

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM'S PARTNERSHIP FOR CHILDREN

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

JULIE LINEHAN, CHAIR PERSON

ADMINISTRATIVE OFFICER

MARSHA BASLOE, 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, Durham's Partnership for Children

This report presents the results of our financial statement audit of the Durham's Partnership for Children (Durham's 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 Durham's 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 Durham's 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 Durham's Partnership is one of these local partnerships. As such, the Durham's 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 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 and supplementary information.

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 Durham's 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.

Finding

03-01: Contract Management and Monitoring

03-02: Allowability of Costs – Early Learning Opportunity Act

These matters are described in the Schedule of Findings and Questioned Costs 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
Durham's Partnership for Children
Durham, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis of the Durham's Partnership for Children (Durham's 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 Durham's 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 modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Durham's Partnership for Children 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 November 10, 2003 on our consideration of the Durham's 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 Durham's Partnership for Children taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." This schedule, and the additional 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

November 10, 2003

Durham's Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of \$39,794)	\$ 3,603,635	\$ 244,080	\$ 3,847,715
Federal Awards		366,315	366,315
Local Awards		55,953	55,953
Private Contributions		3,767	3,767
Interest and Investment Earnings		3,045	3,045
Sales Tax Refunds		1,780	1,780
Total Receipts	3,603,635	674,940	4,278,575
Expenditures:			
Programs:			
Child Care and Education Quality	996,979	4,545	1,001,524
Child Care and Education Affordability	741,475	55,894	797,369
Health and Safety	839,779		839,779
Early Learning Opportunity Act		366,323	366,323
Family Support	389,390		389,390
More at Four	203,049	230,943	433,992
Support:			
Management and General	379,451	12,535	391,986
Program Evaluation	80,249	1,730	81,979
Other:			
Sales Tax Paid		3,889	3,889
Total Expenditures	3,630,372	675,859	4,306,231
Excess of Receipts Over Expenditures	(26,737)	(919)	(27,656)
Net Assets at Beginning of Year	43,148	21,531	64,679
Net Assets at End of Year	\$ 16,411	\$ 20,612	\$ 37,023
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 15,708	\$ 20,612	\$ 36,320
Refunds Due From Contractors	703		703
	\$ 16,411	\$ 20,612	\$ 37,023

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

***Durham's Partnership for Children
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	\$ 996,979							996,979	
Child Care and Education Affordability	\$ 741,475							741,475	
Health and Safety	\$ 839,779							839,779	
Family Support	\$ 389,390							389,390	
More at Four	\$ 203,049	44,034	1,508	993	5,305			151,209	
	\$ 3,170,672	\$ 44,034	\$ 1,508	\$ 993	\$ 5,305	\$ 0	\$ 0	\$ 3,118,832	\$ 0
Support:									
Management and General	\$ 379,451	235,719	30,653	10,856	44,722	42,668	14,833		
Program Evaluation	\$ 80,249	72,714	5,731		1,804				
	\$ 459,700	\$ 308,433	\$ 36,384	\$ 10,856	\$ 46,526	\$ 42,668	\$ 14,833	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 3,630,372	\$ 352,467	\$ 37,892	\$ 11,849	\$ 51,831	\$ 42,668	\$ 14,833	\$ 3,118,832	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 4,545							4,545	
Child Care and Education Affordability	\$ 55,894	53,567			2,327				
Early Learning Opportunity Act	\$ 366,323	13,927			191			352,205	
More at Four	\$ 230,943	18,469	399	6,389	3,900		2,268	199,518	
	\$ 657,705	\$ 85,963	\$ 399	\$ 6,389	\$ 6,418	\$ 0	\$ 2,268	\$ 556,268	\$ 0
Support:									
Management and General	\$ 12,535		8,785	197		530	3,023		
Program Evaluation	\$ 1,730				1,730				
	\$ 14,265	\$ 0	\$ 8,785	\$ 197	\$ 1,730	\$ 530	\$ 3,023	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,889	\$ 0	\$ 0	\$ 3,889	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 675,859	\$ 85,963	\$ 9,184	\$ 10,475	\$ 8,148	\$ 530	\$ 5,291	\$ 556,268	\$ 0

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

DURHAM'S PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Durham's Partnership for Children (Durham's Partnership) is a legally separate nonprofit organization incorporated on October 31, 1994. The Durham's Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Durham's 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 Durham's Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Durham's Partnership did not have any temporarily or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 a private bank account and a money market account.

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.

NOTE 2 - DEPOSITS

All funds of the Durham's 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 Durham's Partnership to a concentration of credit risk. At June 30, 2003, the Durham's Partnership's bank deposits in excess of the FDIC insured limit was \$117,053.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Durham's 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 Durham's 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 Durham's Partnership was awarded and has received \$3,643,429 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

returned \$8,479 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 Durham's Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Durham's Partnership was awarded \$722,040 and has received \$232,080 of this amount under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Durham's Partnership expects to receive continued funding through new More at Four contracts with the State.

Early Learning Opportunities Act Discretionary Grant Program - The Durham's Partnership received a federal assistance award from the U. S. Department of Health and Human Services – Administration for Children and Families. The award is based on a cost-reimbursement contract issued through the Early Learning Opportunities Act Discretionary Grant Program.

In the current year, the Durham's Partnership received \$366,315. The Durham's Partnership expects to receive continued funding through the Early Learning Opportunities Act Discretionary Grant Program from the Administration for Children and Families until August 30, 2003.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, provider training, and learning materials and teaching aids.

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (Division of Child Development) and child care transportation.

Early Learning Opportunities Act Discretionary Grant Program - Used to increase child readiness for school, improve successful transition to school, increase communications between teachers and families, increase knowledge of school readiness attributes and strategies, increase the education level for preschool teachers, and increase parent and child care teacher engagement in reading and other early literacy activities with children, including infants and toddlers.

Family Support - Used to account for service activities including family resource centers, general family support, and family crisis intervention, literacy projects.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 except those with terms of a month or less that were not renewed was \$37,706.

NOTE 7 - PENSION PLAN

A. Retirement Plans - The Durham's Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Durham's Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Durham's Partnership contributed 8% of gross wages for the year ended June 30, 2003. The Durham's 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 Durham's Partnership contributed \$26,822 for pension benefits.

B. IRC Section 403(b) Plan- All permanent employees who are at least half-time can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs are incurred by the Durham's Partnership.

NOTE 8 - RISK MANAGEMENT

The Durham's 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 Durham's

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Partnership manages these various risks of loss as per the schedule that 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 – Employees injuries	Purchased commercial insurance	None
Directors and Officers Liability	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 Durham's Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

***Durham's Partnership for Children
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
Bright Horizons Family Solutions at Independence Park	9,929		9,031	
Brown's Day Care Center	10,833		13,114	
Bryson's Christian Montessori School, Inc.	23,248	(703)	32,579	
Child and Parent Support Services	226,356			
Child Care Services Association *	996,979		352,205	
Christian Prep Academy	15,834		23,491	
Durham Council for Infants and Children with Special Needs *	76,107			
Durham County Health Department *	237,062			
El Centro Hispanic, Inc. *	175,790			
Exchange Clubs Child Abuse Prevention *	127,115			
First Presbyterian Day School	19,956		14,522	
Kiddie Kollege	5,315		8,664	
La Petite Academy	15,052		12,506	
Little River Community Complex, Inc. *	86,485			
Operation Breakthrough, Inc. *	741,475		2,733	
Primary Colors Child Care Center	1,585		2,078	
Scarborough Nursery School *	17,344		36,702	
The ARC of Durham County	64,589			
Tutor Time Child Care Learning Center	21,159		18,998	
Various Organizations			4,545	
Welcome Baby	235,665			
Yates Baptist Preschool	11,657		25,100	
	\$ 3,119,535	\$ (703)	\$ 556,268	\$ 0

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

***Durham's Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association-Wages Program	*	\$ 423,048
Durham County Department of Social Services	*	3,764,191
		\$ 4,187,239
<p>* These organizations are 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>		

<i>Durham's Partnership for Children</i> <i>Schedule of Federal and State Awards - Modified Cash Bas</i> <i>For the Year Ended June 30, 2003</i>					<i>Schedule 3</i>	
Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number		Contract #	Receipts	Expenditures	
Federal Awards:						
Department of Health and Human Services						
Administration for Children and Families						
Early Learning Opportunities Act Discretionary Grant Program	93.577	**	#90L0001601	\$ 366,315	\$ 366,323	
State Awards:						
North Carolina Department of Health and Human Services						
Division of Child Development						
Pass-through from the North Carolina Partnership for Children, Inc.						
Early Childhood Initiatives Program (Prior Year)			#1-01-2-07-001	(6,817)		
Early Childhood Initiatives Program (Prior Year)			#1-12-2-07-001	(32,977)	670	
Early Childhood Initiatives Program (Current Year)		*	N/A	3,643,429	3,629,702	
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		*	#2090003387	232,080	230,943	
Total State Awards				3,847,715	3,873,315	
Total Federal and State Awards				\$ 4,214,030	\$ 4,239,638	
* Programs with compliance requirements that have a direct and material effect on the financial statements.						
** Major Programs per OMB Circular A-133						

<i>Durham's Partnership for Children</i>				
<i>Schedule of Property and Equipment - Modified Cash Basis</i>				
<i>For the Year Ended June 30, 2003</i>				<i>Schedule 4</i>
	Furniture and Noncomputer Equipment		\$	35,485
	Computer Equipment/Printers			39,991
	Leasehold Improvements			3,859
	Total Property and Equipment		\$	79,335
	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.			

Durham's Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	401,919
In-Kind Goods and Services		10,062
	\$	411,981

Match Provided at the Contractor Level:

Cash	\$	1,085,926
In-Kind Goods and Services		427,874
	\$	1,513,800

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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State Auditor

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

Board of Directors
Durham's Partnership for Children
Durham, North Carolina

We have audited the financial statements of the Durham's Partnership for Children (Durham's Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 10, 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 Durham's 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 Durham's 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 Durham's Partnership's ability to record, process, summarize and report financial data consistent with the assertions of

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

management in the financial statements. This reportable condition noted as a result of our audit is described in the Schedule of Findings and Questioned Costs section of this report:

Finding

03-01: CONTRACT MANAGEMENT AND MONITORING

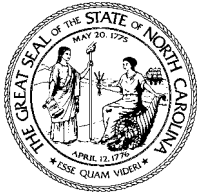
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 do not believe that the reportable condition described above is 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

November 10, 2003



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Durham's Partnership for Children
Durham, North Carolina

Compliance

We have audited the compliance of the Durham's Partnership for Children (Durham's Partnership) with the types of compliance requirements described in the "U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2003. Durham's Partnership's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Durham's Partnership's management. Our responsibility is to express an opinion on Durham's Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durham's Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Durham's Partnership's compliance with those requirements.

In our opinion, Durham's Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-01, Contract Management and Monitoring and 03-02, Allowability of Costs – Early Learning Opportunity Act.

Internal Control Over Compliance

The management of Durham's Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Durham's Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment could adversely affect the Durham's Partnership's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs section as item 03-01 Contract Management and Monitoring.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Partnership, The North Carolina Partnership for Children, 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

November 10, 2003

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

I. SUMMARY OF AUDITOR'S RESULTS

YES NO

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified ☐ ☒
- Reportable conditions identified that are not considered to be material weaknesses ☒ ☐

Noncompliance material to financial statements noted? ☐ ☒

Federal Awards

Internal control over major programs:

- Material weaknesses identified ☐ ☒
- Reportable conditions identified that are not considered to be material weaknesses ☒ ☐

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 ☒ ☐

Identification of major federal programs:

CFDA Numbers

93.577

Name of Federal Programs

Early Learning Opportunities Act Discretionary Grant Program

Dollar threshold used to distinguish between Type A and Type B Programs **\$300,000**

Auditee qualified as low-risk auditee ☐ ☒

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

II. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

03-01: CONTRACT MANAGEMENT AND MONITORING

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

- Smart Start funds were disbursed to a direct service provider prior to the execution of a contract. In addition, a payment was made on behalf of another direct service provider prior to the approval of that activity from The North Carolina Partnership for Children, Inc.
- Contract amendments were not formally executed to support payments totaling \$133,000 for the Early Learning Opportunity Act (ELOA) activity.
- Documentation was not available to support programmatic monitoring related to the quality enhancement grants or the school readiness activity. Additional testwork was performed during the audit process for the quality enhancement grants to ensure adherence with the compliance requirements established by legislation.
- The subrecipient monitoring system was not sufficient to ensure the subrecipient's compliance with laws, regulations, and the provisions of grants and contracts. Grants totaling \$28,000 were made to subrecipients for the ELOA activity where documentation was not available to support subrecipient monitoring activities.

Recommendation: We recommend that the Durham's Partnership enhance its contract management and monitoring system to ensure that payments are not processed prior to the establishment of a formal contract agreement; disbursements are in accordance with contract terms and applicable amendments; and documented monitoring activities are performed in accordance with established program guidelines. Federal guidelines require pass-through entities to establish an appropriate subrecipient-monitoring process that monitors subrecipients' use of federal awards through site visits or other means and ensures the subrecipients' compliance with the use of federal funds.

Partnership's Response:

- Although the Partnership feels the check in question was an isolated case with unusual circumstances, we will make sure that there will not be any exceptions to our disbursement procedures in the future. Payments will not be processed until a formal contract agreement is established. The payment made on behalf of another direct service provider (WINGS) prior to the approval of that activity has been paid back.

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

- We did not properly amend the contract (ELOA) to the sub-recipient when no-cost extensions were granted. We understand that contract amendments need to be put in place, and we will make sure that this is done. Contract management has been improved for all contracts to ensure that amendments are executed on a timely basis.
- Program and evaluation monitoring and documentation procedures have been enhanced to ensure adherence with the compliance requirements established by the legislation. The Evaluation Committee of the Board in conjunction with the Program and Evaluation staff have developed a Program and Evaluation Manual that will be presented to the Board for adoption at the next Board meeting. More intensive programmatic and fiscal monitoring was performed in the subsequent fiscal year. New program and evaluation forms for direct service providers have been developed and are being used during the 2003-2004 year to ensure adherence with the compliance requirements.
- Additional sub-recipient monitoring forms have been developed especially related to the quality enhancement grants to ensure adherence with compliance requirements. DPfC has implemented policies and procedures that will correct this issue in the current year and we are striving to make sure that there will not be such a finding in the future. Our goal is to make continued improvements in implementing and following policies and procedures to assure proper documentation is in place for all of our activities. We appreciate the audit team's recommendations.

**III. FINDINGS AND QUESTIONED COSTS RELATED TO THE AUDIT OF
FEDERAL AWARDS**

03-01: CONTRACT MANAGEMENT AND MONITORING

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

- Smart Start funds were disbursed to a direct service provider prior to the execution of a contract. In addition, a payment was made on behalf of another direct service provider prior to the approval of that activity from The North Carolina Partnership for Children, Inc.
- Contract amendments were not formally executed to support payments totaling \$133,000 for the Early Learning Opportunity Act (ELOA) activity.

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

- Documentation was not available to support programmatic monitoring related to the quality enhancement grants or the school readiness activity. Additional testwork was performed during the audit process for the quality enhancement grants to ensure adherence with the compliance requirements established by legislation.
- The subrecipient monitoring system was not sufficient to ensure the subrecipient's compliance with laws, regulations, and the provisions of grants and contracts. Grants totaling \$28,000 were made to subrecipients for the ELOA activity where documentation was not available to support subrecipient monitoring activities.

Recommendation: We recommend that the Durham's Partnership enhance its contract management and monitoring system to ensure that payments are not processed prior to the establishment of a formal contract agreement; disbursements are in accordance with contract terms and applicable amendments; and documented monitoring activities are performed in accordance with established program guidelines. Federal guidelines require pass-through entities to establish an appropriate subrecipient-monitoring process that monitors subrecipients' use of federal awards through site visits or other means and ensures the subrecipients' compliance with the use of federal funds.

Partnership's Response:

- Although the Partnership feels the check in question was an isolated case with unusual circumstances, we will make sure that there will not be any exceptions to our disbursement procedures in the future. Payments will not be processed until a formal contract agreement is established. The payment made on behalf of another direct service provider (WINGS) prior to the approval of that activity has been paid back.
- We did not properly amend the contract (ELOA) to the sub-recipient when no-cost extensions were granted. We understand that contract amendments need to be put in place, and we will make sure that this is done. Contract management has been improved for all contracts to ensure that amendments are executed on a timely basis.
- Program and evaluation monitoring and documentation procedures have been enhanced to ensure adherence with the compliance requirements established by the legislation. The Evaluation Committee of the Board in conjunction with the Program and Evaluation staff have developed a Program and Evaluation Manual that will be presented to the Board for adoption at the next Board meeting. More intensive programmatic and fiscal monitoring was performed in the subsequent fiscal year. New program and evaluation forms for direct service providers have been developed and are being used during the 2003-2004 year to ensure adherence with the compliance requirements.

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

- Additional sub-recipient monitoring forms have been developed especially related to the quality enhancement grants to ensure adherence with compliance requirements. DPfC has implemented policies and procedures that will correct this issue in the current year and we are striving to make sure that there will not be such a finding in the future. Our goal is to make continued improvements in implementing and following policies and procedures to assure proper documentation is in place for all of our activities. We appreciate the audit team's recommendations.

03-02: ALLOWABILITY OF COSTS – EARLY LEARNING OPPORTUNITY ACT

Our review of disbursement activities for the Early Learning Opportunity Act (ELOA) activity identified several items that do not appear to be allowable in accordance with the applicable federal guidelines. Items noted included:

- Salary charges were based on budgeted projections of time worked for personnel. OMB Circular A-122, *Cost Principles for Non-Profit Organizations* requires that an after-the-fact adjustment be prepared to ensure that federal awards are charged only for actual salary costs. Total questioned costs related to the Partnership's failure to adjust budgeted salary charges to actual were \$14,000.
- The ELOA contract agreement states that not more than 3% of the total contract shall be expended for administrative activities. The administrative cap for this contract was \$20,329. Our review of administrative costs at both the Partnership and subrecipient level determined that administrative charges exceeded the cap amount by \$2,000 and are considered to be questioned costs.
- The ELOA contract application included a budget of \$74,798 for overhead costs. Actual overhead costs incurred were in excess of \$114,000. There was no budget amendment executed to support these excess charges that represent a 52% increase over the original executed budget.

Recommendation: We recommend that the Durham's Partnership implement oversight procedures for the disbursement of federal funds to ensure that costs incurred are allowable in accordance with applicable federal guidelines. The Partnership should consult with the Administration on Children, Youth and Families within the U. S. Department of Health and Human Services to determine proper resolution for the identified questioned costs and the over-expenditure of budgeted overhead costs.

**DURHAM'S PARTNERSHIP FOR CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONCLUDED)**

Partnership's Response:

- We are working with the ELOA Project Officer/Program Analyst in the U.S. Department of Health and Human Services to resolve the questioned costs. These issues will be addressed and DHHS will receive a copy of the audit report before the grant is closed out. We are currently waiting to hear back from the ELOA Program Analyst in our continuing discussion regarding the questioned costs.
- The Smart Start grant and the Federal LASRE grant (ELOA) were implemented as matching funds, with the Smart Start grant intended to absorb the excess overhead costs not allowed due to the federal overhead gap. The amount charged to the federal grant for overhead expenses for the entire period did not exceed the original budget and the amount charged to Smart Start did not exceed the original proposal. Based on discussions with the ELOA Program Analyst, since the overhead costs charged to the federal ELOA grant did not exceed the original budget, we were not required to file an amended budget. According to the ELOA Program Analyst, the increased expenses were charged to the matching funds and matching funds budgets do not require amendment to reflect increases. Matching funds may exceed budgeted amounts but may not be less than budgeted amounts. As stated above, we are continuing our discussions with the ELOA Program Analyst to completely resolve all cost issues.

**DURHAM'S PARTNERSHIP FOR CHILDREN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

02-01: INTERNAL CONTROL PROCEDURES

We identified weaknesses in the Durham's Partnership's internal control procedures as the policies and procedures were not supportive of the operations of the Partnership and improper segregation of duties existed between the authorizing and processing functions.

This finding has been resolved. The Partnership addressed the above deficiencies by the implementation of updated policies and procedures and a further defining of staff roles in the authorizing and processing functions.

02-02: CONTRACT MANAGEMENT AND MONITORING

We reported in previous years that a significant prepayment occurred for the purchase of a modular building for the Head Start Relocation Project. The prepayment violated the Smart Start cost principles and the project was significantly delayed in its completion.

This finding has been resolved. The building certificate of occupancy was granted on January 21, 2003 and the facility is now being used for its intended purpose.

**DURHAM'S PARTNERSHIP FOR CHILDREN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Contact Person Phone Number	Corrective Action Planned
03-01	Marla Basloe	Contract Management and Monitoring – Please see Partnership Response
	(919) 403-6960	Durham's Partnership for Children has implemented a complete review of contracting and monitoring procedures to ensure proper processing of contracts and to ensure compliance with contract terms.
		A new monitoring checklist that includes fiscal and programmatic monitoring, including the monitoring of all sub recipient awards has been developed and implemented to ensure proper monitoring of all contracts.
		Durham's Partnership for Children has hired a part-time Finance Director (CPA) to further ensure the fiscal integrity of its operations.
03-02	Marla Basloe	Allowability of Costs – ELOA 90L00016
	(919) 403-6960	A request will be submitted to the Department of Health & Human Services (DHHS), Office of Grants Management for retroactive approval of salary allocation as documented by allocations prepared by the former Executive Director after contact with the ELOA office. DPFC timesheets were used to support these allocations.
		Durham's Partnership for Children will submit information to DHHS outlining its administrative costs. We look forward to resolving this issue.
		Durham's Partnership for Children will contact DHHS concerning the failure to submit an amended matching funds budget.

DISTRIBUTION OF AUDIT REPORT

In accordance with *North Carolina 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.

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

Ms. Karen Ponder

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

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Director, Fiscal Research Division

March 2, 2004

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