

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
RAEFORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS
JEREMY HOLLINGSWORTH, CHAIRMAN

ADMINISTRATIVE OFFICER
JEAN ONTIVEROS-SQUIER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Hoke County Partnership for Children and Families

This report presents the results of our financial statement audit of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke 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 Hoke Partnership is one of these local partnerships. As such, the Hoke 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 Hoke Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

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

Finding

Internal Control

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

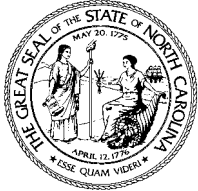
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Hoke County Partnership for Children and Families (Hoke 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 Hoke 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 Hoke County Partnership for Children and Families 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 January 23, 2004 on our consideration of the Hoke 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 Hoke County Partnership for Children and Families 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

January 23, 2004

Hoke County Partnership for Children and Families
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 \$36,944)	\$ 1,058,608	\$ 12,000	\$ 0	\$ 1,070,608
Private Contributions		882		882
Special Fund Raising Events			626	626
Sales Tax Refunds		801		801
Total Receipts	1,058,608	13,683	626	1,072,917
Expenditures:				
Programs:				
Child Care and Education Quality	293,295			293,295
Child Care and Education Affordability	430,199			430,199
Health and Safety	145,066			145,066
Family Support	26,624			26,624
Support:				
Management and General	105,796	11,885		117,681
Program Evaluation	22,800			22,800
Program Coordination	36,386	622		37,008
Other:				
Sales Tax Paid		750		750
Refund of Prior Year Grant		928		928
Total Expenditures	1,060,166	14,185		1,074,351
Excess of Receipts Over Expenditures	(1,558)	(502)	626	(1,434)
Net Assets at Beginning of Year	36,289	4,530	42	40,861
Net Assets at End of Year	\$ 34,731	\$ 4,028	\$ 668	\$ 39,427
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 18,555	\$ 10,514	\$ 668	\$ 29,737
Refunds Due From Contractors	16,176			16,176
	34,731	10,514	668	45,913
Less: Funds Held for Others		6,486		6,486
	\$ 34,731	\$ 4,028	\$ 668	\$ 39,427

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

*Hoke County Partnership for Children and Families
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	\$ 293,295			2,831				290,091	373
Child Care and Education Affordability	\$ 430,199	86,251		3,843	6,301	44,117		289,687	
Health and Safety	\$ 145,066							145,066	
Family Support	\$ 26,624							26,624	
	\$ 895,184	\$ 86,251	\$ 0	\$ 6,674	\$ 6,301	\$ 44,117	\$ 0	\$ 751,468	\$ 373
Support:									
Management and General	\$ 105,796	60,356	5,247	2,448	11,378	25,746	621		
Program Evaluation	\$ 22,800							22,800	
Program Coordination	\$ 36,386	32,875		539	1,557	1,415			
	\$ 164,982	\$ 93,231	\$ 5,247	\$ 2,987	\$ 12,935	\$ 27,161	\$ 621	\$ 22,800	\$ 0
Total Smart Start Fund Expenditures	\$1,060,166	\$ 179,482	\$ 5,247	\$ 9,661	\$ 19,236	\$ 71,278	\$ 621	\$ 774,268	\$ 373
Support:									
Management and General	\$ 11,885		11,775	35	75				
Program Coordination	\$ 622			622					
	\$ 12,507	\$ 0	\$ 11,775	\$ 657	\$ 75	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 750			750					
Refund of Prior Year Grant	\$ 928					928			
	\$ 1,678	\$ 0	\$ 0	\$ 750	\$ 0	\$ 928	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 14,185	\$ 0	\$ 11,775	\$ 1,407	\$ 75	\$ 928	\$ 0	\$ 0	\$ 0
The accompanying notes to the financial statements are an integral part of this statement.									

HOKE COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Hoke County Partnership for Children and Families (Hoke Partnership) is a legally separate nonprofit organization incorporated on October 17, 1994. The Hoke Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Hoke 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 Hoke 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 Hoke Partnership did not have any permanently restricted net assets at June 30, 2003.

C. Basis of Accounting - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash, cash on deposit with private bank accounts, and a savings 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.
- F. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. The Hoke Partnership acts as a fiscal agent for the Healthy Hoke Task Force.
- G. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 8.
- H. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Hoke 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 Hoke Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Hoke Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Hoke 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 Hoke 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 Hoke Partnership was awarded and has received \$1,095,552 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 \$34,720 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

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Hoke Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Hoke 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.
- B. Other Related Parties** - The Hoke Partnership is party to a contract with the County of Hoke (County) for a recreational vehicle that is used as a mobile resource center. A representative from the County is a board member of the Partnership. The amounts paid to the County include

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$35,616 for lease payments finalizing the purchase of the mobile resource center.

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, salary supplements, health/safety training for child care professionals, or curriculum enhancements.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes or part-day care programs.

Health and Safety - Used to account for service activities including speech and hearing screenings, comprehensive health services, or special needs – early intervention services/special education.

Family Support - Used to account for service activities including ongoing parenting education or literacy projects.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 32,461
2005	<u>34,020</u>
Total Minimum Lease Payments	<u>\$ 66,481</u>

Rental expense for all operating leases during the year was \$67,076.

NOTE 7 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Hoke Partnership’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$2,248. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Pre-Literacy ESL Class	\$ 17
Preschool Mobile Resource Center	<u>651</u>
	<u>\$ 668</u>

Hoke County Partnership for Children and Families
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
Cape Fear Valley Health System	18,744	(446)		
Child Care Connections *	266,277	(3,486)		
Hoke County Cooperative Extension *	25,975	(4,317)		
Hoke County Health Department *	89,000			
Hoke County Schools *	295,611	(5,823)		
Sandhills Community College *	7,070	(2,104)		
Sandhills Center for Mental Health, Developmental Disabilities and Substance Abuse Services *	37,768			
Sandhills Regional Library System *	27,300			
	\$ 767,745	\$ (16,176)	\$ 0	\$ 0
Individuals:				
Evaluation Services	22,699			
	\$ 22,699	\$ 0	\$ 0	\$ 0
	\$ 790,444	\$ (16,176)	\$ 0	\$ 0

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

***Hoke County Partnership for Children and Families
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Hoke County Department of Social Services	*	\$ 42,500
<p>* These organizations are represented on the Partnership's Board as described in Note 4A - Service Provider Contracts with Board Member Organizations.</p>		
<p>The information on this schedule provides a listing of service provider contracts entered into by either the North Carolina Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards.</p>		

Hoke County Partnership for Children and Families
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:				
US Department of Health and Human Service				
Pass-through from the North Carolina Department of Health and Human Services - Office of the Secretary				
NC Council on Developmental Disabilities				
Family Support Network Parent-to-Parent Program	93.630	N/A	\$ (928)	\$ 0
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 (Previous Years)		Various	(2,753)	(493)
Early Childhood Initiatives Program (Prior Year)		1-12-4-07-001	(34,191)	(162)
Early Childhood Initiatives Program (Current Year)	*	N/A	1,095,552	1,060,821
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
Total State Awards			1,070,608	1,072,166
Total Federal and State Awards			\$ 1,069,680	\$ 1,072,166

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

***Hoke County Partnership for Children and Families
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003***

Schedule 4

	Furniture and Noncomputer Equipment	\$	28,822
	Computer Equipment/Printers		26,255
	Total Property and Equipment	\$	55,077
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.		

Hoke County Partnership for Children and Families
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003

Schedule 5

Match Provided at the Partnership Level:

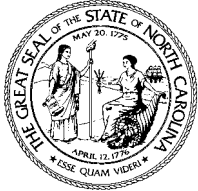
Cash	\$ 882
In-Kind Goods and Services	36,095
	<u>\$ 36,977</u>

Match Provided at the Contractor Level:

Cash	\$ 24,575
In-Kind Goods and Services	56,112
	<u>\$ 80,687</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

STATE OF NORTH CAROLINA
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2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Hoke County Partnership for Children and Families
Raeford, North Carolina

We have audited the financial statements of the Hoke County Partnership for Children and Families (Hoke Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 23, 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 Hoke 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 Hoke 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 Hoke Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the

**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)**

financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report.

Finding

Internal Control

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

This report is intended solely for the information and use of the management of the Partnership, The North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 23, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current and prior audits and describes conditions that represent significant deficiencies in internal control.

INTERNAL CONTROL

We identified deficiencies with the Hoke Partnership's financial accounting policies and procedures during the previous two fiscal years that contributed to processing errors in the receipting and disbursing functions, as well as the documentation of journal entries.

This finding is partially resolved. The Partnership adopted policies during the fiscal year and continued to customize the policies to correspond with the operations of the Partnership. However, the Partnership failed to consistently implement these policies as noted by the following deficiencies identified during our testwork:

- The cash receipts log was not reconciled to the bank statements for the months July 2002 through February 2003. Documentation of the authorizing, processing, and recording functions was not consistently noted. In addition, we identified the need for further segregation of the cash receipting duties, as the Executive Director was involved with both authorizing and processing tasks.
- Documentation to support the recalculation and cancellation processes for disbursements was not consistently found. In addition, no evidence was available to support the comparison of goods received to items purchased by someone not involved in the purchase process.
- An outsourced financial processor prepared journal entries on behalf of the Partnership. Documentation to support the justification and/or the approval for those entries was deficient.

Recommendation: We recommend that the Hoke Partnership, with the continued assistance from The North Carolina Partnership for Children, Inc., continue to refine and implement its financial accounting policies and procedures. Emphasis should be placed on the implementation of effective policies and procedures to address the authorization and processing requirements for financial accountability and the necessary documentation standards related to those processes.

Partnership's Response: This finding is partially resolved due to the adoption of customized policies, in February 2003, that correspond with the Hoke Partnership operations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- Reconciliation of the Cash Receipts Log by the Multi-Accounting and Contracting (MAC) Site Accountant began in March 2003 and has continued to date according to the accounting policy.
- The Partnership has been more diligent in consistently documenting the authorization, processing, and recording functions as well as segregating the cash receipting duties among Board Members.
- The Partnership will incorporate policy and procedures in the Accounts Payable section of the Accounting Policies and Procedures to address the receipt of goods and to support the recalculation of and cancellation processes.
- The Partnership Account Reclassification Form will be consistently and properly used by the MAC Site Accountant. Sufficient documentation will exist to support the justification and/or the approval for journal entries/reclassifications prior to submitting the form to the MAC Site Accountant.

The Hoke Partnership will continue to cooperate with The North Carolina Partnership for Children, Inc., in using their technical assistance for refining and implementing our financial accounting policies and procedures. Emphasis will be placed on the above mentioned areas.

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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March 30, 2004

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