



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN

TYNER, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN
TYNER, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

LANDON MASON, BOARD CHAIR

ADMINISTRATIVE OFFICER

HENRY L. FELTON, SR., EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Chowan/Gates/Perquimans Partnership for Children

This report presents the results of our financial statement audit of the Chowan/Gates/Perquimans Partnership for Children (CGP 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 CGP 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 CGP 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 CGP Partnership is one of these local partnerships. As such, the CGP 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 CGP 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 or noncompliance with laws, regulations, contracts, or grants.

Finding

Competitive Bidding

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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chowan/Gates/Perquimans Partnership for Children
Tyner, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Chowan/Gates/Perquimans Partnership for Children (CGP 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 CGP 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 Chowan/Gates/Perquimans Partnership for Children as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2004 on our consideration of the CGP 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 Chowan/Gates/Perquimans Partnership for Children 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 24, 2004

Chowan/Gates/Perquimans Partnership for Children
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 \$39,021)	\$ 330,978	\$ 33,686	\$ 0	\$ 364,664
Private Contributions		14,206	9,154	23,360
Special Fund Raising Events		447		447
Interest and Investment Earnings		114		114
Sales Tax Refunds		4,882		4,882
Total Receipts	330,978	53,335	9,154	393,467
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		995	(995)	
	330,978	54,330	8,159	393,467
Expenditures:				
Programs:				
Child Care and Education Quality	40,255			40,255
Child Care and Education Affordability	30,000			30,000
Health and Safety	16,624			16,624
Family Support	81,059	9,702		90,761
Support:				
Management and General	132,780	36,382		169,162
Program Evaluation	37,510			37,510
Other:				
Sales Tax Paid		1,332		1,332
Refund of Prior Year Grant		818		818
Total Expenditures	338,228	48,234		386,462
Excess of Receipts Over Expenditures	(7,250)	6,096	8,159	7,005
Net Assets at Beginning of Year	35,099	(1,634)	2,076	35,541
Net Assets at End of Year	\$ 27,849	\$ 4,462	\$ 10,235	\$ 42,546
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 27,439	\$ 4,462	\$ 10,094	\$ 41,995
Refunds Due From Contractors	410		141	551
	\$ 27,849	\$ 4,462	\$ 10,235	\$ 42,546

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

***Chowan/Gates/Perquimans Partnership for Children
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003***

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 40,255	26,797	8	6,463	6,287	700			
Child Care and Education Affordability	\$ 30,000							30,000	
Health and Safety	\$ 16,624							16,624	
Family Support	\$ 81,059	39,390	38	8,063	10,526			23,042	
	\$ 167,938	\$ 66,187	\$ 46	\$ 14,526	\$ 16,813	\$ 700	\$ 0	\$ 69,666	\$ 0
Support:									
Management and General	\$ 132,780	93,188	11,489	4,367	9,731	14,005			
Program Evaluation	\$ 37,510	36,200		482	828				
	\$ 170,290	\$ 129,388	\$ 11,489	\$ 4,849	\$ 10,559	\$ 14,005	\$ 0	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 338,228	\$ 195,575	\$ 11,535	\$ 19,375	\$ 27,372	\$ 14,705	\$ 0	\$ 69,666	\$ 0
Other Funds:									
Programs:									
Family Support	\$ 9,702	\$ 0	\$ 0	\$ 2,516	\$ 0	\$ 0	\$ 0	\$ 7,186	\$ 0
Support:									
Management and General	\$ 36,382	\$ 19,809	\$ 14,000	\$ 581	\$ 1,707	\$ 25	\$ 260	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,332			1,332					
Refund of Prior Year Grant	\$ 818					818			
	\$ 2,150	\$ 0	\$ 0	\$ 1,332	\$ 0	\$ 818	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 48,234	\$ 19,809	\$ 14,000	\$ 4,429	\$ 1,707	\$ 843	\$ 260	\$ 7,186	\$ 0

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

CHOWAN/GATES/PERQUIMANS PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Chowan/Gates/Perquimans Partnership for Children (CGP Partnership) is a legally separate nonprofit organization incorporated on July 7, 1998. The CGP Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The CGP 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 CGP 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 CGP 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 cash on deposit with a private bank 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. 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 CGP 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 CGP 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 CGP Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The CGP 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State could have an adverse effect on the operations of the CGP Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the CGP 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 CGP 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 CGP Partnership was awarded and has received \$367,685 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 \$27,819 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 CGP Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the CGP Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities associated with child care resource and referral.

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

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

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose for salaries and benefits were allocated based on employee time reports.

NOTE 6 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$9,374.

NOTE 7 - PENSION PLAN

Retirement Plans - The CGP Partnership has a SIMPLE - IRA Plan covering all employees who are reasonably expected to receive at least \$5,000 in compensation for the calendar year. Each employee of the CGP Partnership

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. For the year ended June 30, 2003, the CGP Partnership matched up to 3% of gross wages when the employee invested up to 3%. The CGP 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 CGP Partnership contributed \$3,338 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the CGP 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 \$2,825. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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
Expansion of Chowan Literacy Program	\$ 7,814
Business Skills for Child Care Providers	582
Inclusion Forum	301
Car Seats	99
Family Support Initiatives	175
Health Care Support Initiatives	260
Parents as Teachers	139
Safety Programs	865
	<u>\$ 10,235</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
Laptops for Learners	\$ 520
Family Support Initiatives	75
Health Care Support Initiatives	400
	<u>\$ 995</u>

***Chowan/Gates/Perquimans Partnership for Children
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Albemarle Regional Health Services *	16,624			
Gates County Inter Regional Transit System	30,000			
Perquimans County Library *	11,122	(410)		
Shepard-Pruden Memorial Library	12,330		7,327	(141)
	\$ 70,076	\$ (410)	\$ 7,327	\$ (141)

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

***Chowan/Gates/Perquimans Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	32,300
Chowan/Gates/Perquimans Counties Departments of Social Services	241,808
	\$ 274,108
<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>	

***Chowan/Gates/Perquimans Partnership for Children
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 (Prior Year)	1-12-5-08-001	\$ (36,707)	\$ (1,638)
Early Childhood Initiatives Program (Current Year)	* N/A	367,685	339,866
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(2,314)	
Multi-County Accounting and Contracting Grant (Current Year)	* N/A	36,000	34,156
Total State Awards		\$ 364,664	\$ 372,384
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

Chowan/Gates/Perquimans Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 4

Furniture and Noncomputer Equipment	\$	19,468
Computer Equipment/Printers		37,505
Total Property and Equipment	\$	56,973

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.

***Chowan/Gates/Perquimans Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 19,682
In-Kind Goods and Services	25,293
	\$ 44,975

Match Provided at the Contractor Level:

Cash	\$ 28,999
In-Kind Goods and Services	3,750
	\$ 32,749

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
Chowan/Gates/Perquimans Partnership for Children
Tyner, North Carolina

We have audited the financial statements of the Chowan/Gates/Perquimans Partnership for Children (CGP Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 24, 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 CGP 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

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CGP 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition

**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)**

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Partnership, The North Carolina Partnership for Children, 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 24, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

Recommendation: We recommend that the Partnership maintain 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 Chowan/Gates/Perquimans Partnership for Children agrees with the recommendation and will place a stronger emphasis on compliance with the competitive bidding process and adhere to the documentation requirements and guidelines established by The North Carolina Partnership for Children, Inc. and the *North Carolina General Statutes*.

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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.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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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
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Senator Linda Garrou	Representative Debbie A. Clary
Senator Fletcher L. Hartsell, Jr.	Representative E. Nelson Cole
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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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August 25, 2004

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