



STATE OF NORTH CAROLINA

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

WINDSOR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE BERTIE COUNTY PARTNERSHIP FOR CHILDREN, INC.
WINDSOR, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

ESTELLA SIMONS, BOARD CHAIRPERSON

ADMINISTRATIVE OFFICER

CLAYTEE WHITE, 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, The Bertie County Partnership for Children, Inc.

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

1. Control Environment
2. Override of Internal Control Procedures
3. Authorizing and Processing of Transactions
4. Contract Management and Monitoring
5. Program Match Requirement

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
The Bertie County Partnership for Children, Inc.
Windsor, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of The Bertie County Partnership for Children, Inc. (Bertie 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 Bertie 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 Bertie 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 March 5, 2004 on our consideration of the Bertie 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 Bertie 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

March 5, 2004

The Bertie 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 \$14,262)	\$ 361,569	\$ 12,000	\$ 0	\$ 373,569
Federal Awards		16,974		16,974
Private Contributions		8,360	2,243	10,593
Interest and Investment Earnings		156		156
Sales Tax Refunds		1,278		1,278
Other Receipts		155		155
Total Receipts	361,569	38,913	2,243	402,725
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		14,208	(14,208)	
	361,569	53,121	(11,965)	402,725
Expenditures:				
Programs:				
Child Care and Education Quality	128,978	4,822		133,800
Health and Safety	44,115	33,663		77,778
Family Support	28,092			28,092
Support:				
Management and General	114,612	15,226		129,838
Program Evaluation	52,716			52,716
Other:				
Sales Tax Paid		2,489		2,489
Total Expenditures	368,513	56,200		424,713
Excess of Receipts Over Expenditures	(6,944)	(3,079)	(11,965)	(21,988)
Net Assets at Beginning of Year	14,262	2,027	20,066	36,355
Net Assets at End of Year	\$ 7,318	\$ (1,052)	\$ 8,101	\$ 14,367
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,987	\$ (1,052)	\$ 8,101	\$ 14,036
Refunds Due From Contractors	331			331
	\$ 7,318	\$ (1,052)	\$ 8,101	\$ 14,367

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

The Bertie 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	\$ 128,978	64,364	7,973	19,981	17,051	4,213	3,423	4,879	7,094
Health and Safety	\$ 44,115							44,115	
Family Support	\$ 28,092							28,092	
	\$ 201,185	\$ 64,364	\$ 7,973	\$ 19,981	\$ 17,051	\$ 4,213	\$ 3,423	\$ 77,086	\$ 7,094
Support:									
Management and General	\$ 114,612	88,000	5,855	1,236	12,486	6,296	739		
Program Evaluation	\$ 52,716	44,586	2,618	688	3,307	981	536		
	\$ 167,328	\$ 132,586	\$ 8,473	\$ 1,924	\$ 15,793	\$ 7,277	\$ 1,275	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 368,513	\$ 196,950	\$ 16,446	\$ 21,905	\$ 32,844	\$ 11,490	\$ 4,698	\$ 77,086	\$ 7,094
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 4,822	224	4,156	347					95
Health and Safety	\$ 33,663							33,663	
	\$ 38,485	\$ 224	\$ 4,156	\$ 347	\$ 0	\$ 0	\$ 0	\$ 33,663	\$ 95
Support:									
Management and General	\$ 15,226	\$ 3,010	\$ 9,500	\$ 30	\$ 941	\$ 1,745	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 2,489	\$ 0	\$ 0	\$ 2,489	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 56,200	\$ 3,234	\$ 13,656	\$ 2,866	\$ 941	\$ 1,745	\$ 0	\$ 33,663	\$ 95

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Bertie County Partnership for Children, Inc. (Bertie Partnership) is a legally separate nonprofit organization incorporated on April 15, 1996. The Bertie Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Bertie 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 Bertie 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 Bertie Partnership did not have 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 and cash on deposit with private bank 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 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Bertie 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 Bertie Partnership are deposited with a commercial bank in a capital asset management account. These deposits are not insured or otherwise protected by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Coverage for cash and securities in protected client accounts is provided by the Securities Investor Protection Corporation (SIPC) or by the bank itself for the value of the net equity balance up to \$500,000, of which \$100,000 may be cash. The balances in the Bertie Partnership's account do not exceed these established maximums.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Bertie 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 Bertie 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 Bertie Partnership was awarded and has received \$375,830 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 \$559 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 Bertie Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Bertie 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, child care substitutes, or provider training.

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

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

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 (rent, utilities and maintenance) and communication costs (telephone and printing) were allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$8,665.

NOTE 7 PENSION PLAN

Retirement Plans - The Bertie Partnership has a SIMPLE - IRA Plan covering all full-time employees. After three months of employment, each full-time employee of the Bertie Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Bertie Partnership contributed up to 3% of gross wages for the year ended June 30, 2003. The Bertie 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 Bertie Partnership had a total payroll of \$200,185 of which \$28,590 was covered under the Plan. The Partnership contributed \$900 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Bertie 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 Bertie 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 Bertie Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Bertie 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 \$3,553. 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
Literacy Training Project	\$ 956
Lending Library	36
UNC Transition Forum	50
Child Care Health Consultant	2,243
R. J. Reynolds Scholarships for Teen Mothers	4,816
	<u>\$ 8,101</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:

Purpose	Amount
Child Care Health Consultant	\$ 8,753
Staff Development	5,455
	<u>\$ 14,208</u>

The Bertie 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	
Albemarle Regional Health Services	*	32,961	(331)	33,301	
Bertie County Health Department	*			362	
Bertie County Schools - Family Resource Centers of Bertie County	*	28,092			
NC Cooperative Extension - Bertie County	*	8,535			
Roanoke-Chowan Human Services	*	2,950			
Various Day Care Providers		4,879			
		\$ 77,417	\$ (331)	\$ 33,663	\$ 0

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

***The Bertie 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
Bertie County Department of Social Services *	129,636
Child Care Services Association - WAGES Program	35,940
	\$ 165,576
<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>	

The Bertie 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:				
Pass-through from the University of North Carolina at Chapel Hill:				
Child Care Health Consultant Program	93.575	6089	\$ 16,974	\$ 16,974
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	(14,262)	(601)
Early Childhood Initiatives Program (Current Year)		N/A *	375,831	369,114
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			373,569	380,513
Total Federal and State Awards			\$ 390,543	\$ 397,487
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

The Bertie 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		\$ 31,530	
Computer Equipment/Printers		11,388	
Total Property and Equipment		\$ 42,918	

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.

The Bertie 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	\$ 10,594
In-Kind Goods and Services	4,841
	<u>\$ 15,435</u>

Match Provided at the Contractor Level:

Cash	\$ 18,437
In-Kind Goods and Services	0
	<u>\$ 18,437</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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Ralph Campbell, Jr.
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 STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
The Bertie County Partnership for Children, Inc.
Windsor, North Carolina

We have audited the financial statements of The Bertie County Partnership for Children, Inc. (Bertie Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 5, 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 Bertie Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

5. Program Match Requirement

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bertie 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.

**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)**

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Bertie Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Control Environment
2. Override of Internal Control Procedures
3. Authorizing and Processing of Transactions
4. 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

March 5, 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 or noncompliance with laws, regulations, contracts, or grants.

1. CONTROL ENVIRONMENT

The Board had not effectively addressed issues related to the Bertie Partnership's control environment. We identified the following deficiencies during our audit testwork:

- Board or committee minutes were incomplete or unavailable for review. Numerous committee minutes were missing from the Partnership, as the executive committee minutes could not be located for nine of the identified fourteen meetings. Handwritten notes were used as the official record for two other executive committee meetings. In addition, we were unable to determine quorum at two board meetings and two executive committee meetings.
- The minutes do not adequately reflect the major actions of the Board such as the discussion and approval of funded activities, bidding and awarding of contracts, or voting abstentions (to document the avoidance of conflicts of interests).
- There were three different board chairs during our audit year. In addition, the Board elected a member to serve as the Executive Director despite knowledge that a conflict of interest existed with one of the Partnership's Direct Service Provider activities.
- Policies and procedures were consistently compromised during the year and at times, at the direction or with the approval of the Board. Specific incidents are identified in Findings 2 and 3.

The control environment is the foundation for all components of internal control and encompasses factors such as board participation, organizational structure, assignment of responsibility, and adequate oversight. Weaknesses in the control environment affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities.

Recommendation: We recommend that the Bertie Partnership place emphasis on addressing the above issues. The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations. Implementation of approved policies and procedures should provide direction to the staff and ensure an

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

adequate system of internal control is established. In addition, the Board should make sure that board minutes are in compliance with the Open Meetings law requirements and document major activities of the Board.

Partnership's Response: The Bertie County Partnership strongly agrees with the recommendations and has taken steps to implement a plan concerning the recording of board and committee minutes. Prior to the audit, Bertie County Partnership implemented corrective action to address deficiencies, strengthen leadership, and enhance managerial oversight. For example, the Bertie County Partnership underwent board training under the direction of The North Carolina Partnership for Children, Inc. (NCPC).

Each participant received instruction on the importance of board attendance, keeping minutes, and parliamentary procedures. By-law amendments were adopted at the direction of NCPC. A corrective action plan was submitted and addressed. Additionally, new board members were elected to fill vacant mandatory board positions. The executive committee adopted a monitoring and oversight plan. These changes have resulted in the implementation of extensive changes to have significantly improved operational management.

2. OVERRIDE OF INTERNAL CONTROL PROCEDURES

During our review of the Bertie Partnership's internal control processes, we identified transactions of a questionable nature that did not appear to be in accordance with the Partnership policies or Statewide practices. Issues noted were:

- There was an apparent management override of internal control procedures. The former Executive Director allowed the former Executive Administrator to authorize invoices and timesheets on behalf of the former Executive Director. This included the authorization of time and travel for the former Executive Director and herself. This delegation of an oversight function to a subordinate employee represents a serious deficiency in the authorization control and directly violates the Partnership's Accounting Policies and Procedures.
- The former Executive Administrator was authorized by the Executive Committee to work from home during her requested maternity leave (October 2002 through January 2003). The list of duties to be performed included preparation of purchase orders, coding of financial transactions, preparation of payroll, and program/evaluation and fiscal monitoring activities. These are functions essential to the ongoing operations of the Partnership and not subject to performance collectively on a part-time basis. As noted above, it is not apparent that proper management oversight occurred in this situation.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

- We noted that the former Executive Administrator was authorized payment for 88 overtime hours during the fiscal year. Additional hours were earned in the months prior to the fiscal year under audit. Timesheets indicate that the former Executive Administrator, a non-exempt employee, was performing Program Evaluation activities after normal business hours. The Bertie Partnership Personnel Policies Manual states “for non-exempt staff, the number of hours worked from Saturday through Friday in a work week must not exceed forty hours.” The policy provides for employees to make arrangements with their supervisor to schedule workloads within any given week as to not exceed the forty-hour limitation. It appears that the Partnership failed to abide by its own personnel policies.
- We identified several instances where the Board or its representatives approved payments after the fact. A review of transactions for the period in which the former Executive Administrator was on maternity leave indicated that disbursements occurred throughout the time period; however, proper approval did not occur until January 2003. In addition, we noted in the June 2003 board minutes that retroactive approval was given for all previous purchases over \$2,000, an established threshold that required prior approval by the Board. The Bertie Partnership’s Accounting Policies and Procedures address proper disbursement procedures. The above actions compromise the integrity of those procedures and the Partnership’s established control systems.

Internal controls are the structure, policies, and procedures put in place to provide reasonable assurance that management meets its objectives and fulfills its responsibilities. Those responsibilities include the achievement of intended results through program activities and functions, the consistent use of resources for the Partnership’s mission, compliance with laws and regulations, and the accurate and timely reporting of information.

Recommendation: We recommend that the Board and management of the Bertie Partnership seek immediate assistance from its funding agency, The North Carolina Partnership for Children, Inc. (NCPC), to address these operational issues. Effective internal control processes benefit rather than encumber management, make sense within the Partnership’s unique operating environment, and are a responsibility of management and staff within the day-to-day operations of the Partnership. NCPC training may be necessary to further define the roles of the Board, management, and the staff of the Partnership. Policies and procedures communicate control objectives; however, they are of limited use unless fully implemented and followed.

Partnership’s Response: The Bertie County Partnership has been making great strides in reorganization since having met with NCPC officials in early 2003. The Bertie County Partnership Board of Directors has already sought assistance to correct these issues with board training. These matters have already been rectified and corrected. Policies and procedures that communicate control objectives have been fully implemented.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

A monitoring and oversight plan was adopted as noted in paragraph one. Additionally, a new executive director was hired who strictly complied with internal procedures.

3. AUTHORIZING AND PROCESSING OF TRANSACTIONS

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

- Approvals for bank reconciliations, journal entries, and other accounting transactions were not consistently documented. Evidence was not found to document the review of the payroll registers or general ledger postings performed by the outsourced processor.
- Processing procedures such as the cancellation of invoices paid and verification of mathematical accuracy were not documented. All journal entries could not be located and in one instance, the amounts recorded in the accounting records differed from the amounts approved for posting.
- Our review of disbursements identified a prepayment of \$6,158 for educational materials. The payment was made on June 24th; however, the shipping documentation identifies that delivery of the materials occurred subsequent to the fiscal year.

Proper authorization and processing of transactions provide for fiscal accountability and establish the necessary documentation standards for the operations of the Partnership.

Recommendation: We recommend that the Partnership review its current internal control processes and make appropriate changes to ensure that the authorization and processing of transactions is documented in accordance with established policy. The Smart Start Accountability Plan developed by The North Carolina Partnership for Children, Inc. (NCPC) states that local partnerships must develop and implement a Board-approved written policy that prohibits the payment of goods or services prior to the receipt of said goods and services. In addition, NCPC guidelines require that the disbursements be recorded in the proper accounting period. The Bertie Partnership should comply with these established guidelines and ensure that prepayment activities do not occur in the future.

Partnership's Response: The Bertie County Partnership strongly agrees with the recommendation and has partially resolved this issue. The Smart Start Fiscal Accountability Plan developed by The North Carolina Partnership for Children, Inc. for local partnerships has been approved and implemented by the Bertie County Partnership. Guidelines have been established to ensure that prepayments do not occur in the future. These policies and procedures have been implemented and address the authorization and processing requirement of financial accountability and the proper documentation of those processes

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

The executive committee and the monitoring and oversight plan further ensure the proper authorization and processing of transactions.

4. CONTRACT MANAGEMENT AND MONITORING

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

- The Partnership delegated an activity to a Direct Service Provider (DSP) without a written contract. In addition, formal contract amendments were not available to support contract changes or the approval by both parties of those changes.
- Financial Status Reports (FSRs), which support the Partnership's payment to contractors, were incomplete or not appropriately reviewed by the Partnership. Also, the required Board Chair approval for contract payments occurred subsequent to the check date for 23 of the 33 payments reviewed.
- The Partnership did not adequately follow the monitoring policies approved by the Board. We noted that the required Outcome Evaluation Plan was not submitted within the two week time period for any of the DSPs tested. Quarterly Outcome Evaluation Results reports were not available for one DSP for the last three quarters. Documentation was not available for fiscal site visits of several activities.

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 Bertie Partnership further refine and implement its contract management and monitoring policies and procedures. Those procedures should address the use of formal contract amendments, processing payments in accordance with accounting policies, and performing documented monitoring activities in accordance with established policies.

Partnership's Response: The overall contract management and monitoring system of Bertie County Partnership has improved and we are committed to our goal of providing quality services to Bertie County's children in a fiscally responsible manner. The Bertie County Partnership will continue to make improvements to enhance efficiency and effectiveness, as well as strengthen fiscal management and accountability. Substantial improvements have been made since March 2003 when The North Carolina Partnership for Children, Inc. completed their monitoring visit. The executive committee and the monitoring and oversight plan address these issues as well.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

5. PROGRAM MATCH REQUIREMENT

The Bertie Partnership failed to meet the mandated match requirement as specified in its contract with The North Carolina Partnership for Children, Inc. (NCPC). NCPC policy requires local partnerships to report and document a minimum of 10 percent of their total Smart Start allocation (administrative and service funding) for the fiscal year in cash and in-kind contributions. The 10 percent requirement was established at \$57,614 for the current fiscal year. The match amount allowed and verified through our testwork was \$33,872 or 59% of the minimum requirement.

Recommendation: The Bertie Partnership should take appropriate steps to ensure that the program match requirements are met and amounts reported meet the guidelines established by NCPC and the North Carolina General Statutes.

Partnership's Response: The Bertie County Partnership will take the appropriate steps to ensure that the program match requirements are met and amounts are reported that meet the guidelines established by NCPC and the *North Carolina General Statutes*. We are aware of the importance of the 10 percent requirement. Due to the failure to keep adequate board minutes as found in audit finding one, we were unable to locate minutes to demonstrate compliance with this requirement. Corrective actions are now in place to address this deficiency.

The Bertie County Partnership Board of Directors remains committed to providing quality services to the children of Bertie County. We have made substantial progress since the monitoring visit made by the NCPC in March 2003, which detailed numerous operational and managerial deficiencies. Prior to the State audit in March 2004, the Bertie County Partnership implemented corrective actions to address deficiencies resulting in the implementation of extensive changes that have significantly improved operational management.

Our efforts included obtaining intense direction, guidance and technical assistance from The North Carolina Partnership for Children, Inc. enhancing board operations with intensive training at board retreats, hiring qualified staff, and now having begun the Performance Improvement Plan. We will continue to work with The North Carolina Partnership for Children, Inc. in our efforts to provide quality services to children.

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June 23, 2004

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