



STATE OF NORTH CAROLINA

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

WINDSOR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

WINDSOR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

ESTELLA SIMONS, BOARD CHAIRPERSON

ADMINISTRATIVE OFFICER

MARY ANN MCNEILL, EXECUTIVE DIRECTOR



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, The Bertie County Partnership for Children, Inc.

This report presents the results of our financial statement audit of The Bertie County Partnership for Children, Inc. (Bertie Partnership) for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Bertie 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 Bertie 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 Bertie Partnership is one of these local partnerships. As such, the Bertie 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 Bertie Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance or other matters, if any, with laws, regulations, contracts, or grant agreements.

Results - The following conditions represent significant deficiencies in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

Finding

1. Inadequate Authorizing and Processing of Transactions
2. Contract Management and Monitoring Weaknesses

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

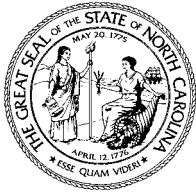
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

TABLE OF CONTENTS

| | PAGE |
|--|------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| EXHIBITS | |
| A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis | 3 |
| B Statement of Functional Expenditures – Modified Cash Basis..... | 4 |
| Notes to the Financial Statements..... | 5 |
| SUPPLEMENTARY SCHEDULES | |
| 1 Schedule of Contract and Grant Expenditures – Modified Cash Basis | 12 |
| 2 Schedule of State Level Service Provider Contracts..... | 13 |
| 3 Schedule of Federal and State Awards – Modified Cash Basis | 14 |
| 4 Schedule of Property and Equipment – Modified Cash Basis | 15 |
| 5 Schedule of Qualifying Match (Non-GAAP)..... | 16 |
| INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 17 |
| AUDIT FINDINGS AND RECOMMENDATIONS | 19 |
| DISTRIBUTION OF AUDIT REPORT | 21 |



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Bertie County Partnership for Children, Inc.
Windsor, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of The Bertie County Partnership for Children, Inc. (Bertie Partnership) as of June 30, 2004, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Bertie 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 Bertie County Partnership for Children, Inc. as of June 30, 2004, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2005, on our consideration of the Bertie Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Bertie County Partnership for Children, Inc.'s basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 4, 2005

The Bertie County Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis
For the Year Ended June 30, 2004

Exhibit A

| | Unrestricted Funds | | Temporarily Restricted Funds | Total Funds |
|---|---------------------|--------------------|------------------------------------|------------------|
| | Smart Start Fund | Other Funds | | |
| Receipts: | | | | |
| State Awards (less refunds of \$559) | \$ 377,780 | \$ 12,000 | \$ 0 | \$ 389,780 |
| Federal Awards | | 24,327 | | 24,327 |
| Private Contributions | | 1,518 | | 1,518 |
| Sales Tax Refunds | | 3,083 | | 3,083 |
| Other Receipts | | 778 | | 778 |
| Total Receipts | 377,780 | 41,706 | | 419,486 |
| Net Assets Released from Restrictions: | | | | |
| Satisfaction of Program Restrictions | | 3,737 | (3,737) | |
| | 377,780 | 45,443 | (3,737) | 419,486 |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Affordability | | 990 | | 990 |
| Child Care and Education Quality | 143,413 | 2,406 | | 145,819 |
| Family Support | 21,244 | | | 21,244 |
| Health and Safety | 34,645 | 38,530 | | 73,175 |
| Support: | | | | |
| Management and General | 119,436 | 10,250 | | 129,686 |
| Program Evaluation | 43,718 | | | 43,718 |
| Other: | | | | |
| Refund of Prior Year Grant | | 2,243 | | 2,243 |
| Sales Tax Paid | | 2,327 | | 2,327 |
| Total Expenditures | 362,456 | 56,746 | | 419,202 |
| Excess of Receipts Over Expenditures | 15,324 | (11,303) | (3,737) | 284 |
| Net Assets at Beginning of Year | 7,317 | (1,052) | 8,101 | 14,366 |
| Net Assets at End of Year | \$ 22,641 | \$ (12,355) | \$ 4,364 | \$ 14,650 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ 22,226 | \$ (12,355) | \$ 4,364 | \$ 14,235 |
| Refunds Due From Contractors | 415 | | | 415 |
| | \$ 22,641 | \$ (12,355) | \$ 4,364 | \$ 14,650 |

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

The Bertie County Partnership for Children, Inc.
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

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 | \$ 143,413 | \$ 95,508 | \$ 1,752 | \$ 8,966 | \$ 15,004 | \$ 7,598 | \$ 7,252 | \$ 3,208 | \$ 4,125 |
| Family Support | 21,244 | | | | | | | 21,244 | |
| Health and Safety | 34,645 | | | | | | | 34,645 | |
| | <u>199,302</u> | <u>95,508</u> | <u>1,752</u> | <u>8,966</u> | <u>15,004</u> | <u>7,598</u> | <u>7,252</u> | <u>59,097</u> | <u>4,125</u> |
| Support: | | | | | | | | | |
| Management and General | 119,436 | 85,298 | 8,153 | 2,314 | 12,557 | 7,739 | 3,375 | | |
| Program Evaluation | 43,718 | 37,065 | 524 | 535 | 2,609 | 1,281 | 1,704 | | |
| | <u>163,154</u> | <u>122,363</u> | <u>8,677</u> | <u>2,849</u> | <u>15,166</u> | <u>9,020</u> | <u>5,079</u> | | |
| Total Smart Start Fund Expenditures | <u>\$ 362,456</u> | <u>\$ 217,871</u> | <u>\$ 10,429</u> | <u>\$ 11,815</u> | <u>\$ 30,170</u> | <u>\$ 16,618</u> | <u>\$ 12,331</u> | <u>\$ 59,097</u> | <u>\$ 4,125</u> |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Affordability | \$ 990 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 990 | \$ 0 |
| Child Care and Education Quality | 2,406 | | | | 121 | 934 | | 1,351 | |
| Health and Safety | 38,530 | 21,761 | 325 | 810 | 5,045 | 835 | 5,714 | 4,040 | |
| | <u>41,926</u> | <u>21,761</u> | <u>325</u> | <u>810</u> | <u>5,166</u> | <u>1,769</u> | <u>5,714</u> | <u>6,381</u> | |
| Support: | | | | | | | | | |
| Management and General | 10,250 | 347 | 8,000 | 125 | 557 | 782 | 440 | | |
| Other: | | | | | | | | | |
| Refund of Prior Year Grant | 2,243 | | | | | 2,243 | | | |
| Sales Tax Paid | 2,327 | | | 2,327 | | | | | |
| | <u>4,570</u> | | | <u>2,327</u> | | <u>2,243</u> | | | |
| Total Other Funds Expenditures | <u>\$ 56,746</u> | <u>\$ 22,108</u> | <u>\$ 8,325</u> | <u>\$ 3,262</u> | <u>\$ 5,723</u> | <u>\$ 4,794</u> | <u>\$ 6,154</u> | <u>\$ 6,381</u> | <u>\$ 0</u> |

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

THE BERTIE COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Bertie County Partnership for Children, Inc. (Bertie Partnership) is a legally separate nonprofit organization incorporated on April 15, 1996. The Bertie Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Bertie 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 Bertie 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 Bertie Partnership did not have any permanently restricted net assets at June 30, 2004.

- 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 of North Carolina 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 includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- 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. Property and Equipment** - Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Bertie Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Bertie Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- 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 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 modified cash basis of accounting used by the Bertie 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the Bertie 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 Bertie Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Bertie 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 Bertie 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 Bertie Partnership was awarded and has received \$378,339 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Bertie Partnership has returned \$16,794 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

Child Care Health Consultant Program - The Bertie Partnership's other major source of revenue and support is from DHHS based on a cost-reimbursement contract with the University of North Carolina at Chapel Hill (UNC-CH) for the Child Care Health Consultant Program.

The Bertie Partnership was awarded \$46,233 under a current year Quality Enhancement Project for Infant and Toddlers contract with UNC-CH and has received \$24,327 of this amount. The unexpended balance of this contract is subject to reversion to the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Bertie Partnership expects to receive continued funding through new Child Care Health Consultant Program contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Bertie Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Bertie Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Bertie 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 Bertie Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Affordability - Used to account for service activities associated with child care subsidy administration outside of DCD.

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

Family Support - Used to account for service activities associated with family literacy projects.

Health and Safety - Used to account for service activities including child care health consultants, comprehensive health support, or developmental screenings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 - Direct allocation based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance) and telephone costs were indirectly 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, 2004:

| <u>Fiscal Year</u> | <u>Operating Leases</u> |
|--------------------|-----------------------------|
| 2005 | \$ 9,889 |

Rental expense for all operating leases during the year was \$12,976.

NOTE 7 - PENSION PLAN

Retirement Plans - The Bertie Partnership has a SIMPLE - IRA Plan covering all full-time employees. After three months of employment, each full-time employee of the Bertie Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Bertie Partnership contributed up to 3% of gross wages for the year ended June 30, 2004. The Bertie Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Bertie Partnership contributed \$50 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - RISK MANAGEMENT

The Bertie 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 Bertie 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 Bertie 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 Bertie 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, 2004, is \$3,054. No funds or reservation of net assets has been made for this commitment.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 10 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

| Purpose | Amount |
|---|-----------------|
| Lending Library | \$ 36 |
| Flood Relief | 453 |
| UNC Transition Forum | 50 |
| RJ Reynolds Scholarships for Teen Mothers | <u>3,825</u> |
| | <u>\$ 4,364</u> |

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

| Purpose | Amount |
|---|-----------------|
| Literacy Training Project | \$ 504 |
| Child Care Health Consultant | 2,243 |
| RJ Reynolds Scholarships for Teen Mothers | <u>990</u> |
| | <u>\$ 3,737</u> |

NOTE 11 - DEFICIT NET ASSETS - UNRESTRICTED OTHER FUNDS

The deficit net asset balance for the Unrestricted Other Funds column is a result of unreimbursed expenditures related to the Child Care Health Consultant grant as reported on Schedule 3. Reimbursement was received subsequent to June 30, 2004.

The Bertie County Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 1

| Organization Name | Smart Start Fund | | Other Funds | |
|------------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Amount Advanced | Refund Due | Amount Advanced | Refund Due |
| Albemarle Regional Health Services | * \$ 31,460 | \$ (415) | \$ 4,040 | \$ 0 |
| Bertie County Schools | * 21,244 | | | |
| Solid Foundations | 3,600 | | | |
| Various Daycare Providers | 3,208 | | 2,341 | |
| | <u>\$ 59,512</u> | <u>\$ (415)</u> | <u>\$ 6,381</u> | <u>\$ 0</u> |

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

***The Bertie County Partnership for Children, Inc.
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2004***

Schedule 2

| Organization Name | DHHS Contracts |
|--|---------------------------|
| Bertie County Department of Social Services * | \$ 135,000 |
| Child Care Services Association - WAGE\$ Program | 37,000 |
| | <u>\$ 172,000</u> |

* 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.

The Bertie County Partnership for Children, Inc.
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 3

| Federal/State Grantor/Pass-through Grantor/Program | Federal CFDA Number | Contract # | Receipts | Expenditures |
|--|---------------------------|------------|-------------------|-------------------|
| Federal Awards: | | | | |
| US Department of Health and Human Services: | | | | |
| Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development | | | | |
| Pass-through from the University of North Carolina at Chapel Hill | | | | |
| Child Care Health Consultant Program | 93.575 | * #5-46291 | \$ 24,327 | \$ 38,530 |
| 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) | | N/A | (559) | |
| Early Childhood Initiatives Program (Current Year) | | * | 378,339 | 362,456 |
| Multi-County Accounting and Contracting Grant | | N/A | 12,000 | 9,305 |
| Total State Awards | | | <u>389,780</u> | <u>371,761</u> |
| Total Federal and State Awards | | | <u>\$ 414,107</u> | <u>\$ 410,291</u> |

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

The Bertie County Partnership for Children, Inc.
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2004

Schedule 4

| | |
|-------------------------------------|-------------------------|
| Furniture and Noncomputer Equipment | \$ 34,177 |
| Computer Equipment/Printers | <u>21,450</u> |
| Total Property and Equipment | <u><u>\$ 55,627</u></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.

***The Bertie County Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004***

Schedule 5

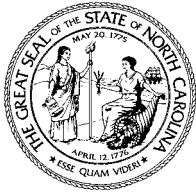
Match Provided at the Partnership Level:

| | | |
|----------------------------|----|----------------------|
| Cash | \$ | 1,512 |
| In-Kind Goods and Services | | <u>31,874</u> |
| | \$ | <u><u>33,386</u></u> |

Match Provided at the Contractor Level:

| | | |
|----------------------------|----|----------------------|
| Cash | \$ | 16,531 |
| In-Kind Goods and Services | | <u>13,882</u> |
| | \$ | <u><u>30,413</u></u> |

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Directors
The Bertie County Partnership for Children, Inc.
Windsor, North Carolina

We have audited the financial statements of The Bertie County Partnership for Children, Inc. (Bertie Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 4, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bertie 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 an opinion 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 Bertie Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are reported, with responses, in the Audit Findings and Recommendations section of this report:

Findings

1. Inadequate Authorizing and Processing of Transactions
2. Contract Management and Monitoring Weaknesses

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

A material weakness is a reportable 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 caused by error or fraud 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 the following to be a material weakness:

1. Inadequate Authorizing and Processing of Transactions

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bertie Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management of the Bertie 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 4, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements. Both findings were reported in the prior year.

1. INADEQUATE AUTHORIZING AND PROCESSING OF TRANSACTIONS

During the previous audit, we identified procedural weaknesses with the Bertie Partnership's authorizing and processing of transactions including improper approvals by management, inadequate invoice processing procedures, and the prepayment for educational materials.

This finding is partially resolved. We noted improvements related to the processing of payments, particularly the verification of mathematical accuracy. In addition, no instances of prepayments were noted. However, we continued to note the following processing deficiencies:

- Approvals for significant transactions such as payroll and journal entries were not consistently documented. In addition, approvals for the cash receipts logs were not performed timely. We also noted that the general ledger postings from the outsourced processor were not received and/or were not reviewed;
- Processing procedures such as the verification of wire transfer deposits and the cancellation of invoices paid were not consistently documented;
- Instances were noted where employee timesheets were completed and management approval occurred prior to the end of the pay period. Also, changes were made to timesheets with no approval indicated by the affected employee.

Recommendation: We recommend that the Bertie Partnership continue working with The North Carolina Partnership for Children, Inc., its oversight funding agency, in the design and establishment of sound internal control policies related to the authorization and processing of transactions.

Partnership's Response: The Bertie County Partnership strongly agrees with the recommendation and will continue to work with The North Carolina Partnership for Children, Inc. to improve the structure and internal controls. We have revised our accounting policies and the policies are now in place and implemented. New staff and the segregation of duties have ensured a much needed checklist of authorization and processing of transactions. The Performance Improvement Plan (PIP) addressed these areas and we have made great strides to improve in this area.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. CONTRACT MANAGEMENT AND MONITORING WEAKNESSES

Our prior year audit identified weaknesses with the Bertie Partnership's contract management and monitoring system including the failure to properly maintain contract and amendment documentation, inadequate supporting documentation for contract payments, and insufficient documentation of its monitoring activities.

This finding is partially resolved. We noted contracts in place for all Partnership activities, financial requests were complete, and the board approvals for contract payments were timely. However, we continued to identify the following deficiencies in the contract management and monitoring process:

- Contract amendments did not consistently document approval by both parties to the contract as required by policies and procedures;
- Documentation was not consistently available to support adherence with the Partnership's established monitoring policies. The required Outcome Evaluation Plan was not located for a direct service provider and no evidence was available to support an on-site financial monitoring visit of another direct service provider;
- Instances were noted where contract payments were not made timely in relation to the approval for payment or the processing of the check.

Recommendation: We recommend that the Bertie Partnership continue to enhance its contract management system. Procedural enhancements should address the proper execution of contract amendments, documentation of monitoring activities performed in accordance with established board policies, and the timely processing of contract payments.

Partnership's Response: The Bertie County Partnership remains committed to continue to enhance its contract management system. Documentation has greatly improved and Contract Policies and Procedures have been revised and are now in place. New staff, guided by the Planning Consultant through The North Carolina Partnership for Children, Inc., is closely supervised and continually receiving ongoing technical training. The Performance Improvement Plan (PIP) addresses these areas as well.

The Bertie County Partnership for Children has made a concentrated effort to improve those areas that were problems in the past and to continue to implement corrective actions that have been found at this recent audit. We have made substantial progress since the last audit, but I know this is an ongoing process. The North Carolina Partnership for Children, Inc. has given BCPC constant intense direction, guidance, and technical assistance in every area and we are very happy to see the results in this audit. We will continue to work with The North Carolina Partnership for Children, Inc. in our efforts to provide quality services to the children of Bertie County.

DISTRIBUTION OF AUDIT REPORT

In accordance with North Carolina 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 Odum | Secretary, Department of Health and Human Services |
| Mr. Ashley Thrift | Chairman, Board of Directors |
| | The North Carolina Partnership for Children, Inc. |
| | Executive Director |
| Ms. Karen Ponder | The North Carolina Partnership for Children, Inc. |

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

| | |
|-----------------------------------|--|
| President Pro Tempore | Speaker of the House |
| Senator Marc Basnight, Co-Chair | Representative James B. Black, Co-Chair |
| Senator Charles W. Albertson | Representative Alma S. Adams |
| Senator Thomas M. Apodaca | Representative Martha B. Alexander |
| Senator Daniel G. Clodfelter | Representative Harold J. Brubaker |
| Senator Walter H. Dalton | Representative Lorene T. Coates |
| Senator Charlie S. Dannelly | Representative E. Nelson Cole |
| Senator James Forrester | Representative James W. Crawford, Jr. |
| Senator Linda Garrou | Representative William T. Culpepper, III |
| Senator Kay R. Hagan | Representative W. Pete Cunningham |
| Senator Fletcher L. Hartsell, Jr. | Representative Beverly M. Earle |
| Senator David W. Hoyle | Representative Pryor A. Gibson, III |
| Senator John H. Kerr, III | Representative Joe Hackney |
| Senator Ellie Kinnaird | Representative R. Phillip Haire |
| Senator Jeanne H. Lucas | Representative Dewey L. Hill |
| Senator Anthony E. Rand | Representative Lindsey H. Holliman |
| Senator R. C. Soles, Jr. | Representative Julia C. Howard |
| Senator Richard Y. Stevens | Representative Howard J. Hunter, Jr. |
| Senator A. B. Swindell, IV | Representative Margaret M. Jeffus |
| Senator Scott Thomas | Representative Daniel F. McComas |
| | Representative Charles L. McLawhorn |
| | Representative Henry M. Michaux, Jr. |
| | Representative Richard T. Morgan |
| | Representative Edd Nye |
| | Representative William C. Owens, Jr. |
| | Representative Deborah K. Ross |
| | Representative Drew P. Saunders |
| | Representative Wilma M. Sherrill |
| | Representative Joe P. Tolson |
| | Representative Edith D. Warren |
| | Representative Thomas E. Wright |
| | Representative Douglas Y. Yongue |

Other Legislative Officials

| | |
|----------------------|------------------------------------|
| Mr. James D. Johnson | Director, Fiscal Research Division |
|----------------------|------------------------------------|

June 2, 2005

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647