



STATE OF NORTH CAROLINA

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

MILL SPRING, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

MILL SPRING, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

DOLORES MYHRE, BOARD CHAIR

ADMINISTRATIVE OFFICER

CATHY BROOKS, 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, Polk County Partnership for Children, Inc.

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

Finding

Contract Management – More at Four Activities

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
Polk County Partnership for Children, Inc.
Mill Spring, North Carolina

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004 on our consideration of the Polk 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 Polk County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in Schedules 1, 3, 4, and 5 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

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



Ralph Campbell, Jr.
State Auditor

January 23, 2004

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

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$6,660)	\$ 264,437	\$ 12,000	\$ 0	\$ 276,437
Local Awards		8,443	5,557	14,000
Private Contributions		14,049	9,766	23,815
Interest and Investment Earnings		286		286
Sales Tax Refunds		306		306
Total Receipts	264,437	35,084	15,323	314,844
Expenditures:				
Programs:				
Child Care and Education Quality	64,760			64,760
Family Support	7,964	16,056		24,020
More at Four	59,850			59,850
Support:				
Management and General	85,870	25,553		111,423
Program Evaluation	18,645			18,645
Program Coordination	29,498			29,498
Other:				
Sales Tax Paid		549		549
Total Expenditures	266,587	42,158		308,745
Excess of Receipts Over Expenditures	(2,150)	(7,074)	15,323	6,099
Net Assets at Beginning of Year	6,601	8,429	210	15,240
Net Assets at End of Year	\$ 4,451	\$ 1,355	\$ 15,533	\$ 21,339
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 4,416	\$ 1,242	\$ 7,533	\$ 13,191
Investments		113	8,000	8,113
Refunds Due From Contractors	35			35
	\$ 4,451	\$ 1,355	\$ 15,533	\$ 21,339

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

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

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 64,760	38,175		633	2,048	3,491	2,025	18,388	
Family Support	\$ 7,964							7,964	
More at Four	\$ 59,850							59,850	
	\$ 132,574	\$ 38,175	\$ 0	\$ 633	\$ 2,048	\$ 3,491	\$ 2,025	\$ 86,202	\$ 0
Support:									
Management and General	\$ 85,870	64,984	1,489	1,658	10,219	4,509	3,011		
Program Evaluation	\$ 18,645	16,274		89	1,149	1,133			
Program Coordination	\$ 29,498	23,482		279	2,135	1,311	2,291		
	\$ 134,013	\$ 104,740	\$ 1,489	\$ 2,026	\$ 13,503	\$ 6,953	\$ 5,302	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 266,587	\$ 142,915	\$ 1,489	\$ 2,659	\$ 15,551	\$ 10,444	\$ 7,327	\$ 86,202	\$ 0
Other Funds:									
Programs:									
Family Support	\$ 16,056	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,056	\$ 0
Support:									
Management and General	\$ 25,553	\$ 3,650	\$ 16,820	\$ 1,078	\$ 2,717	\$ 1,288	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 549	\$ 0	\$ 0	\$ 549	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 42,158	\$ 3,650	\$ 16,820	\$ 1,627	\$ 2,717	\$ 1,288	\$ 0	\$ 16,056	\$ 0

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Polk County Partnership for Children, Inc. (Polk Partnership) is a legally separate nonprofit organization incorporated on April 3, 1996. The Polk Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Polk 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 Polk 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 Polk 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. Investments** – This classification includes certificates of deposit greater than 90 days. Investments are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. 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.
- G. 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.
- H. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Polk 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 Polk Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (per bank). Deposits over this amount subjects the Polk Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Polk 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 Polk 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 Polk Partnership was awarded and has received \$271,097 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 \$4,242 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 Polk Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Polk 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 associated with quality enhancement grants for upgrades including technical assistance and teacher bonus payments and salary supplements.

Family Support - Used to account for service activities including ongoing parenting education.

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.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Salaries and Benefits - Allocated based on estimated time spent by employees for each function.

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 - PENSION PLAN

IRC Section 403(b)(7) - All permanent employees who are at least half-time can participate in tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b)(7). The Plan is a defined contribution plan in which each employee of the Polk Partnership, as a condition of employment, is provided a custodial account with a brokerage firm to be invested in mutual funds. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until withdrawal at which time they are taxed as ordinary income. The Plan is exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants.

The Polk Partnership contributes 6% of each qualifying employee's salary to the Plan. For the year ended June 30, 2003, the Polk Partnership contributed \$6,948 for retirement benefits.

NOTE 8 - RISK MANAGEMENT

The Polk 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 Polk 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Management believes such coverage is sufficient to preclude any significant losses to the Polk Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Polk Partnership’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and personal leave) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for leave at June 30, 2003, is \$6,658. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Family Support	\$ 8,000
Parents as Teachers	1,766
Parenting Initiative	<u>5,767</u>
	<u>\$ 15,533</u>

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

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Polk County Schools *	\$ 59,850	\$ 0	\$ 0	\$ 0
<i>Individuals:</i>				
Parents as Teachers	8,000	(35)	16,056	
Salary Supplements	15,887			
Technical Assistance Bonuses	2,500			
	\$ 26,387	\$ (35)	\$ 16,056	\$ 0
	\$ 86,237	\$ (35)	\$ 16,056	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Polk County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003

Schedule 2

Organization Name			DHHS Contracts
Polk County Department of Social Services	*		\$ 22,000
* 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.			

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

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	\$ (6,660)	\$ (268)
Early Childhood Initiatives Program (Current Year)	*	271,097	266,855
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 276,437	\$ 278,587

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

Polk County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003 *Schedule 4*

Furniture and Noncomputer Equipment	\$	13,290	
Computer Equipment/Printers		<u>12,900</u>	
Total Property and Equipment	\$	<u>26,190</u>	

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.

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 37,779
In-Kind Goods and Services	6,109
	<u>\$ 43,888</u>

Match Provided at the Contractor Level:

Cash	\$ 1,417
In-Kind Goods and Services	3,225
	<u>\$ 4,642</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
Polk County Partnership for Children, Inc.
Mill Spring, North Carolina

We have audited the financial statements of the Polk County Partnership for Children, Inc. (Polk Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 23, 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 Polk 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 Polk 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 Polk 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

Contract Management – More at Four Activities

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

January 23, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control or noncompliance with laws, regulations, contracts, or grants.

CONTRACT MANAGEMENT – MORE AT FOUR ACTIVITIES

Smart Start funding totaling \$59,850 was provided for the More at Four program. This amount represents 60% of the Polk Partnership's total contract and grants expenditures and was subject to the activity's compliance with all More at Four program guidelines. Documentation to support adherence to the More at Four program guidelines and requirements was limited or not available.

The achievement of the Partnership's goals and objectives is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

Recommendation: We recommend that the Polk Partnership enhance its contract management procedures by ensuring documentation is available to support compliance with contractual terms and program requirements.

Partnership's Response: The Partnership agrees that comprehensive documentation to support adherence to the More at Four program guidelines and requirements was not available at the Partnership office at the time of the audit. This information is on file at the office of the Polk County Schools (program administrator/contractor) and also at the State office of the More at Four program. Only financial contracts monitoring documentation of the More at Four program was available at the local Partnership office.

The Partnership is currently in the process of revising the contract management policies and procedures, along with revising all contracts monitoring forms to expand on the documentation requirements supporting compliance with contractual terms and program requirements. The new procedures and forms will be utilized in program monitoring in the year ending June 30, 2004, which should alleviate this problem in the future.

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

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
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Mr. James D. Johnson	Director, Fiscal Research Division
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June 1, 2004

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