



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

**PARTNERSHIP FOR CHILDREN OF
LINCOLN/GASTON COUNTIES, INC.**

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

RHONDA SIGMON, BOARD CHAIRPERSON

ADMINISTRATIVE OFFICER

SHERRY BROWNING, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Partnership for Children of Lincoln/Gaston Counties, Inc.

This report presents the results of our financial statement audit of the Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership is one of these local partnerships. As such, the Lincoln/Gaston 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 Lincoln/Gaston 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.

Finding

1. Contract Management and Monitoring
2. Policies and Procedures
3. Questioned Cost – Journey to the Stars Activity

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

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004 on our consideration of the Lincoln/Gaston 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 Partnership for Children of Lincoln/Gaston Counties, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in Schedules 1, 3, 4, and 5 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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



Ralph Campbell, Jr.
State Auditor

March 26, 2004

Partnership for Children of Lincoln/Gaston Counties, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2003

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$11,476)	\$ 2,710,677	\$ 121,466	\$ 0	\$ 2,832,143
Federal Awards		42,556		42,556
Private Contributions		29,334		29,334
Interest and Investment Earnings		2,674		2,674
Sales Tax Refunds		19,413		19,413
Other Receipts		170		170
Total Receipts	2,710,677	215,613		2,926,290
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		842	(842)	
	2,710,677	216,455	(842)	2,926,290
Expenditures:				
Programs:				
Child Care and Education Quality	1,998,695	48,276		2,046,971
Health and Safety	49,322			49,322
Family Support	157,183	25,842		183,025
More at Four		97,548		97,548
Support:				
Management and General	358,407	19,871		378,278
Program Coordination	116,395			116,395
Other:				
Sales Tax Paid		10,004		10,004
Total Expenditures	2,680,002	201,541		2,881,543
Excess of Receipts Over Expenditures	30,675	14,914	(842)	44,747
Net Assets at Beginning of Year	10,221	(12,548)	10,805	8,478
Net Assets at End of Year	\$ 40,896	\$ 2,366	\$ 9,963	\$ 53,225
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 32,124	\$ 2,116	\$ 9,963	\$ 44,203
Refunds Due From Contractors	8,772	250		9,022
	\$ 40,896	\$ 2,366	\$ 9,963	\$ 53,225

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

Partnership for Children of Lincoln/Gaston Counties, 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	\$ 1,998,695	40,408	221,814	21,904	4,817	14,905	171	1,694,676	
Health and Safety	\$ 49,322							49,322	
Family Support	\$ 157,183							157,183	
	\$ 2,205,200	\$ 40,408	\$ 221,814	\$ 21,904	\$ 4,817	\$ 14,905	\$ 171	\$ 1,901,181	\$ 0
Support:									
Management and General	\$ 358,407	288,364	5,888	6,935	35,228	14,755	7,237		
Program Coordination	\$ 116,395	88,488	1,642	3,620	12,907	9,122	616		
	\$ 474,802	\$ 376,852	\$ 7,530	\$ 10,555	\$ 48,135	\$ 23,877	\$ 7,853	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 2,680,002	\$ 417,260	\$ 229,344	\$ 32,459	\$ 52,952	\$ 38,782	\$ 8,024	\$ 1,901,181	\$ 0
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 48,276	38,063		887	2,713	1,260	86	5,267	
Family Support	\$ 25,842							25,842	
More at Four	\$ 97,548							97,548	
	\$ 171,666	\$ 38,063	\$ 0	\$ 887	\$ 2,713	\$ 1,260	\$ 86	\$ 128,657	\$ 0
Support:									
Management and General	\$ 19,871	\$ 0	\$ 15,665	\$ 1,101	\$ 1,418	\$ 1,627	\$ 60	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 10,004	\$ 0	\$ 0	\$ 10,004	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 201,541	\$ 38,063	\$ 15,665	\$ 11,992	\$ 4,131	\$ 2,887	\$ 146	\$ 128,657	\$ 0

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

PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) is a legally separate nonprofit organization incorporated on May 3, 1996. The Lincoln/Gaston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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 and cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership to a concentration of credit risk. At June 30, 2003, the Lincoln/Gaston Partnership's bank deposits in excess of the FDIC insured limit was \$238,610.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership was awarded and has received \$2,722,147 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 \$40,946 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

More at Four – The Lincoln/Gaston Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Lincoln/Gaston Partnership was awarded \$178,200 and has received \$97,472 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, quality enhancement grants for maintenance, child care resource and referral, professional development, salary supplements, provider training, or special needs – support for child care professionals.

Health and Safety - Used to account for service activities including oral health services, childcare health consultants, or health needs and resources assessment.

Family Support - Used to account for service activities including family resource centers, parenting skills training, or teen parent/child programs.

More at Four – Used to account for development and implementation of More at Four prekindergarten programs for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

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

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:

Salaries and Benefits - Allocated based on employee time reports.

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

NOTE 6 - LEASE OBLIGATIONS

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	\$ 5,137
2005	5,137
2006	5,137
2007	4,372
2008	<u>2,401</u>
Total Minimum Lease Payments	<u>\$ 22,184</u>

Rental expense for all operating leases during the year was \$36,797.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan - The Lincoln/Gaston Partnership has an IRC Section 401(k) plan (Plan). All costs of administering the Plan are the responsibility of the Plan participants. Employees may make voluntary contributions to the Plan. The Partnership makes a matching contribution up to 2% of the employees' contribution. In addition, the Lincoln/Gaston Partnership makes an employer base contribution of 4% of eligible employees' gross salary. The employer-based contribution occurs regardless to the amount of elective deferrals made by the employees. For the year ended June 30, 2003, the Lincoln/Gaston Partnership contributed \$19,611.

NOTE 8 - RISK MANAGEMENT

The Lincoln/Gaston Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

injuries to employees; employees' health and life; and natural disasters. The Lincoln/Gaston 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 Lincoln/Gaston Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

- A. Compensated Absences** – As a result of the Lincoln/Gaston 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 \$8,807. No funds or reservation of net assets has been made for this commitment.
- B. Commitments on Contracts** - The Lincoln/Gaston Partnership had outstanding commitments of \$39,816 on cost-reimbursement contracts and service agreements that had not been paid at June 30, 2003.
- C. Other Contingencies Resulting from Uncertainties** - The Lincoln/Gaston Partnership's failure to properly calculate its monthly disbursements for the Journey to the Stars activity resulted in overpayments and questioned costs of \$31,635 that could be identified through our testwork and an undeterminable amount for those payments not tested. See Audit Finding number 3 for details. Because of uncertainty, the amount of contingency that may result from this noncompliance and the disclosure of its effect on future funding from the State is not determinable

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:

<u>Purpose</u>	<u>Amount</u>
Welcome Baby Project	\$ 9,500
Lincoln and Gaston Counties Child Care	413
Child Care Quality Assessment Pilot Project	<u>50</u>
	<u>\$ 9,963</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:

<u>Purpose</u>	<u>Amount</u>
Sunrise Community Family Resource Center	<u>\$ 842</u>

Partnership for Children of Lincoln/Gaston Counties, 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
A Loving Change	22,560			
A Place to Grow	* 5,550			
Bessemer City First Baptist Child Care Center Ministries	17,890			
Carolina Kid's Club	* 48,690			
Cline Learning Center	66,630			
Cline Learning Center of Dallas	28,230			
Community Empowerment Center	39,836	(426)		
Community in Schools	* 14,440	(222)	25,842	
Developing Together	87,040	(7)		
Expressions in Learning	* 28,210			
First Baptist Children's Ministry	32,050			
First Baptist Day Care Center	33,240			
First Presbyterian Child Development Center of Stanley, Inc.	18,480			
First Presbyterian Day School	37,740			
Friendship Baptist Church Child Development Center	44,560			
Gaston College	7,434			
Gaston College Child Care	39,100			
Gaston Comprehensive Day Care	* 17,120			
Gaston County Cooperative Extension	* 40,755	(1,932)		
Gaston County Health Department	* 24,850	(5,085)		
Gaston Family Health Services, Inc.	10,000			
Great Beginnings Child Development Center #1	23,810			
Jump Start for Kids, LLC	25,350			
Kenlin Academy Preschool	27,515			
Kids Unlimited Preschool, Inc.	15,360			
Kinder Care Learning Center	58,891			
Learning Land Children's Center	28,350			
Lincoln County DSS	* 64,878	(147)		
Lincoln County Health Department	* 20,510	(953)		
Lincoln County Schools	*		52,349	
Mini Academy	19,685			

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 1

Page 2

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Mini Academy at Denver	34,915		26,650	
Ms. Em's Child Care Center *	54,750		18,549	
PJ's Child Care and Learning Center	52,060			
The Kidsplace, Inc.	36,330			
The Learning Express	49,910			
Tiny Tot Child Development Center	48,415			
Toddler Tech University	27,950			
Various Day Cares - Journey to the Stars	170,539			
Various Day Cares - Quality Enhancement Phase 1	65,000		5,267	
Various Day Cares - Bonuses (QE Phase II)	26,050		250	(250)
Various Day Cares - 3, 4, or 5 Star Signs	3,040			
Various Day Cares - Brigance Study	4,075			
Wanda's Little Treasures *	6,000			
	\$ 1,527,788	\$ (8,772)	\$ 128,907	\$ (250)
Individuals:				
Various Individuals - Salary Supplements	274,840			
Various Individuals - IPDP	107,325			
	\$ 382,165	\$ 0	\$ 0	\$ 0
	\$ 1,909,953	\$ (8,772)	\$ 128,907	\$ (250)

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

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003

Schedule 2

Organization Name		DHHS Contracts
Lincoln/Gaston Departments of Social Services	*	\$ 1,372,233
* 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.		

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block Grant	93.575	N/A	\$ 42,556	\$ 42,305
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)		Various	(11,470)	(1,249)
Early Childhood Initiatives Program (Current Year)	*	N/A	2,722,147	2,681,251
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(6)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	24,000	17,376
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program		2090003321	97,472	97,472
Total State Awards			<u>2,832,143</u>	<u>2,794,850</u>
Total Federal and State Awards			<u>\$ 2,874,699</u>	<u>\$ 2,837,155</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

Partnership for Children of Lincoln/Gaston Counties, Inc.			
Schedule of Property and Equipment - Modified Cash Basis			
For the Year Ended June 30, 2003			<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	23,573
	Computer Equipment/Printers		29,625
	Total Property and Equipment	\$	53,198
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.		

Partnership for Children of Lincoln/Gaston Counties, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003

Schedule 5

Match Provided at the Partnership Level:

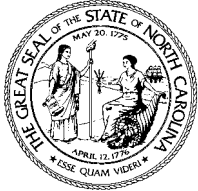
Cash	\$ 59,126
In-Kind Goods and Services	56,408
	<u>\$ 115,534</u>

Match Provided at the Contractor Level:

Cash	\$ 547,516
In-Kind Goods and Services	28,472
	<u>\$ 575,988</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Partnership for Children of Lincoln/Gaston Counties, Inc.
Dallas, North Carolina

We have audited the financial statements of the Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 26, 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Lincoln/Gaston Partnership's ability to record, process, summarize and report financial data consistent with the assertions of

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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. Policies and Procedures
3. Questioned Cost – Journey to the Stars Activity

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

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



Ralph Campbell, Jr.
State Auditor

March 26, 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. All three findings were reported in the prior year.

1. CONTRACT MANAGEMENT AND MONITORING

During the prior year audit, we identified weaknesses in the Lincoln/Gaston Partnership's contract management and monitoring activities. Issues previously noted included:

- The Partnership did not have approved contract management and monitoring procedures for the fiscal year.
- Payments were made to direct service providers before contracts were signed and payments were not processed in accordance with grant terms.
- Funds were not allocated in accordance with established funding criteria.
- Documentation to support eligibility of payments was insufficient, unavailable, or obtained after payments were made by the Partnership.

This finding is partially resolved. The Partnership has worked with its oversight agency, The North Carolina Partnership for Children, Inc., to develop, approve, and implement contract management and monitoring procedures during the current fiscal year; however, these policies appear to only address contracting with Direct Service Providers and fails to address its many in-house contracting activities. We also continued to note grant programs where the allocation of funds was not in accordance with established funding criteria and the documentation to support the eligibility of payments requires further enhancement.

Recommendation: We recommend that the Lincoln/Gaston Partnership enhance its contract management and monitoring policies and procedures to address all contracting activities. Grant activities and payments should be in accordance with established program criteria and deviations should be documented. In addition, documentation should be maintained to support verification of recipient eligibility and programmatic results.

Partnership's Response: The Partnership for Children of Lincoln and Gaston Counties has worked to improve policies, procedures and documentation since the audit visit in May 2003 for Fiscal Year 2001-02. In collaboration with NCPC, the local Partnership has written detailed procedures for every in-house contract and verified documentation to support the eligibility of all payments in Fiscal Year 2003-04.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. POLICIES AND PROCEDURES

We reported in the prior year that the Lincoln/Gaston Partnership's financial accounting policies and procedures did not sufficiently address the organization's needs. Inadequacies of the policies and procedures contributed to deficiencies in the authorizing and processing of transactions for receipt and disbursement transactions.

This finding is partially resolved. We noted that the Partnership had begun to address many of the issues identified in the previous audit; however, we continued to see payments for services prior to contracts being signed and inconsistent documentation for the journal entry process. In addition, our review of the personnel policies identified several areas requiring enhancement.

Written policies and procedures provide the direction to ensure accounting data is accurate and reliable, assets are safeguarded, and that operational efficiencies and adherence to managerial policies are promoted and documented.

Recommendation: We recommend that the Lincoln/Gaston Partnership continue to work with The North Carolina Partnership for Children, Inc. in updating and implementing effective accounting policies and procedures.

Partnership's Response: The Partnership for Children of Lincoln and Gaston Counties has worked to improve policies, procedures and documentation since the audit visit in May 2003 for Fiscal Year 2001-02. We have established methods to assure that payments for services are not made prior to contracts being signed which includes not requesting checks prior to contracts being signed. We have improved the documentation of journal entries and will follow your recommendation to give written approval for all journal entries made by the MAC site. The management of personnel has been changed to require the approval of the Executive Director's time sheet by the Chair and detailed travel location pre-approval for staff by the Executive Director. Although there have been no abuses of time or travel by staff, these measures will provide safeguards. Per your recommendation, there will be Board Committee oversight of the approved practice of granting employees an extra week of annual leave at hire when they have five years of relevant experience.

3. QUESTIONED COST - JOURNEY TO THE STARS ACTIVITY

We reported in the prior year that the Lincoln/Gaston Partnership failed to follow its payment criteria for its Journey to the Stars activity. The failure to properly calculate its monthly disbursements to daycare providers resulted in overpayments and questioned costs.

This finding is unresolved. The Journey to the Stars program continued during the current fiscal year and was funded at \$1,058,279. Payment criteria stated that participating daycares would be funded based upon enrollment numbers of subsidized and non-subsidized children. The first monthly payments were to be based upon an

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

average enrollment from the previous three months and that all subsequent payments were to be based upon actual enrollment figures. Monthly attendance forms were to be submitted to substantiate attendance of children.

We determined that monthly attendance forms were not consistently submitted as per the criteria and payments were made upon estimates or the average of the initial payment. Actual enrollment documentation to substantiate the payments for the year was limited. The Partnership has changed its documentation processes; however, that change did not occur until subsequent to our fiscal year. We performed recalculations from the limited documentation available and determined that overpayments continued. Our testwork involved 4 centers with total payments of \$175,990. We noted overpayments in 3 of the 4 centers totaling \$31,635. As our testwork was not statistically performed, we are unable to project our test results to the total amount of payments. As such, the total amount of overpayments could not be determined. Our known questioned costs are \$31,635.

Recommendation: We recommend that the Lincoln/Gaston Partnership continue to place appropriate emphasis on the refinement of its grant procedures. Payments should be made in accordance with established criteria and adequate documentation should be obtained to support payments. In addition, the Partnership should consult with The North Carolina Partnership for Children, Inc. to resolve the identified questioned costs and the issue of any potential overpayments that may have occurred in the untested centers.

Partnership's Response: The Partnership for Children of Lincoln and Gaston Counties changed payment criteria following the audit visits in May 2003 but could not apply recommendations to the Fiscal Year July 2002 through June 2003 due to the lateness of the visit. The local Partnership now follows the recommended practice.

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.

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Ms. Karen Ponder	Executive Director
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August 4, 2004

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