



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTHAMPTON PARTNERSHIP FOR CHILDREN, INC.

JACKSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
NORTHAMPTON PARTNERSHIP FOR CHILDREN, INC.

JACKSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

MELVIN BROADNAX, CHAIRMAN

ADMINISTRATIVE OFFICER

CYNTHIA BROWN, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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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, Northampton Partnership for Children, Inc.

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

Results - The following conditions represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

Finding

1. Contract Management and Monitoring
2. Policies and Procedures

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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northampton Partnership for Children, Inc.
Jackson, North Carolina

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

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

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

July 2, 2004

Northampton Partnership for Children, Inc.**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$18,560)	\$ 295,919	\$ 9,750	\$ 0	\$ 305,669
Private Contributions		3,383	21,841	25,224
Interest and Investment Earnings		74		74
Sales Tax Refunds		4,610		4,610
Other Receipts		237		237
Total Receipts	295,919	18,054	21,841	335,814
Expenditures:				
Programs:				
Child Care and Education Quality	178,037	207		178,244
Health and Safety	24,478	3,334		27,812
Family Support	2,982			2,982
More at Four	9,624			9,624
Support:				
Management and General	89,288	9,863		99,151
Program Evaluation	4,965			4,965
Other:				
Sales Tax Paid		3,666		3,666
Total Expenditures	309,374	17,070		326,444
Excess of Receipts Over Expenditures	(13,455)	984	21,841	9,370
Net Assets at Beginning of Year	17,863	(2,208)		15,655
Net Assets at End of Year	\$ 4,408	\$ (1,224)	\$ 21,841	\$ 25,025
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 4,026	\$ (1,224)	\$ 21,841	\$ 24,643
Refunds Due from Contractors	382			382
	\$ 4,408	\$ (1,224)	\$ 21,841	\$ 25,025

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

Northampton Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 178,037	61,156	35,400	7,352	14,459	10,587	7,734	40,590	759
Health and Safety	\$ 24,478							24,478	
Family Support	\$ 2,982							2,982	
More at Four	\$ 9,624							9,624	
	\$ 215,121	\$ 61,156	\$ 35,400	\$ 7,352	\$ 14,459	\$ 10,587	\$ 7,734	\$ 77,674	\$ 759
Support:									
Management and General	\$ 89,288	62,960	1,861	1,886	10,847	11,362	372		
Program Evaluation	\$ 4,965		4,925	40					
	\$ 94,253	\$ 62,960	\$ 6,786	\$ 1,926	\$ 10,847	\$ 11,362	\$ 372	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 309,374	\$ 124,116	\$ 42,186	\$ 9,278	\$ 25,306	\$ 21,949	\$ 8,106	\$ 77,674	\$ 759
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 207				207				
Health and Safety	\$ 3,334							3,334	
	\$ 3,541	\$ 0	\$ 0	\$ 0	\$ 207	\$ 0	\$ 0	\$ 3,334	\$ 0
Support:									
Management and General	\$ 9,863	\$ 0	\$ 8,275	\$ 431	\$ 0	\$ 0	\$ 1,157	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,666	\$ 0	\$ 0	\$ 3,666	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 17,070	\$ 0	\$ 8,275	\$ 4,097	\$ 207	\$ 0	\$ 1,157	\$ 3,334	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Northampton Partnership for Children, Inc. (Northampton Partnership) is a legally separate nonprofit organization incorporated on May 13, 1994. The Northampton Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Northampton 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 Northampton 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 Northampton 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 8.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Northampton 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 Northampton 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 Northampton Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Northampton 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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 Northampton Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Northampton 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, NCPC and the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Northampton Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS is presented on Schedule 2 accompanying the financial statements.

The Northampton Partnership was awarded and has received \$223,498 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 \$854 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.

Capacity Building Grant – The Northampton Partnership also received revenue and support from the State of North Carolina based on a cost-reimbursement contract with NCPC for the Capacity Building Grant. The Northampton Partnership was awarded and received \$88,731 under a current year contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$3,191 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash Basis, provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

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

Health and Safety - Used to account for service activities including oral health services and child care health consultants.

Family Support - Used to account for service activities associated with teen parent/child programs.

More at Four – Used to account for development and implementation of More at Four prekindergarten program 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 6 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 12,540
2005	7,590
2006	<u>3,917</u>
Total Minimum Lease Payments	<u>\$ 24,047</u>

Rental expense for all operating leases during the year was \$12,824.

NOTE 7 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Northampton 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 \$8,276. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Dental Programs	<u>\$ 21,841</u>

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

Schedule 1

Organization Name		Smart Start Fund		Other Funds	
		Amount Advanced	Refund Due	Amount Advanced	Refund Due
Little Bee's Day Care Center	*	3,217			
NC Cooperative Extension Northampton County Center	*	3,002			
Northampton County Health Department	*	24,860	(382)	3,334	
Northampton County Public Schools	*	9,624			
Peahill Unity Day Care Center	*	2,799			
Rich Square Child Development Center	*	3,861			
Various Day Care Providers		20,252			
Woodland Head Start	*	3,891			
		\$ 71,506	\$ (382)	\$ 3,334	\$ 0
Individuals:					
Educational Incentive Bonus		\$ 6,550	\$ 0	\$ 0	\$ 0
		\$ 78,056	\$ (382)	\$ 3,334	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.					

Schedule 2

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Northampton Partnership for Children, Inc.**Schedule of State Awards - Modified Cash Basis****For the Year Ended June 30, 2003****Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Various)	Various	\$ (55)	\$ 0
Early Childhood Initiatives Program (Prior Year)	1-12-5-21-001	(4,986)	1,552
Early Childhood Initiatives Program (Current Year)	*	223,498	222,282
Multi-County Accounting and Contracting Grant (Various)	n/a	(250)	
Multi-County Accounting and Contracting Grant (Prior Year)	n/a	(2,000)	
Multi-County Accounting and Contracting Grant (Current Year)	n/a	12,000	10,984
Capacity Building Grant (Prior Year)	1-12-5-21-002	(11,269)	
Capacity Building Grant (Current Year)	*	88,731	85,540
Total State Awards		\$ 305,669	\$ 320,358
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

Northampton Partnership for Children, Inc.				
Schedule of Property and Equipment - Modified Cash Basis				
For the Year Ended June 30, 2003				Schedule 4
	Furniture and Noncomputer Equipment	\$	10,368	
	Computer Equipment/Printers		10,906	
	Total Property and Equipment	\$	21,274	
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.			

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	25,224
In-Kind Goods and Services		11,266
	\$	36,490

Match Provided at the Contractor Level:

Cash	\$	31,788
In-Kind Goods and Services		5,867
	\$	37,655

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
Northampton Partnership for Children, Inc.
Jackson, North Carolina

We have audited the financial statements of the Northampton Partnership for Children, Inc. (Northampton Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated July 2, 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 Northampton 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 Northampton 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 Northampton Partnership's ability

**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)**

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

Finding

1. Contract Management and Monitoring
2. Policies and 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, of the reportable conditions described above, we consider Contract Management and Monitoring 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

July 2, 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.

1. CONTRACT MANAGEMENT AND MONITORING

The prior year audit identified weaknesses with the Northampton Partnership's contract management and monitoring system that included the failure to have written policies and procedures in place prior to year-end and lack of evidence to support monitoring of the direct service providers.

This finding is partially resolved. The Northampton Partnership provided documentation to support fiscal monitoring visits; however, documentation to support programmatic monitoring visits was limited or was not available. In addition, we noted instances where contract amendments were not properly executed.

Recommendation: We recommend that the Northampton Partnership further enhance its contract management and monitoring system to ensure that documentation is available to support the monitoring of all funded activities and amendments are properly executed to support contract changes.

Partnership's Response: Both fiscal and programmatic monitoring was done for FY 2003-2004 and will continue to be done in future program years. Not updating the contract effective date on contract amendments was an oversight. In the future all contracts and contract amendments will be more closely reviewed for accuracy and completeness.

2. POLICIES AND PROCEDURES

The accounting and personnel policies and procedures were not supportive of the operations of the Northampton Partnership. Deficiencies were noted within the accounting policies related to the processing of cash receipts and disbursements as well as the authorization and processing for journal entry transactions. In addition, the personnel policies should be enhanced to align Partnership policy with actual results. Areas needing to be addressed include the documentation for authorized pay rates, the provision of employee benefits, and the occurrence of employee evaluations.

Recommendation: We recommend that the Northampton Partnership review its current accounting and personnel policies and procedures and take appropriate action to address the deficiencies identified above to ensure that the operations of the Partnership are in accordance with Board and management expectations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: The Partnership's accounting policies and procedures will be reviewed to ensure completeness and congruence with actual practice. In addition the policies related to cash receipts and disbursements and also authorization and processing of journal entries will be revised and deficiencies corrected. The North Carolina Partnership for Children, Inc. Accounting Policy Manual will be used as a guide for updating the Partnership's policies and procedures.

The Partnership Administration, in conjunction with a newly appointed Board Personnel Committee, will revise the entire Personnel Policy Manual.

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
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

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Lieutenant Governor of North Carolina
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August 4, 2004

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