



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF COLUMBUS COUNTY PARTNERSHIP FOR CHILDREN, INCORPORATED

WHITEVILLE, 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
COLUMBUS COUNTY PARTNERSHIP FOR CHILDREN,
INCORPORATED**

WHITEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

KATHY BAKER, BOARD CHAIR

ADMINISTRATIVE OFFICER

REBECCA L. BANKS, EXECUTIVE DIRECTOR



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

STATE OF NORTH CAROLINA
Office of the 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, Columbus County Partnership for Children, Incorporated

This report presents the results of our financial statement audit of the Columbus County Partnership for Children, Incorporated (Columbus 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 Columbus 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 Columbus 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 Columbus Partnership is one of these local partnerships. As such, the Columbus 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 Columbus 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 condition represents a significant deficiency in internal control or noncompliance or other matters with laws, regulations, contracts, or grant agreements.

Finding

Contract Monitoring Deficiencies

This matter is 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	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
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



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

STATE OF NORTH CAROLINA
Office of the 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
Columbus County Partnership for Children, Incorporated
Whiteville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Columbus County Partnership for Children, Incorporated (Columbus 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 Columbus 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 Columbus County Partnership for Children, Incorporated 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 July 12, 2005, on our consideration of the Columbus 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 our testing of internal control over financial reporting and compliance and the results

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 Columbus County Partnership for Children, Incorporated'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., CPA, CFP
State Auditor

July 12, 2005

Columbus County Partnership for Children, Incorporated
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 \$44,120)	\$ 480,500	\$ 5,978	\$ 0	\$ 486,478
Private Contributions		7,074	262	7,336
Interest and Investment Earnings		79		79
Sales Tax Refunds		477		477
Total Receipts	480,500	13,608	262	494,370
Expenditures:				
Programs:				
Child Care and Education Quality	256,330			256,330
Family Support	24,696			24,696
Health and Safety	58,479	5,812		64,291
Support:				
Management and General	115,240	10,906		126,146
Program Evaluation	47,338			47,338
Other:				
Refund of Prior Year Grant		151		151
Sales Tax Paid		595		595
Total Expenditures	502,083	17,464		519,547
Excess of Receipts Over Expenditures	(21,583)	(3,856)	262	(25,177)
Net Assets at Beginning of Year	36,331	12,914		49,245
Net Assets at End of Year	\$ 14,748	\$ 9,058	\$ 262	\$ 24,068
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 473	\$ 9,058	\$ 262	\$ 9,793
Refunds Due From Contractors	14,275			14,275
	\$ 14,748	\$ 9,058	\$ 262	\$ 24,068

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

Columbus County Partnership for Children, Incorporated
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	\$ 256,330	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 256,330	\$ 0
Family Support	24,696							24,696	
Health and Safety	58,479							58,479	
	<u>339,505</u>							<u>339,505</u>	
Support:									
Management and General	115,240	94,204	2,497	1,050	9,473	7,946	70		
Program Evaluation	47,338	42,733	281	177	1,775	880	1,492		
	<u>162,578</u>	<u>136,937</u>	<u>2,778</u>	<u>1,227</u>	<u>11,248</u>	<u>8,826</u>	<u>1,562</u>		
Total Smart Start Fund Expenditures	\$ 502,083	\$ 136,937	\$ 2,778	\$ 1,227	\$ 11,248	\$ 8,826	\$ 1,562	\$ 339,505	\$ 0
Other Funds:									
Programs:									
Health and Safety	\$ 5,812	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,812	\$ 0
Support:									
Management and General	10,906	838	4,415	977	2,147	560	1,969		
Other:									
Refund of Prior Year Grant	151					151			
Sales Tax Paid	595			595					
	<u>746</u>			<u>595</u>		<u>151</u>			
Total Other Funds Expenditures	\$ 17,464	\$ 838	\$ 4,415	\$ 1,572	\$ 2,147	\$ 711	\$ 1,969	\$ 5,812	\$ 0

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

COLUMBUS COUNTY PARTNERSHIP FOR CHILDREN, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Columbus County Partnership for Children, Incorporated (Columbus Partnership), is a legally separate nonprofit organization incorporated on May 7, 1996. The Columbus Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Columbus 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 Columbus 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 Columbus 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, Columbus Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Columbus 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 Columbus 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 Columbus 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 Columbus Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Columbus 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 Columbus 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 Columbus Partnership was awarded and has received \$518,598 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Columbus Partnership has returned \$14,275 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The Columbus 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 Columbus Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Columbus Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Columbus Partnership entered into contracts with board member organizations for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Columbus Partnership's Smart Start allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

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

Family Support – Used to account for service activities associated with community outreach information and resources.

Health and Safety – Used to account for service activities including prenatal/newborn services, child care health consultants, and transportation to health services.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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), 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, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 7,800
2006	<u>7,800</u>
Total Minimum Lease Payments	<u>\$ 15,600</u>

Rental expense for all operating leases during the year was \$7,800.

NOTE 7 - PENSION PLAN

The Columbus Partnership has a Simplified Employee Pension plan (SEP Plan) covering all full-time employees. Each full-time employee of the Columbus Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Columbus Partnership contributed 7.2% of gross wages for the year ended June 30, 2004. The Columbus Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Columbus Partnership contributed \$8,124 for pension benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Columbus 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 Columbus Partnership manages these various risks of loss as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 9 - COMMITMENTS

Compensated Absences – As a result of the Columbus 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 \$6,533. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
In Home Breast Feeding /Project Eat Right/ Add to Life	\$ 262

***Columbus County Partnership for Children, Incorporated
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
County of Columbus	* \$ 11,500	\$ (185)	\$ 0	\$ 0
Easter Seals UCP of NC	15,805	(159)		
NC Cooperative Extension			5,812	
Southeastern Community College	* 299,220	(11,372)		
	<u>326,525</u>	<u>(11,716)</u>	<u>5,812</u>	
<i>Paid to Individuals:</i>				
Community Awareness Project	27,255	(2,559)		
	<u>\$ 353,780</u>	<u>\$ (14,275)</u>	<u>\$ 5,812</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.

Columbus County Partnership for Children, Incorporated
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2004

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGE\$ Program	\$ 99,046
Columbus County Department of Social Services	* 589,863
	<u>\$ 688,909</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.

Columbus County Partnership for Children, Incorporated
Schedule of State Awards - Modified Cash Basis
For the Year Ended June 30, 2004

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)	N/A	\$ (38,098)	\$ (1,767)
Early Childhood Initiatives Program (Current Year)	*	518,598	503,850
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(6,022)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	8,613
Total State Awards		\$ 486,478	\$ 510,696

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

***Columbus County Partnership for Children, Incorporated
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2004***

Schedule 4

Furniture and Noncomputer Equipment	\$	12,707
Computer Equipment/Printers		14,297
Leasehold Improvements		<u>1,365</u>
Total Property and Equipment	\$	<u><u>28,369</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.

Columbus County Partnership for Children, Incorporated
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2004

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	7,336
In-Kind Goods and Services		29,442
		<hr/>
	\$	36,778
		<hr/> <hr/>

Match Provided at the Contractor Level:

Cash	\$	96,040
		<hr/> <hr/>

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.

[This Page Left Blank Intentionally]



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

STATE OF NORTH CAROLINA
Office of the 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
Columbus County Partnership for Children, Incorporated
Whiteville, North Carolina

We have audited the financial statements of the Columbus County Partnership for Children, Incorporated (Columbus Partnership), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 12, 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 Columbus 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 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 Columbus Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is reported, with responses, in the Audit Findings and Recommendations section of this report:

Finding

Contract Monitoring Deficiencies

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

**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)**

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 believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Columbus 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 Columbus 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

July 12, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discuss conditions that represents a significant deficiency in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements.

CONTRACT MONITORING DEFICIENCIES

During our review of the contracting activities of the Columbus Partnership, we identified deficiencies in the contract monitoring system including:

- Proper fiscal monitoring did not occur for the Community Awareness grant activity. The Partnership Board approved the activity with a requirement that it be monitored on a monthly basis. The contract specifically required the Coordinator position to work 35 hours per week for 26 weeks, a total of 910 hours. Our testwork identified that fiscal monitoring activities only occurred twice during the contract period. In addition, a review of the Coordinator's submitted time calendar indicated that only 717 of the required 910 hours (79%) were performed. All personnel costs totaling \$18,060 were disbursed on the contract. Based on the reported time worked, actual reimbursed personnel costs should have been \$14,230. The overpayment of \$3,830 is considered to be questioned costs;
- The Partnership's policies for program monitoring identify specific tasks that must be performed and documented. In our review of contract activities, we did not find evidence to support that programmatic monitoring procedures were performed in accordance with Partnership policy or contract requirements.

Effective contract monitoring provides a reporting of actual performance in relation to expected outcomes and a measurement focus on compliance with program requirements.

Recommendation: We recommend that the Columbus Partnership enhance its monitoring procedures to document the Partnership's performance of fiscal and programmatic monitoring requirements and to ensure the accomplishment of expected program outcomes.

Partnership's Response: The Columbus County Partnership for Children (CCPC) has experienced challenges in both the fiscal and program monitoring. One of our major direct service providers necessitated a change from twice a year monitoring to more frequent monitoring. This change occurred as a result of continuous errors in their financial statement reports. More intensive scrutiny and oversight was necessary to ensure the program adhered to compliance standards. Consequently, other programs were not adequately monitored. Our fiscal and program monitoring procedures have been enhanced to include programmatic and fiscal review of timesheets, and determining that timesheet hours are congruent with funds disbursed. Staff will continue to receive additional training in monitoring. Action plans will be utilized, maintained and updated when goals/targets are not being met according to contract.

[This Page Left Blank Intentionally]

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 Odum
Mr. Ashley Thrift

Ms. Karen Ponder

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
The North Carolina Partnership for Children, Inc.
Executive Director
The North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Thomas M. Apodaca
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Kay R. Hagan
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator John H. Kerr, III
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Anthony E. Rand
Senator R. C. Soles, Jr.
Senator Richard Y. Stevens
Senator A. B. Swindell, IV
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Alma S. Adams
Representative Martha B. Alexander
Representative Harold J. Brubaker
Representative Lorene T. Coates
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative Beverly M. Earle
Representative Pryor A. Gibson, III
Representative Joe Hackney
Representative R. Phillip Haire
Representative Dewey L. Hill
Representative Lindsey H. Holliman
Representative Julia C. Howard
Representative Howard J. Hunter, Jr.
Representative Margaret M. Jeffus
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

August 31, 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