



STATE OF NORTH CAROLINA

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

MURFREESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

MURFREESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

KATHLEEN WRIGHT, BOARD CHAIR

ADMINISTRATIVE OFFICER

ADRIENNE BARR, EXECUTIVE DIRECTOR



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, Hertford County Partnership for Children, Inc.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Hertford 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 conditions represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. Internal Control Processes
2. Contract Management and Monitoring

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

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hertford County Partnership for Children, Inc.
Murfreesboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Hertford County Partnership for Children, Inc. (Hertford 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 Hertford 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 Hertford 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 July 2, 2004 on our consideration of the Hertford 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 Hertford 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.
State Auditor

July 2, 2004

Hertford 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		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$26,460)	\$ 534,986	\$ 12,000	\$ 0	\$ 546,986
Federal Awards		36,183		36,183
Private Contributions		934		934
Interest and Investment Earnings		222	252	474
Sales Tax Refunds		5,939		5,939
Other Receipts		4,472		4,472
Total Receipts	534,986	59,750	252	594,988
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		26,853	(26,853)	
	534,986	86,603	(26,601)	594,988
Expenditures:				
Programs:				
Child Care and Education Quality	150,941	44,646		195,587
Child Care and Education Affordability	26,300	1,073		27,373
Health and Safety	59,994	25,175		85,169
Family Support	79,275	5,372		84,647
More at Four	106,079			106,079
Support:				
Management and General	115,189	13,253		128,442
Program Evaluation	3,818			3,818
Other:				
Sales Tax Paid		3,879		3,879
Refund of Prior Year Grant		3,464		3,464
Total Expenditures	541,596	96,862		638,458
Excess of Receipts Over Expenditures	(6,610)	(10,259)	(26,601)	(43,470)
Net Assets at Beginning of Year	26,435	15,855	72,791	115,081
Restatement (Note 10)		(2,334)	2,334	
Net Assets at Beginning of Year after Restatement	26,435	13,521	75,125	115,081
Net Assets at End of Year	\$ 19,825	\$ 3,262	\$ 48,524	\$ 71,611
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 16,675	\$ 3,262	\$ 48,524	\$ 68,461
Refunds Due From Contractors	3,150			3,150
	\$ 19,825	\$ 3,262	\$ 48,524	\$ 71,611

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

Hertford 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	\$ 150,941	85,584	2,877	15,430	21,612	1,408	2,755	21,180	95
Child Care and Education Affordability	\$ 26,300							26,300	
Health and Safety	\$ 59,994							59,994	
Family Support	\$ 79,275							79,275	
More at Four	\$ 106,079							106,079	
	\$ 422,589	\$ 85,584	\$ 2,877	\$ 15,430	\$ 21,612	\$ 1,408	\$ 2,755	\$ 292,828	\$ 95
Support:									
Management and General	\$ 115,189	77,088	3,885	6,367	21,592	4,242	1,983		32
Program Evaluation	\$ 3,818		2,497	550	771				
	\$ 119,007	\$ 77,088	\$ 6,382	\$ 6,917	\$ 22,363	\$ 4,242	\$ 1,983	\$ 0	\$ 32
Total Smart Start Fund Expenditures	\$ 541,596	\$ 162,672	\$ 9,259	\$ 22,347	\$ 43,975	\$ 5,650	\$ 4,738	\$ 292,828	\$ 127
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 44,646	21,672		4,044	230		1,967	6,987	9,746
Child Care and Education Affordability	\$ 1,073							1,073	
Health and Safety	\$ 25,175							25,175	
Family Support	\$ 5,372		470	548	4,354				
	\$ 76,266	\$ 21,672	\$ 470	\$ 4,592	\$ 4,584	\$ 0	\$ 1,967	\$ 33,235	\$ 9,746
Support:									
Management and General	\$ 13,253	\$ 0	\$ 8,555	\$ 711	\$ 204	\$ 2,638	\$ 1,145	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,879			3,879					
Refund of Prior Year Grant	\$ 3,464					3,464			
	\$ 7,343	\$ 0	\$ 0	\$ 3,879	\$ 0	\$ 3,464	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 96,862	\$ 21,672	\$ 9,025	\$ 9,182	\$ 4,788	\$ 6,102	\$ 3,112	\$ 33,235	\$ 9,746

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

HERTFORD COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Hertford County Partnership for Children, Inc. (Hertford Partnership) is a legally separate nonprofit organization incorporated on March 17, 1994. The Hertford Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hertford 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 Hertford 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 Hertford 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. 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 petty cash, cash on deposit with private bank accounts, and savings accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. 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 8.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Hertford 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

All funds of the Hertford Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Hertford Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Hertford 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Hertford Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Hertford 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 Hertford 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 Hertford Partnership was awarded and has received \$561,446 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 \$18,671 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.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Hertford Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Hertford 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, or salary supplements.

Child Care and Education Affordability - Used to account for service activities associated with child care transportation.

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

Family Support - Used to account for service activities associated with 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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - PENSION PLAN

The Hertford Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Hertford Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Hertford Partnership contributed 2% of gross wages for the year ended June 30, 2003. The Hertford Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2003, the Hertford Partnership contributed \$2,923 for pension benefits during the year.

NOTE 7 - RISK MANAGEMENT

The Hertford 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 Hertford Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
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 Hertford Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Hertford 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 \$1,486. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Children's Fest	\$ 2,334
Immunization and Dental Program	25,195
Family Support	<u>20,995</u>
	<u>\$ 48,524</u>

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:

<u>Purpose</u>	<u>Amount</u>
Child and Adult Care Food Program	\$ 1,678
Immunization and Dental Program	<u>25,175</u>
	<u>\$ 26,853</u>

NOTE 10 - RESTATEMENT OF NET ASSETS

The Hertford Partnership received donations during the 2001 fiscal year that were restricted for a Children's Fest. The remaining funds, which have not been expended to date, were incorrectly classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets for both the Unrestricted Other funds and the Temporarily Restricted funds is presented as follows:

	<u>Net Assets Previously Reported</u>	<u>Net Effect of Prior Year Reclassification</u>	<u>July 1, 2002 Net Assets As Restated</u>
Unrestricted Funds – Other Funds	\$ 15,855	\$ (2,334)	\$ 13,521
Temporarily Restricted Funds	<u>72,791</u>	<u>2,334</u>	<u>75,125</u>
Total Unrestricted Other Net Assets	<u>\$ 88,646</u>	<u>\$ 0</u>	<u>\$ 88,646</u>

Hertford 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		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Choanoke Area Development Association	100,938	(1,664)		
Choanoke Public Transportation	6,300		1,073	
Hertford County Schools	106,078			
Hertford Gates Health Agency	58,101	(1,486)		
North Carolina Cooperative Extension Service	3,380			
Northampton Partnership for Children, Inc.			25,175	
Various Centers	5,364		4,566	
	\$ 280,161	\$ (3,150)	\$ 30,814	\$ 0
Individuals:				
Incentive Grants	13,501		2,421	
Salary Supplements	2,316			
	\$ 15,817	\$ 0	\$ 2,421	\$ 0
	\$ 295,978	\$ (3,150)	\$ 33,235	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Hertford 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
Hertford County Department of Social Services	*	\$ 209,924
<p>* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p>		
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>		

Hertford County Partnership for Children, Inc.

Schedule of Federal and State Awards - Modified Cash Basis

For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services				
Division of Child Development				
Child Care and Development Fund (Prior Year)	93.575	5999	\$ 1,130	\$ 0
Child Care and Development Fund (Current Year)	93.575	* 5999	35,053	40,177
Total Federal Awards			36,183	40,177
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 Years)		Various	(26,460)	(800)
Early Childhood Initiatives Program (Current Year)		* N/A	561,446	542,396
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			546,986	553,596
Total Federal and State Awards			\$ 583,169	\$ 593,773

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

Hertford 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	\$	934
In-Kind Goods and Services		4,668
	\$	<u>5,602</u>

Match Provided at the Contractor Level:

Cash	\$	52,738
In-Kind Goods and Services		61,881
	\$	<u>114,619</u>

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.

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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
Hertford County Partnership for Children, Inc.
Murfreesboro, North Carolina

We have audited the financial statements of the Hertford County Partnership for Children, Inc. (Hertford Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated July 2, 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 Hertford 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 Hertford Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the 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 internal control over financial reporting that, in our judgment, could adversely affect the Hertford Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in

**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)**

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:

1. Internal Control Processes
2. Contract Management and Monitoring

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

July 2, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. INTERNAL CONTROL PROCESSES

Our review of the Hertford Partnership's internal control system identified weaknesses in the accounting policies and procedures for the processing of cash receipts and disbursements. We also noted inaccuracies with the financial presentations of the Partnership that required adjustment through the audit process. Examples of errors noted included:

- We identified incompatible duties within the cash receipting and disbursement functions. In addition, improvement is needed for documenting the approval processes for material transactions such as cash receipts, bank reconciliations, and payroll.
- Adjustments in excess of \$50,000 were necessary to correct financial presentations.

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities. Internal controls should be designed to promote operational efficiency and effectiveness, protect Partnership staff, and to ensure adherence to prescribed managerial policies and compliance with applicable regulations.

Recommendation: We recommend that the Hertford Partnership review its current accounting policies and procedures and take appropriate action to address the deficiencies identified above to ensure that the operations of the Partnership are in accordance with Board and management expectations. Steps should be taken to properly segregate incompatible duties within the receipting and disbursement processes. In addition, we recommend that the Partnership implement proper procedures for the classification and review of transactions to ensure that transactions are recorded correctly in the general ledger.

Partnership's Response: The North Carolina Partnership for Children, Inc.'s Consultants will be providing technical assistance by way of review and revisions if necessary of accounting and contracting policies and procedures. In addition, procedures will be developed to ensure the correct entry of classification and review transactions into the general ledger.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. CONTRACT MANAGEMENT AND MONITORING

We identified deficiencies in the contract management and monitoring system of the Hertford Partnership that included the following:

- There were no formal grant agreements to support disbursements totaling \$29,700 for the Immunization and Dental and the Child Care and Development activities.
- Smart Start funding totaling \$106,078 was provided for the Public Pre-Kindergarten Program activity and was subject to compliance with all More at Four program guidelines. Documentation to support adherence to the More at Four program guidelines and requirements was limited or not available.

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

Recommendation: We recommend that the Hertford Partnership develop and implement contract management and monitoring policies and procedures. Those procedures should address the establishment of formal agreements for all contract and grant disbursements and should ensure that documentation is available to support compliance with contractual terms and program requirements.

Partnership's Response: Corrective actions are being taken to address the noted areas of weakness. The Partnership is working with North Carolina Partnership for Children, Inc.'s Consultants to review, develop, and implement contract management and monitoring policies and procedures. These procedures will address the establishment of formal agreements for all contract and grant disbursements. Documentation will be available to support compliance with contractual terms and program requirements.

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August 30, 2004

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