recommend that the Bladen Partnership develop and implement policies and procedures that prohibit prepayment activities. In addition, the Partnership should work with NCPC to ensure that these disbursements are recorded in the proper fiscal period.

6. NONCOMPLIANCE WITH CONTRACT PROVISIONS

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

- In reviewing the Bladen Partnership's insurance coverage, we noted that the Partnership's Director's and Officers liability insurance was not obtained until June 28, 2002. We also identified that insurance coverage for business property was inadequate. No coverage existed to protect against loss due to fire, theft, etc. The Smart Start contract states that local partnerships accept the obligation to furnish worker's compensation, fidelity insurance, liability insurance, and other insurance as may be required to protect the local partnership, NCPC, and the State of North Carolina.
- We also noted that the Bladen Partnership had not filed required reports with NCPC related to its CP&L grant funds. The Partnership had not filed, as of the date of the audit, a final, accurate report of expenditures for the Board Development grant activity. In addition, our review of expenditures for this grant identified costs that did not appear appropriate given the restrictive nature of the grant. We noted \$412 for expenses identified as the purchase of massage services, a golf certificate, and accommodations/food prior to the start of the board training. Additional costs totaling \$1,594 were incurred after the contract end date. These costs included leather portfolios and gifts for Board members and appear questionable as to purpose. Total questioned costs related to the CP&L grant were \$2,006.

Each of the above items represents a failure by the Bladen Partnership to comply with contract terms with its state level-funding agency, the North Carolina Partnership for Children, Inc.

Recommendation: The Bladen Partnership should take appropriate action to address each of the above issues of noncompliance. Insurance coverage should be reviewed annually to minimize risk exposure for the Partnership and to ensure contract compliance. A final report of expenditures should be submitted for the CP&L grant. The Partnership should

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

consult with NCPC to resolve questioned costs related to disbursements from the CP&L grant funds. The Bladen Partnership should establish internal procedures to ensure that all contract requirements are properly identified and adhered to by the Partnership.

7. AUTHORIZING AND PROCESSING TRANSACTIONS

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

- Inadequate approvals by both the Executive Director and members of the Board were identified. Evidence was not consistently available to support the review and approval by the Executive Director of invoices for payment. Board authorizations for purchase orders were incorrectly used as authorization for payment. Approvals for bank reconciliations, journal entries, and other accounting transactions were not consistently documented.
- Instances were noted where documentation to support accounting transactions was either inadequate or missing. We identified payments made without adequate supporting documentation, payments on faxes, missing timesheets, and missing journal entries. Other instances were noted where the supporting documentation did not show the relationship between the costs incurred and the activity that was to be performed resulting in questioned costs totaling \$615.
- Deficiencies were noted in the processing of transactions. We noted numerous instances where payments were made on internally generated invoices. It appears that these invoices were generated to allow for the processing of a check that could then be used to actually purchase the goods/services. Processing procedures such as cancellation of invoices paid and verification of mathematical accuracy were not documented.
- Cash management issues were noted with both receipt and disbursement functions. We identified funds on hand that were not deposited timely and in accordance with current policy. Our review of disbursements noted prepayment activities; bills being consistently paid late, many times incurring financial penalties or the threat of service termination; and the over expenditure of the CP&L grant funds in the amount of \$435.
- The filing system for the accounting records was decentralized and inconsistently maintained.

Recommendation: The financial policies and procedures provide direction to the staff for fiscal accountability. We recommend the development and implementation of effective policies and procedures, along with Board oversight, to address the authorization and

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

processing requirements for financial accountability and the necessary documentation standards related to those processes. Adequate documentation should be maintained and filed in an orderly manner to support the Partnership's transactions.

8. SALARY/BENEFIT PAYMENTS

Our review of the salary and benefit disbursements at the Bladen Partnership identified payments of a questionable nature that did not appear to be in accordance with local partnership policies or statewide practices. Issues noted were:

- As noted in the prior audit report, the Executive Director was involved in a serious car accident that left her unable to work for five months. The Partnership continued to pay the Executive Director one-third of her salary during this time period to supplement workers' compensation payments. There were no time sheets available to support these payments. In addition, no evidence was available to support approval of the payments by the Partnership Board. The total payout of salary amounts during this time period was \$6,837.
- The Partnership paid out accrued vacation and sick leave balances to the Executive Director twice during the fiscal year. The first payout of \$2,032 occurred in December 2001 and represented 50 hours each of vacation and sick leave hours. These hours were accrued during the time period that the Executive Director was unable to work and time sheets were unavailable. A second payout of \$1,595 occurred in May 2002 for 16.5 hours of vacation and 35 hours of sick leave. The Bladen Partnership policies do not provide for the payout of accrued leave balances. We did not find approval by the Partnership Board for these disbursements. In addition, the payments conflict with the Executive Director's employment contract which specified leave benefits to be earned "or to be compensated at the end of the contract period." Total disbursements for accrued leave benefits were \$3,627.
- We identified a payment in February 2002 of \$500 to the Executive Director that was described as "retirement benefit". Employees of the Bladen Partnership participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). This payment was made directly to the Executive Director and not to the plan administrator. We found no evidence to support approval of this payment by the Partnership Board or the justification for a retirement benefit to be provided outside the approved 403(b) plan. In addition, the Executive Director's employment contract states that "with the exception of expense reimbursement, no other remuneration is implied and none shall be given."

Per discussions with the Executive Director, subcommittees of the Partnership Board approved the above salary and benefit payments. We found no evidence to support these approvals at the subcommittee or Board level. As payments totaling \$10,964 appear to violate Partnership policies and procedures as well as the employment contract with the Executive Director, we consider these disbursements to be questioned costs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation: We recommend that the Bladen Partnership review its current payroll and personnel policies and take immediate action to correct the processing of payroll transactions. The above payment of benefits appear to be questionable as to the allowability of costs. The Partnership should consult with its funding agency, NCPC, to determine the allowability of costs.

9. CONTROL ENVIRONMENT

The control environment sets the tone of an organization, influencing the control consciousness of its personnel. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control. During the course of the audit, we identified the following control environment deficiencies:

- There were no minutes maintained by the committees of the Partnership Board, including the Executive and Personnel committees. This became an issue, as we could not find authorization for various transactions by the Partnership that conflicted with current policy. Documentation of Board activities is also a requirement of legislation dealing with meetings of public bodies.
- The policies and procedures, both financial and personnel, are not adequate for the operations of the Bladen Partnership. Our review of policies identified instances where the policies were outdated or inadequate and contradictory with Partnership practices. The lack of adherence to policies by Partnership management and staff resulted in many of the issues noted above.
- The quorum requirement established per the Bladen Partnership by-laws is 50% of membership. This percentage was lowered to 33% by a vote of the Partnership Board; however, it is not clear that this change was approved in accordance with the by-law requirements. The Partnership by-laws do not appear to have been amended to reflect this change. Even with 33% representation, it is apparent that many of the mandated representatives were not attending and providing necessary oversight for the Partnership.

Recommendation: We recommend that the Bladen Partnership place immediate emphasis on addressing the above issues. The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations. Comprehensive policies and procedures are essential to provide direction to the staff and ensure an adequate system of internal control is established. A determination should be made as to the Partnership's board quorum and the by-laws appropriately amended to support operational changes. Attention should be given to addressing the above audit deficiencies to demonstrate the Board's accountability for the Partnership's actions and its intentions to provide necessary oversight for the Partnership's operations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Response: The recommendations for all findings contained in this Management Letter address the need for improved and effective managerial oversight of the Bladen Partnership. In November 2002, prior to the issuance of this Management Letter, the Bladen Partnership began participating in the North Carolina Partnership for Children's (hereinafter referred to as "NCPC") Local Partnership Performance Improvement Plan (hereinafter referred to as "the Plan"). The purpose of the Plan is to improve the financial and programmatic accountability of SMART START local partnerships that have been identified to have serious financial and/or compliance deficiencies. As a participant in the Plan, the Bladen Partnership will receive from NCPC and the Cumberland County Partnership for Children (hereinafter referred to as "Cumberland Partnership") intensive on-site programmatic and financial technical assistance and training in identified areas; board development and education, as well as intensive financial and programmatic monitoring.

The Bladen Partnership Board of Directors contracted on December 18, 2002, with the Cumberland Partnership to assist the Bladen Partnership by providing all administrative functions. As a result of this contract, the Cumberland Partnership current policies, procedures and business practices are now in effect for the Bladen Partnership. Effective December 18, 2002, the overall management of the Bladen Partnership became the responsibility of the Cumberland Partnership. The Executive Director of the Cumberland Partnership is now functioning as the Executive Director of the Bladen Partnership. Audit recommendations related to improved policies and procedures regarding administrative practices including contract management/monitoring, internal control, competitive bidding, prohibited disbursements and prepayments, contract compliance, and overall fiscal accountability are being addressed through these actions. The Cumberland Partnership has a long history of fiscal and programmatic accountability.

The Bladen Partnership Board has committed to increased attendance and involvement at board and committee meetings. This has recently been demonstrated by strong attendance at the last few board meetings in spite of the meetings having been held during the holiday season. In addition the Board is committed to participating in board development training, and several Board members began training in January 2003. The Plan for the Bladen Partnership includes strategies for Board development. This training is being incorporated into the monthly Board meetings and provided through additional workshops outside of Board meetings. Topics to be addressed include and are not limited to: The Roles and Responsibilities of SMART START Non-Profit Boards and Staff; Effective Use of the Modern Rules of Order; Effective By-Laws' Development and Implementation; Strategic Planning; the Development of Vision, Mission, Goals and Objectives; Clearly Defining Outcomes; and Leadership.

Finding #1: Contracting Management and Monitoring

Response: The issues related to policies and procedures are being addressed as stated in the second, third and fourth paragraphs above. Issues related to questionable costs are being addressed through follow up with NCPC, the Bladen Day Care Association, the

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

child care providers whose registration fees for workshops were paid for through this activity, and Creative Child Care Solutions.

Finding #2: Internal Control

Response: The issues related to internal control have been addressed as stated in the second, third and fourth paragraphs above.

Finding #3: Competitive Bidding

Response: The issues related to competitive bidding are being addressed as stated in the second, third and fourth paragraphs above.

Finding #4: Prohibited Disbursements

Response: Follow up with NCPC regarding the unallowable costs totaling \$565 for a leasehold improvement (installation of a phone line) and \$400 to transport day care providers to the legislature is in progress. Arrangements to reimburse NCPC are in process.

Finding #5: Prepayment Activities.

Response: The issues related to prepayment activities are being addressed as stated in the second, third and fourth paragraphs above. In addition, the disbursements will be recorded in the proper accounting period in accordance with NCPC policy.

Finding #6: Noncompliance with Contract Provisions

Response: The issues related to noncompliance with contract provisions are being addressed as stated in the second, third and fourth paragraphs above. The insurance coverage for the Bladen Partnership has been properly reviewed and determined adequate for this fiscal year by the insurance agent with a Cumberland Partnership Board member who is a business owner. Insurance covering property loss and damage has been purchased. A Final report of expenditures for the CP & L grants has been submitted and follow up with NCPC regarding questioned costs is in progress.

Finding #7: Authorizing and Processing Transactions

Response: The issues related to authorizing and processing transactions are being addressed as stated in the second, third and fourth paragraphs above.

Finding #8: Salary/Benefit Payments

Response: The issues related to salary/benefit payments are being addressed as stated in the second, third and fourth paragraphs above. Follow-up discussion with NCPC is in progress to determine if these costs are allowable. Legal services have been retained to address this finding.

Finding #9: Control Environment

Response: The Bladen Partnership Board is committed to resolving the partnership control environment deficiencies and has placed immediate emphasis on improving its performance related to providing leadership and guidance. This has been demonstrated

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

by the action taken in December to contract all managerial oversight while implementing a Performance Improvement Plan. The issues related to the control environment are being addressed as stated in the second, third and fourth paragraphs above.

The draft Management Letter was provided to the Board of the Bladen Partnership and to the Executive Committee of the Cumberland Partnership. A full report will be made to the Cumberland Partnership Board at the regularly scheduled January meeting. The Cumberland Partnership will continue to work with the Bladen Partnership and NCPC until all these issues are resolved to the satisfaction of NCPC.

We strive to adhere to all rules and regulations in the operation of the Bladen Partnership as well as the implementation of SMART START in the Bladen community in accordance with North Carolina Statutes and in the spirit of the SMART START legislation. Suggestions from the Audit Team that assist our operations are appreciated. We are committed to doing the right things for the children in the right way.

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January 27, 2003

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