STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

BURKE COUNTY PARTNERSHIP FOR CHILDREN, INC.

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

BURKE COUNTY PARTNERSHIP FOR CHILDREN, INC.

MORGANTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

WALLACE H. LOGAN, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

ANGELA DEAL, EXECUTIVE DIRECTOR

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Burke County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Burke County Partnership for Children, Inc. (Burke Partnership) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Burke 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 Burke Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Burke Partnership is one of these local partnerships. As such, the Burke Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of the State Auditor.

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

1. **Objective –** To express an opinion on the accompanying financial statements.

   Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Burke Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following condition represents a significant deficiency in internal control.

   Finding

   Contract Management and Monitoring

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

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
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Burke County Partnership for Children, Inc. (Burke Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Burke 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 modified cash basis of accounting, 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 Burke County Partnership for Children, Inc. as of June 30, 2003, and the results of its operations arising from modified cash basis transactions 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 February 27, 2004 on our consideration of the Burke 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 Burke 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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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.

Ralph Campbell, Jr.
State Auditor

February 27, 2004

Burke County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2003 — *Exhibit A*

	Unrestricted Funds: Smart Start Fund	Unrestricted Funds: Other Funds	Temporarily Restricted Funds	Total Funds
Receipts:				
State Awards (less refunds of $51,842)	$ 2,086,911	$ 312,300	$ 0	$ 2,399,211
Private Contributions		21,762	4,000	25,762
Interest and Investment Earnings		2,342		2,342
Sales Tax Refunds		1,831		1,831
Total Receipts	2,086,911	338,235	4,000	2,429,146
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		6,264	(6,264)	
	2,086,911	344,499	(2,264)	2,429,146
Expenditures:				
Programs:				
Child Care and Education Quality	447,050	2,109		449,159
Child Care and Education Accessibility and Availability	85,000			85,000
Child Care and Education Affordability	775,300	27,500		802,800
Health and Safety	149,072	264		149,336
Family Support	407,607			407,607
More at Four		300,372		300,372
Support:				
Management and General	196,947	13,395		210,342
Program Evaluation	15,780			15,780
Other:				
Sales Tax Paid		4,067		4,067
Loss on Investments (Note 2)		6,386		6,386
Total Expenditures	2,076,756	354,093		2,430,849
Excess of Receipts Over Expenditures	10,155	(9,594)	(2,264)	(1,703)
Net Assets at Beginning of Year	51,843	76,820	6,264	134,927
Net Assets at End of Year	$ 61,998	$ 67,226	$ 4,000	$ 133,224
Net Assets Consisted of:				
Cash and Cash Equivalents	$ 35,984	$ 45,112	$ 4,000	$ 85,096
Investments (Note 2)		22,114		22,114
Refunds Due From Contractors	26,014			26,014
	$ 61,998	$ 67,226	$ 4,000	$ 133,224

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

Burke County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003 ***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	$ 447,050							447,050	
Child Care and Education Accessibility and Availability	$ 85,000							85,000	
Child Care and Education Affordability	$ 775,300							775,300	
Health and Safety	$ 149,072							149,072	
Family Support	$ 407,607							407,607	
	$ 1,864,029	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,864,029	$ 0
Support:									
Management and General	$ 196,947	158,251	6,746	2,768	12,735	16,097	350		
Program Evaluation	$ 15,780							15,780	
	$ 212,727	$ 158,251	$ 6,746	$ 2,768	$ 12,735	$ 16,097	$ 350	$ 15,780	$ 0
Total Smart Start Fund Expenditures	$ 2,076,756	$ 158,251	$ 6,746	$ 2,768	$ 12,735	$ 16,097	$ 350	$ 1,879,809	$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	$ 2,109							2,109	
Child Care and Education Affordability	$ 27,500							27,500	
Health and Safety	$ 264							264	
More at Four	$ 300,372							300,372	
	$ 330,245	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 330,245	$ 0
Support:									
Management and General	$ 13,395	$ 0	$ 11,874	$ 691	$ 830	$ 0	$ 0	$ 0	$ 0
Other:									
Sales Tax Paid	$ 4,067			4,067					
Loss on Investments	$ 6,386					6,386			
	$ 10,453	$ 0	$ 0	$ 4,067	$ 0	$ 6,386	$ 0	$ 0	$ 0
Total Other Funds Expenditures	$ 354,093	$ 0	$ 11,874	$ 4,758	$ 830	$ 6,386	$ 0	$ 330,245	$ 0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Burke County Partnership for Children, Inc. (Burke Partnership) is a legally separate nonprofit organization incorporated on November 17, 1993. The Burke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Burke 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 Burke 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 Burke Partnership did not have any permanently restricted net assets at June 30, 2003.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. 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.

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 – Modified Cash Basis and consists of cash on deposit with private bank accounts and money market accounts.

E. Investments – This classification consists of mutual fund investments that are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. 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.

G. Compensated Absences – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.

H. Use of Estimates - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Burke Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits – All funds of the Burke Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. In addition, the Burke Partnership has a money market sweep account to invest excess balances over an established target amount. These funds remain in the bank's accounts rather than being invested nightly and earn a money market interest rate. Deposits over the $100,000 threshold amount subjects the Burke

Partnership to a concentration of credit risk. At June 30, 2003, the Burke Partnership's bank deposits in excess of the FDIC insured limit was $85,383.

B. **Investments -** The Burke Partnership held mutual fund investments with a cost value of $22,114 and a market value of $22,872 as of June 30, 2003. These investments are not FDIC insured.

During the year, the Burke Partnership sold and exchanged investments resulting in a reported loss on investments of $6,386. This loss was not related to the operations of the Burke Partnership and is reported under the Other Expenditures category.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Burke 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 North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Burke 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 Burke Partnership was awarded and has received $2,138,753 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 $61,924 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

More at Four – The Burke Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Burke Partnership was awarded $345,700 and received $300,300 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Burke Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Burke 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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash 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:

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, salary supplements, provider training, special needs – support 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 increasing child care availability.

Child Care and Education Affordability - Used to account for service activities including Head Start wraparound/extended day, child care transportation, part-day care programs, or supplements for quality outside DCD.

Health and Safety - Used to account for service activities including oral health services, prenatal/newborn services, child care health consultants, comprehensive health support, or home visiting.

Family Support - Used to account for service activities including family resource centers or ongoing parenting education.

More at Four – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

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.

NOTE 6 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was $11,307.

NOTE 7 - PENSION PLAN

A. Retirement Plans - The Burke Partnership has a defined contribution plan (Plan) covering all employees. Each full-time employee of the Burke Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Burke Partnership contributed 6% of gross wages for the year ended June 30, 2003. The Burke Partnership does not own the annuities nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2003, the Burke Partnership contributed $7,587 for pension benefits during the year.

B. Deferred Compensation and Supplemental Retirement Income Plans-IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans (Plans) created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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 nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs are incurred by the Burke Partnership.

NOTE 8 - RISK MANAGEMENT

The Burke Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The Burke Partnership manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation - Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Burke Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Burke Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is $2,677. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

A. **Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Year Round, Half-Day Preschool Program	$ 4,000

B. **Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Year Round, Half-Day Preschool Program	$ 6,000
Health and Safety	264
	$ 6,264

Burke County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003 ***Schedule 1***

Organization Name		Smart Start Fund Amount Advanced	Smart Start Fund Refund Due	Other Funds Amount Advanced	Other Funds Refund Due
Appalachian State University d/b/a Bringing It All Back Home		31,000			
Blue Ridge Community Action	*	44,100		78,150	
Burke County Department of Social Services	*			264	
Burke County Health Department	*	63,540	(1,362)		
Burke County Public Library	*	51,196	(780)	222,222	
Burke County Public Schools	*	358,616	(118)		
Burke County Transit Administration, Inc.		105,223	(3,810)		
Calvary Baptist Day Care		15,000			
Child Care Connections of Burke County, Inc.	*	698,215	(19,221)		
Giggles and Grins Child Care Center		50,000			
NC Cooperative Extension Services	*	56,068	(173)		
Pucket Institute Learning Alliance		102,510		27,500	
The Riddle Institute and Family, Infant, and Preschool Program		304,040	(550)		
Various Day Cares		20,000			
Western Piedmont Community College	*	6,315		2,109	
		$ 1,905,823	**$ (26,014)**	**$ 330,245**	**$ 0**

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

Burke County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003 *Schedule 2*

Organization Name		DHHS Contracts
Burke County Department of Social Services	*	$ 1,025,618

* This organization is 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 North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

Burke County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003 ***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)		1-12-1-01-001	$ (51,842)	$ 0
Early Childhood Initiatives Program (Current Year)	*	N/A	2,138,753	2,076,756
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	2090003331	300,300	300,300
Total State Awards			2,399,211	2,389,056

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

Burke County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003 *Schedule 4*

Furniture and Noncomputer Equipment	$	6,213
Computer Equipment/Printers		14,583
Leasehold Improvements		25,734
Total Property and Equipment	$	46,530

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. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

Burke County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003 ***Schedule 5***

Match Provided at the Partnership Level:

Cash	$	25,500
In-Kind Goods and Services		3,486
	$	28,986

Match Provided at the Contractor Level:

Cash	$	479,774
In-Kind Goods and Services		42,896
	$	522,670

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

STATE OF NORTH CAROLINA
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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
Burke County Partnership for Children, Inc.
Morganton, North Carolina

We have audited the financial statements of the Burke County Partnership for Children, Inc. (Burke Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 27, 2004. 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 Burke Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Burke 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. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Burke Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

Contract Management and Monitoring

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

Ralph Campbell, Jr.
State Auditor

February 27, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes conditions that represent significant deficiencies in internal control. This finding was also reported in the prior year.

CONTRACT MANAGEMENT AND MONITORING

The prior year audit identified weaknesses in the Burke Partnership's contract management/monitoring system that resulted in the disbursement of funds for capital and playground equipment that were prohibited by Smart Start legislation.

This finding is unresolved. Our testwork during the current fiscal year identified disbursements totaling $15,000 to one center that did not appear to meet the legislative criteria for quality enhancement funding and are considered to be questioned costs. In addition, we noted the following issues with contract management and monitoring:

- There does not appear to be a consistent, documented methodology for funding the Partnership's quality enhancement grant activities. Guidelines established by The North Carolina Partnership for Children, Inc. (NCPC) emphasize established plans of action and the use of appropriate assessment tools. Applications and proposals should specifically address current status and expected results. Our review noted that most grants were provided based on center requests and documentation was not available to support the need and/or measured improvement to be obtained.

- We identified instances with both the More at Four program and the quality enhancement activities where contract amounts were exceeded as the Partnership failed to consider all funding sources for those particular activities.

- We noted that documentation for both fiscal and programmatic monitoring was inadequate or unavailable. In addition, it appears that the Partnership failed to abide by its monitoring policies for direct service providers.

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

Recommendation: We recommend that the Burke Partnership review and further refine its grant-making processes. Documentation should be available to support plans for improvement, expected outcomes, and measured results. Contract agreements should support total payments to recipients and monitoring activities should be documented and performed in accordance with established policies as well as legislative criteria. The Burke Partnership should consult with NCPC to resolve the identified questioned costs.

Partnership's Response: The finding that remains unresolved is a questioned cost of $15,000 that was disbursed to a local child care program through our Start Ups project. We are currently working with The North Carolina Partnership For Children, Inc. (NCPC) to resolve this questioned cost.

Regarding the issue with contract management and monitoring, the following changes have been implemented:

All quality enhancement grant activities have been reviewed by the Partnership staff and contracting agencies. The Partnership has requested and received technical assistance from NCPC staff regarding quality enhancement grants management. Each grant has been reviewed to ensure that it is in compliance with the guidelines established by The North Carolina Partnership for Children, Inc.

Contracts are new reviewed and revised, as needed, to include all funding sources available to the direct service providers to ensure that contract amounts support total payments.

Contract Monitoring policies and procedures were revised in January 2004 and are now being used by the Partnership staff to monitor both fiscal and programmatic components of the direct service provider contracts.

I am confident that the changes that have been made will produce positive outcomes in the contract management and monitoring for the Burke County Partnership For Children.

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August 4, 2004

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