



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.

MARSHALL, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
MADISON COUNTY PARTNERSHIP FOR CHILDREN
AND FAMILIES, INC.**

MARSHALL, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

JOHN HOUGH, CHAIRMAN

ADMINISTRATIVE OFFICER

NANCY ALENIER, 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, Madison County Partnership for Children and Families, Inc.

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

Internal Control Procedures

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
Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Madison County Partnership for Children and Families, Inc. (Madison 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 Madison 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 Madison County Partnership for Children and Families, 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 10, 2004 on our consideration of the Madison 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 Madison County Partnership for Children and Families, 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 10, 2004

Madison County Partnership for Children and Families, 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 \$27,239)	\$ 509,793	\$ 12,000	\$ 0	\$ 521,793
Private Contributions		8,677	3,950	12,627
Interest and Investment Earnings		461		461
Sales Tax Refunds		1,892		1,892
Total Receipts	509,793	23,030	3,950	536,773
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		3,240	(3,240)	
	509,793	26,270	710	536,773
Expenditures:				
Programs:				
Child Care and Education Quality	135,289	483		135,772
Child Care and Education Affordability	163,632			163,632
Health and Safety	52,495			52,495
Family Support	52,525	11,140		63,665
Support:				
Management and General	90,549	15,738		106,287
Program Evaluation	28,500			28,500
Other:				
Sales Tax Paid		537		537
Total Expenditures	522,990	27,898		550,888
Excess of Receipts Over Expenditures	(13,197)	(1,628)	710	(14,115)
Net Assets at Beginning of Year	27,239	3,630	23,883	54,552
Net Assets at End of Year	\$ 14,042	\$ 2,002	\$ 24,393	\$ 40,437
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 6,703	\$ 2,002	\$ 24,393	\$ 33,098
Refunds Due From Contractors	7,339			7,339
	\$ 14,042	\$ 2,002	\$ 24,393	\$ 40,437

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

Madison County Partnership for Children and Families, 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	\$ 135,289	63,660	11,028	2,482	10,219	7,144	2,049	38,444	263
Child Care and Education Affordability	\$ 163,632							163,632	
Health and Safety	\$ 52,495							52,495	
Family Support	\$ 52,525		18,700					33,825	
	\$ 403,941	\$ 63,660	\$ 29,728	\$ 2,482	\$ 10,219	\$ 7,144	\$ 2,049	\$ 288,396	\$ 263
Support:									
Management and General	\$ 90,549	66,114	1,495	4,700	8,139	9,324	777		
Program Evaluation	\$ 28,500	27,080		40	1,073	307			
	\$ 119,049	\$ 93,194	\$ 1,495	\$ 4,740	\$ 9,212	\$ 9,631	\$ 777	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 522,990	\$ 156,854	\$ 31,223	\$ 7,222	\$ 19,431	\$ 16,775	\$ 2,826	\$ 288,396	\$ 263
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 483			483					
Family Support	\$ 11,140							11,140	
	\$ 11,623	\$ 0	\$ 0	\$ 483	\$ 0	\$ 0	\$ 0	\$ 11,140	\$ 0
Support:									
Management and General	\$ 15,738	\$ 365	\$ 11,635	\$ 0	\$ 0	\$ 3,738	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 537	\$ 0	\$ 0	\$ 537	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 27,898	\$ 365	\$ 11,635	\$ 1,020	\$ 0	\$ 3,738	\$ 0	\$ 11,140	\$ 0
The accompanying notes to the financial statements are an integral part of this statement.									

MADISON COUNTY PARTNERSHIP FOR CHILDREN AND FAMILIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Madison County Partnership for Children and Families, Inc. (Madison Partnership) is a legally separate nonprofit organization incorporated on June 20, 1997. The Madison Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Madison 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 Madison 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 Madison Partnership did not have any permanently restricted net assets at June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash, cash on deposit with private bank accounts, and money market 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 Madison 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 Madison 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 Madison Partnership to a concentration of credit risk.

The Madison Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's government securities and is not insured by the FDIC. Consequently, the Madison Partnership bank deposits in excess of the FDIC insured limit totaled \$62,000 at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Madison Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area.

The Madison Partnership was awarded and has received \$537,032 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 \$13,662 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 Madison Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Madison 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.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, and child care data - workforce studies.

Child Care and Education Affordability - Used to account for service activities including child care subsidy programs outside of DCD (Division of Child Development) and supplements for quality outside DCD.

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, 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 record keeping, budgeting, and related purposes.

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

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

NOTE 6 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$11,400.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - PENSION PLAN

Retirement Plans - The Madison Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Madison Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Madison Partnership contributed 3% of gross wages for the year ended June 30, 2003. The Madison 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 Madison Partnership contributed \$3,793 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Madison 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 Madison 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 Madison 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 Madison 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 \$5,600. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Commitments on Contracts - The Madison Partnership had outstanding commitments of \$15,800 on cost-reimbursement contracts that had not been paid at June 30, 2003.

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>
Madison Outdoor Learning Environment	\$ 20,443
Outdoor Adventure Outreach Project	<u>3,950</u>
	<u>\$ 24,393</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>
Madison Outdoor Learning Environment	<u>\$ 3,240</u>

Madison County Partnership for Children and Families, 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
Buncombe County Child Care Services	169,553	(5,922)		
Madison County Health Department	* 53,208	(713)		
Madison County Public Library	*		11,140	
MarComm, Inc.		(704)		
The Puckett Institute Learning Alliance, Inc.	72,974			
	\$ 295,735	\$ (7,339)	\$ 11,140	\$ 0

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

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

Schedule 2

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)	1-12-5-17-001	\$ (27,239)	\$ 0
Early Childhood Initiatives Program (Current Year)	*	537,032	522,990
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 521,793	\$ 534,990

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

<i>Madison County Partnership for Children and Families, Inc.</i>			
<i>Schedule of Property and Equipment - Modified Cash Basis</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Schedule 3</i>
Furniture and Noncomputer Equipment		\$	3,754
Computer Equipment/Printers			8,033
Total Property and Equipment		\$	11,787
<p>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.</p>			

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

Schedule 4

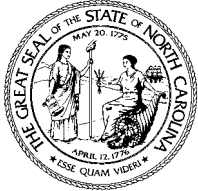
Match Provided at the Partnership Level:

Cash	\$ 12,627
In-Kind Goods and Services	11,322
	<u>\$ 23,949</u>

Match Provided at the Contractor Level:

Cash	\$ 26,361
In-Kind Goods and Services	25,276
	<u>\$ 51,637</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

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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
Madison County Partnership for Children and Families, Inc.
Marshall, North Carolina

We have audited the financial statements of the Madison County Partnership for Children and Families, Inc. (Madison Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 10, 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 Madison 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 Madison Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Madison Partnership's ability to

**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)**

record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

Internal Control Procedures

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

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



Ralph Campbell, Jr.
State Auditor

June 10, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes conditions that represent a significant deficiency in internal control.

INTERNAL CONTROL PROCEDURES

Policies and procedures were not supportive of the operations of the Madison Partnership and the segregation of duties between the authorizing and processing functions was inadequate. Policies did not exist for the processing of material transactions related to State awards and contracts and grants or for the authorizing and processing of journal entries. Other written policies and procedures were outdated and/or lacked the depth necessary to promote the efficient operations of the Partnership.

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 Madison Partnership seek guidance from The North Carolina Partnership for Children, Inc. in updating and implementing effective accounting policies and procedures that address the authorization and processing requirements for financial accountability.

Partnership's Response: We are currently in the process of reviewing our policies and procedures and updating them to be in accordance with the present North Carolina Partnership for Children's guidelines. If necessary, we will seek further advice from The North Carolina Partnership for Children, Inc. as we complete and implement the policy revisions.

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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.

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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.
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	Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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August 19, 2004

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