

FINANCIAL STATEMENT AUDIT REPORT OF  
CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR  
CHILDREN  
TYNER, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2002

PERFORMED UNDER CONTRACT WITH THE  
NORTH CAROLINA OFFICE OF STATE AUDITOR  
RALPH CAMPBELL, JR.

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN**  
**TYNER, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**FRED YATES, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**WENDY JEWETT, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Chowan/Gates/Perquimans Partnership for Children

This report presents the results of the financial statement audit of the Chowan/Gates/Perquimans Partnership for Children for the year ended June 30, 2002. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Chowan/Gates/Perquimans Partnership for Children 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 partnerships. The Chowan/Gates/Perquimans Partnership for Children is one of these local partnerships. As such, the Chowan/Gates/Perquimans Partnership for Children is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all 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.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
Chowan/Gates/Perquimans Partnership for Children  
Tyner, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Chowan/Gates/Perquimans Partnership for Children (CGP 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 CGP 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 misstatement. 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Chowan/Gates/Perquimans 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.

## INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2003 on our consideration of the CGP 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the CGP 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.

February 13, 2003

*Crisp Hughes Evans LLP*

**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN**  
**STATEMENT OF RECEIPTS, EXPENDITURES, AND NET ASSETS--REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2002** **EXHIBIT A**

	<u>Unrestricted Funds</u>		<u>Temporarily Restricted Funds</u>	<u>Total Funds</u>
	<u>Smart Start Fund</u>	<u>Other Funds</u>		
<b>Receipts:</b>				
State Awards (less refunds of \$21,398)	\$ 503,761	\$ 35,000	\$ -	\$ 538,761
Private Contributions	-	11,929	2,076	14,005
Special Fund Raising Events	-	161	-	161
Interest and Investment Earnings	-	205	-	205
Sales Tax Refunds	-	7,551	-	7,551
Other Receipts	151	-	-	151
<b>Total Receipts</b>	<u>503,912</u>	<u>54,846</u>	<u>2,076</u>	<u>560,834</u>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	144,205	10,664	-	154,869
Child Care and Education Affordability	36,594	-	-	36,594
Health and Safety	38,562	-	-	38,562
Family Support	62,065	-	-	62,065
Support:				
Management and General	162,923	36,407	-	199,330
Program Evaluation	24,204	-	-	24,204
Program Coordination	20,537	-	-	20,537
Other:				
Sales Tax Paid	-	6,196	-	6,196
<b>Total Expenditures</b>	<u>489,090</u>	<u>53,267</u>	<u>-</u>	<u>542,357</u>
<b>Excess of Receipts Over Expenditures</b>	14,822	1,579	2,076	18,477
<b>Net Assets at Beginning of Year</b>	<u>20,277</u>	<u>(3,213)</u>	<u>-</u>	<u>17,064</u>
<b>Net Assets at End of Year</b>	<u>\$ 35,099</u>	<u>\$ (1,634)</u>	<u>\$ 2,076</u>	<u>\$ 35,541</u>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 30,788	\$ (1,634)	\$ 2,076	\$ 31,230
Refunds Due from Contractors	4,311	-	-	4,311
	<u>\$ 35,099</u>	<u>\$ (1,634)</u>	<u>\$ 2,076</u>	<u>\$ 35,541</u>

The accompanying notes are an integral part of these statements.

**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN  
STATEMENT OF FUNCTIONAL EXPENDITURES--REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2002**

**EXHIBIT B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/Contracts/Grants
<b>Smart Start Fund:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 144,205	\$ 54,896	\$ 210	\$ 25,055	\$ 5,980	\$ 3,421	\$ 8,875	\$ 45,768
Child Care and Education Affordability	36,594	-	-	9,989	-	-	-	26,605
Health and Safety	38,562	-	-	-	-	-	-	38,562
Family Support	62,065	7,880	-	1,557	8,537	-	-	44,091
<b>Support:</b>								
Management and General	162,923	113,694	8,637	5,607	17,595	16,047	1,343	-
Program Evaluation	24,204	21,832	-	860	1,133	379	-	-
Program Coordination	20,537	19,807	-	230	500	-	-	-
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 489,090</b>	<b>\$ 218,109</b>	<b>\$ 8,847</b>	<b>\$ 43,298</b>	<b>\$ 33,745</b>	<b>\$ 19,847</b>	<b>\$ 10,218</b>	<b>\$ 155,026</b>
<b>Other Funds:</b>								
<b>Programs:</b>								
Child Care and Education Quality	\$ 10,664	\$ -	\$ 625	\$ 433	\$ 3	\$ -	\$ 9,603	\$ -
<b>Support:</b>								
Management and General	36,407	15,581	14,000	2,405	1,016	1,377	2,028	-
<b>Other:</b>								
Sales Tax Paid	6,196	-	-	6,196	-	-	-	-
<b>Total Other Funds Expenditures</b>	<b>\$ 53,267</b>	<b>\$ 15,581</b>	<b>\$ 14,625</b>	<b>\$ 9,034</b>	<b>\$ 1,019</b>	<b>\$ 1,377</b>	<b>\$ 11,631</b>	<b>\$ -</b>

The accompanying notes are an integral part of these statements.



**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Chowan/Gates/Perquimans Partnership for Children (CGP Partnership) is a legally separate nonprofit organization incorporated on July 7, 1998. The CGP Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The CGP 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 CGP Partnership's Board of Directors is responsible. In accordance with 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 CGP 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 accounting principles generally accepted in the United States of America 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)

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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. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.

**E. 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 CGP Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the CGP Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the CGP 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 CGP Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The CGP Partnership was awarded and has received \$524,159 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 \$35,069 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 CGP Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the CGP Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, mentoring programs, or behavior intervention.

**Child Care and Education Affordability** - Used to account for service activities including child care subsidy administration (DCD), child care cost supports (DCD), or transportation to child care.

**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, literacy projects, or community outreach.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**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.

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

**Leases** - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 5,600
2004	5,600
2005	<u>933</u>
<b>Total Minimum Lease Payments</b>	<b><u><u>\$ 12,133</u></u></b>

Total rental expenditure for all operating leases was \$10,373 for the year ended June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 7 - PENSION PLAN

The CGP Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the CGP Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. For the year ended June 30, 2002, the CGP Partnership contributed 3% of gross wages when the employee invested up to 3%. The CGP Partnership does not own the accounts nor is it liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the CGP Partnership had a total payroll of \$192,322, of which \$144,934 was covered under the plan. The Partnership contributed \$4,348 for pension benefits during the year.

### 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
Laptops for Learners	\$ 520
Business Skills for Child Care Providers	582
Family Support Initiatives	175
Health Care Support Initiatives	660
Parents as Teachers	139
	<u>2,076</u>
	<u>\$ 2,076</u>

**CHOWAN/GATES/PERQUIMANS 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	
	Amount Advanced	Refund Due
Albemarle Regional Health Services	\$ 42,000	\$ (3,438)
C&N Daycare	7,899	-
Gates County Cooperative Extension	26,605	-
Head Start	7,321	-
Jumpin Jacks	6,183	-
Perquimans County Learning Center	7,407	-
Perquimans County Library	12,000	(665)
Shepherd-Pruden Library	12,500	(208)
Tanya Riddick's Daycare	456	-
<b>Individuals:</b>		
Child Care Providers	57	-
Rev. Jasper Horne	20,463	-
Nancy Harrell-Godfrey	16,446	-
	<b>\$ 159,337</b>	<b>\$ (4,311)</b>

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

See Independent Auditors' Report.

**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN  
 SCHEDULE OF STATE LEVEL SERVICE PROVIDER CONTRACTS  
 FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE 2**

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association--WAGES	\$ 34,000
Chowan/Gates/Perquimans Departments of Social Services	* 134,632
	<b>\$ 168,632</b>

\* 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 the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN  
SCHEDULE OF STATE AWARDS--REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE 3**

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>State Awards:</b>			
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 (other prior year)	-	\$ (42)	\$ -
Early Childhood Initiatives Program (prior year)	1-01-5-08-000	(20,356)	-
Early Childhood Initiatives Program (current year)	* 1-12-5-08-001	524,159	489,090
Multi-County Accounting and Contracting Grant (prior year)	-	(1,000)	-
Multi-County Accounting and Contracting Grant (current year)	-	<u>36,000</u>	<u>33,686</u>
<b>Total State Awards</b>		<u>\$ 538,761</u>	<u>\$ 522,776</u>

\* Programs with compliance requirements that have a direct and material effect on the financial statements.

See Independent Auditors' Report.



**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN  
SCHEDULE OF PROPERTY AND EQUIPMENT  
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE 4**

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Furniture and Non-Computer Equipment	\$ 23,686
Computer Equipment/Printers	<u>35,411</u>
Total Property and Equipment	<u>\$ 59,097</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 purchased.

See Independent Auditors' Report.

**CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN  
SCHEDULE OF QUALIFYING MATCH (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE 5**

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*Match Provided at the Partnership Level:*

Cash	\$	14,166
In-Kind Goods and Services		<u>31,775</u>
	\$	<u>45,941</u>

*Match Provided at the Contractor Level:*

Cash	\$	<u>26,297</u>
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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(1). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

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

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Board of Directors  
Chowan/Gates/Perquimans Partnership for Children  
Tyner, North Carolina

We have audited the financial statements of the Chowan/Gates/Perquimans Partnership for Children (CGP Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CGP 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the CGP 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable

**INDEPENDENT AUDITORS' 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)**

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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 CGP Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

1. CONTRACTS 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 do not consider the reportable condition described above to be 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.

February 13, 2003

*Crisp Hughes Evans LLP*

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

*Current Year Findings and Recommendations* - The following finding and recommendation was identified during the current audit and represents a reportable condition related to internal control.

#### 1. CONTRACT MANAGEMENT AND MONITORING

The CGP Partnership lacked an adequate contract management and monitoring system. The following conditions were noted during the current audit:

- Payments to contractors occurred before execution of a contract.
- Contract amendments were never executed or could not be located.

The achievement of the CGP Partnership's goals is dependent of the effectiveness of its contract management system and its monitoring of contractor performance.

*Recommendation:* The CGP Partnership should ensure that the contract management policies established by the Board are followed. We recommend the partnership ensure no payments are made to direct service providers prior to execution of the contract with that provider. In addition, any change in the terms of the contract should be evidenced by contract amendments. These amendments should be signed by representatives of the contractor and the partnership and maintained in the contract file.

*Partnership's Response:* We agree with the recommendation and have taken corrective action in the current fiscal year.

## **DISTRIBUTION OF AUDIT REPORT**

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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  
The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Ms. Carmen Hooker Odom  
Mr. Ashley Thrift

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
Secretary, Department of Health and Human Services  
Chairman, Board of Directors  
North Carolina Partnership for Children, Inc.  
Executive Director  
North Carolina Partnership for Children, Inc.

Ms. Karen Ponder

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman  
Senator Charlie Albertson  
Senator Kever M. Clark  
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Representative Douglas Y. Yongue

### **Other Legislative Officials**

Senator Anthony E. Rand  
Senator Patrick J. Ballantine  
Representative N. Leo Daughtry  
Representative Joe Hackney  
Mr. James D. Johnson

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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

## ORDERING INFORMATION

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