



STATE OF NORTH CAROLINA

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

ELIZABETHTOWN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

ELIZABETHTOWN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

DR. WILLIAM BROWN, CHAIRMAN

ADMINISTRATIVE OFFICER

EVA HANSEN, 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.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Bladen County Partnership for Children, Inc. (Bladen 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 Bladen 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 Bladen 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 Bladen Partnership is one of these local partnerships. As such, the Bladen 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 Bladen 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. Contract Management and Monitoring
2. Authorizing and Processing of Transactions
3. Competitive Bidding
4. Control Environment
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.

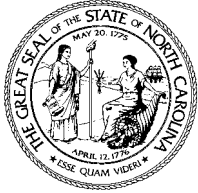
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	10
2 Schedule of State Level Service Provider Contracts.....	11
3 Schedule of State Awards – Modified Cash Basis	12
4 Schedule of Property and Equipment – Modified Cash Basis.....	13
5 Schedule of Qualifying Match (Non-GAAP).....	14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT	21



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.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Bladen County Partnership for Children, Inc. (Bladen 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 Bladen 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 Bladen 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 June 25, 2004 on our consideration of the Bladen 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 Bladen 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

June 25, 2004

Bladen 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$57,387)	\$ 337,923	\$ 12,000	\$ 349,923
Interest and Investment Earnings		141	141
Sales Tax Refunds		2,071	2,071
Total Receipts	337,923	14,212	352,135
Expenditures:			
Programs:			
Child Care and Education Quality	86,739	204	86,943
Health and Safety	33,969		33,969
Family Support	80,200		80,200
Support:			
Management and General	115,058	12,499	127,557
Program Evaluation	11,099		11,099
Program Coordination	50,215	21	50,236
Other:			
Sales Tax Paid		1,594	1,594
Total Expenditures	377,280	14,318	391,598
Excess of Receipts Over Expenditures	(39,357)	(106)	(39,463)
Net Assets at Beginning of Year	73,988	(3,625)	70,363
Net Assets at End of Year	\$ 34,631	\$ (3,731)	\$ 30,900
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 34,631	\$ (3,731)	\$ 30,900

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

Bladen 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	\$ 86,739	442			(240)			86,537	
Health and Safety	\$ 33,969							33,969	
Family Support	\$ 80,200	2,190	12,412		2,893	5,638	936	56,131	
	\$ 200,908	\$ 2,632	\$ 12,412	\$ 0	\$ 2,653	\$ 5,638	\$ 936	\$ 176,637	\$ 0
Support:									
Management and General	\$ 115,058	53,830	36,870	2,304	12,411	6,265	3,378		
Program Evaluation	\$ 11,099		11,099						
Program Coordination	\$ 50,215	31,188	803	3,540	7,674	4,109	2,901		
	\$ 176,372	\$ 85,018	\$ 48,772	\$ 5,844	\$ 20,085	\$ 10,374	\$ 6,279	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 377,280	\$ 87,650	\$ 61,184	\$ 5,844	\$ 22,738	\$ 16,012	\$ 7,215	\$ 176,637	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 204	\$ 0	\$ 0	\$ 0	\$ 204	\$ 0	\$ 0	\$ 0	\$ 0
Support:									
Management and General	\$ 12,499		12,028		31	440			
Program Coordination	\$ 21		21						
	\$ 12,520	\$ 0	\$ 12,049	\$ 0	\$ 31	\$ 440	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,594	\$ 0	\$ 0	\$ 1,594	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 14,318	\$ 0	\$ 12,049	\$ 1,594	\$ 235	\$ 440	\$ 0	\$ 0	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Bladen County Partnership for Children, Inc. (Bladen Partnership) is a legally separate nonprofit organization incorporated on August 21, 1997. The Bladen Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Bladen 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 Bladen 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 Bladen 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.

D. Cash and Cash Equivalents – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with private bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Use of Estimates - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Bladen 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 Bladen 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 Bladen Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Bladen 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 Bladen 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 Bladen Partnership was awarded and has received \$395,310 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 \$17,789 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Bladen Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Bladen 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. Management and Administrative Services** - The Partnership for Children of Cumberland County, Inc. provided management and administrative services to the Bladen Partnership for the period starting December 16, 2002 through June 30, 2003. The Chairman of the Bladen Partnership Board also served as a member of the Cumberland Partnership Board. Associated with these services, the following activities were recorded in the accompanying financial statement:

<u>Expenditures</u>	<u>Amount</u>
Management and Evaluation Services	\$ 31,605
Payroll Reimbursements	22,196
Multi-County Accounting and Contracting Grant	12,000
Office Furniture and Other Expenses	2,586
Other Contracted Services	<u>19,046</u>
	<u>\$ 87,433</u>

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, professional development, special needs – support for child care professionals, and health insurance benefits for child care providers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Health and Safety - Used to account for service activities associated with child care health consultants.

Family Support - Used to account for service activities including family resource centers, ongoing parenting education, and community outreach information and resources.

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.

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), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTE 6 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$14,553.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan- All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Bladen Partnership, as a condition of employment, is provided

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

an individual annuity through an outside insurance company. The Bladen Partnership contributed 7% of gross wages from the period of July 1, 2002 to

December 31, 2002. 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.

For the year ended June 30, 2003, the Bladen Partnership contributed \$2,350 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

Bladen 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
Bladen Community College	28,685			
Bladen County Health Department	33,970			
Bladen Family Support Initiative	51,860			
Creative Child Care Solutions, Inc.	1,858			
Cumberland County Partnership for Children, Inc.	3,647			
Fayetteville Woman's Care	7,444			
Nancy Utterback	2,575			
R. C. Gilbert and Associates	27,000			
	\$ 157,039	\$ 0	\$ 0	\$ 0
<i>Individuals:</i>				
Health Insurance Reimbursement Recipients	19,598			
	\$ 19,598	\$ 0	\$ 0	\$ 0
	\$ 176,637	\$ 0	\$ 0	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Bladen 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
Bladen County Department of Social Services	*	201,800
Child Care Services Association - WAGES Program		34,022
		\$ 235,822

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

The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.

Bladen County Partnership for Children, Inc.
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Various)	Various	\$ (404)	\$ (100)
Early Childhood Initiatives Program (Prior Year)	#1-12-5-05-001	(56,983)	(141)
Early Childhood Initiatives Program (Current Year)	*	395,310	377,521
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 349,923	\$ 389,280
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

Bladen 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	\$	8,322
Computer Equipment/Printers		11,203
Leasehold Improvements		565
Total Property and Equipment	\$	20,090

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.

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

Schedule 5

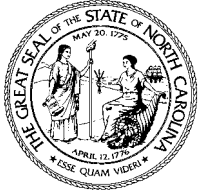
Match Provided at the Partnership Level:

Cash	\$	0
In-Kind Goods and Services		10,954
	\$	<u>10,954</u>

Match Provided at the Contractor Level:

Cash	\$	37,009
In-Kind Goods and Services		2,420
	\$	<u>39,429</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.



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.ncauditor.net>

**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
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

We have audited the financial statements of the Bladen County Partnership for Children, Inc. (Bladen Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 25, 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 Bladen 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Finding

3. Competitive Bidding
5. Program Match Requirement

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bladen 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

**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)**

control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Bladen 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. Contract Management and Monitoring
2. Authorizing and Processing Transactions
4. Control Environment

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

June 25, 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. Finding numbers 1 through 4 were reported in the prior year.

1. CONTRACT MANAGEMENT AND MONITORING

We have reported in prior years that weaknesses existed in the Bladen Partnership's contract management and monitoring activities. Deficiencies identified included the processing of payments without formal contract documents, insufficient evidence to support the eligibility of quality enhancement activities, and inadequate documentation to support the occurrence of fiscal and programmatic monitoring.

This finding is partially resolved. Improvement was noted in the documentation of the Partnership's monitoring activities; however, we continued to note deficiencies in the following areas:

- Payments were made to a Direct Service Provider (DSP) in excess of the established contract amount, as an amendment was not executed in accordance with the terms of the contract.
- Documentation was not available to support a final accounting of payments made to a DSP. A Financial Status Report detailing reimbursable expenditures is required by the contract. The absence of that documentation results in questioned costs totaling \$5,105.
- During the performance of a monitoring visit, the Partnership identified that documentation was not available to support the eligibility of quality enhancement grant payments totaling \$4,588. We agree with this assessment and these disbursements are considered to be questioned costs.

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 Bladen Partnership further refine and implement its contract management and monitoring policies and procedures. Those procedures should address the use of formal contract amendments, obtaining documentation necessary to support payments to providers, and the verification of applicable eligibility requirements. The Bladen Partnership should consult with The North Carolina Partnership for Children, Inc. in the resolution of identified questioned costs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Partnership's Response: The Financial Status Report identified above has been received, accounting for the questioned costs of \$5,105. This report has been forwarded to The North Carolina Partnership for Children, Inc. (NCPC). The Direct Service Provider is in the process of retrieving documentation to resolve the \$2,929 identified above as questioned costs.

Policies and procedures for contract management have been revised and approved by the Bladen Partnership and the NCPC and have been implemented.

2. AUTHORIZING AND PROCESSING TRANSACTIONS

During the previous audit, we identified procedural weaknesses with the Bladen Partnership's authorizing and processing of transactions. Weaknesses included:

- Inconsistent documentation of the approval process for accounting transactions
- Inadequate or missing documentation to support accounting transactions
- Deficiencies in the processing of transactions including the creation of internally generated invoices
- Inadequate cash management procedures relating to the timely deposit and payment of funds
- A decentralized and inconsistently maintained recordkeeping system

This finding is partially resolved. Improvements were noted with the processing functions for accounting transactions and cash management procedures. However, we continued to identify deficiencies requiring further attention by the Partnership. The authorization functions need to be enhanced to provide evidence that the approval occurs prior to the processing of disbursements, journal entries, and other accounting transactions. Enhancements are needed in documenting the processing for receipt transactions to include verification of wire transfers and the agreement of transactions to the monthly bank statement. In addition, we noted one disbursement to a vendor in November 2002 where no documentation was available to support the payment. As such, questioned costs of \$1,376 are identified.

Financial policies and procedures address the authorization and processing requirements for financial accountability and the necessary documentation standards related to those processes.

Recommendation: We recommend that the Bladen Partnership continue with the development and implementation of effective policies and procedures to provide direction to the staff for fiscal accountability.

Partnership's Response: The Partnership has operated under these procedures for several years without issue. However, understanding the usefulness of continuous

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

quality improvement, the Partnership will take these new recommendations under advisement in consultation with the NCPC.

The Partnership has revised and implemented fiscal policies and procedures that have been approved by NCPC and the Bladen Partnership Board.

3. COMPETITIVE BIDDING

We reported in the prior year that sufficient documentation was not available to support the Bladen Partnership's compliance with the competitive bidding requirements.

This finding is unresolved. We continued to identify issues with the Partnership's documentation to support compliance with the competitive bidding requirements.

Recommendation: We recommend that the Bladen Partnership maintain adequate documentation to support compliance with the legislatively mandated bid requirements. This would include evidence to support obtaining verbal and written quotes as well as documenting multi-year and sole source bidding activities.

Partnership's Response: The Bladen Partnership agrees with the recommendation, is committed to following the general statutes for competitive bidding, and will maintain appropriate documentation to substantiate compliance. The Partnership did follow the legislative bid requirements in the second half of FY03.

4. CONTROL ENVIRONMENT

The control environment sets the tone of an organization, influencing the control consciousness of its personnel. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control. During the previous year, we identified concerns with documentation of the Partnership Board and committee actions, the inadequacy of operational policies, and appropriate oversight provided through Board representation.

This finding is partially resolved. We noted improvement in the documentation of Board actions through proper Board and committee minutes as well as the parliamentary procedures used by the Partnership. However, we continued to identify deficiencies with the Partnership's operational policies and procedures. Written procedures were not in place for the processing of material transactions. In addition, we continued to identify authorizing and processing deficiencies resulting from the lack of adequate policies and procedures. As to the recommendation for improved and effective managerial oversight, the operations of the Bladen Partnership were assumed by the Cumberland County Partnership for Children in an administrative capacity. The Board of Directors of the Cumberland Partnership directed the operations of the Bladen Partnership with the board members of the Bladen Partnership serving in an advisory capacity.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: We recommend that the Bladen Partnership continue its efforts in addressing the above issues. As part of the Performance Improvement Plan administered by The North Carolina Partnership for Children, Inc., comprehensive policies and procedures are being developed to ensure the establishment of proper internal control systems. Those policies should be implemented to provide direction and guidance for the operations of the Partnership. In addition, the Bladen Partnership Board has received technical assistance and training to make it more capable of providing the oversight and management necessary to bring accountability to the Bladen Partnership's operations.

Partnership's Response: The Bladen Partnership is committed to addressing the identified issues, and as of June 30, 2004, had successfully completed the first two phases of its Performance Improvement Plan required by NCPC. The Partnership has revised and implemented policies and procedures that have been approved by NCPC and the Bladen Partnership Board. The Bladen Partnership Board assumed responsibility and authority for the oversight of the Bladen Partnership for Children effective July 1, 2004.

5. PROGRAM MATCH REQUIREMENT

The Bladen 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 \$58,265 for the current fiscal year. The match amount allowed was \$50,383 or 86% of the minimum requirement.

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

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	The North Carolina Partnership for Children, Inc.
	Executive Director
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Daniel G. Clodfelter	Representative Martha B. Alexander
Senator Walter H. Dalton	Representative Rex L. Baker
Senator Charlie S. Dannelly	Representative Bobby H. Barbee, Sr.
Senator James Forrester	Representative Harold J. Brubaker
Senator Linda Garrou	Representative Debbie A. Clary
Senator Fletcher L. Hartsell, Jr.	Representative E. Nelson Cole
Senator David W. Hoyle	Representative James W. Crawford, Jr.
Senator Ellie Kinnaird	Representative William T. Culpepper, III
Senator Jeanne H. Lucas	Representative W. Pete Cunningham
Senator Anthony E. Rand	Representative W. Robert Grady
Senator Eric M. Reeves	Representative Joe Hackney
Senator Robert A. Rucho	Representative Julia C. Howard
Senator R. C. Soles, Jr.	Representative Joe L. Kiser
Senator Scott Thomas	Representative Edd Nye
	Representative William C. Owens, Jr.
	Representative Wilma M. Sherrill
	Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
----------------------	------------------------------------

August 30, 2004

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647