



STATE OF NORTH CAROLINA

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

ELIZABETHTOWN, 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
BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.

ELIZABETHTOWN, NORTH CAROLINA

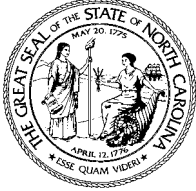
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

KENT WOOTEN, BOARD CHAIRMAN

ADMINISTRATIVE OFFICER

LILLIAN BRYANT, EXECUTIVE DIRECTOR



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

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AUDITOR'S TRANSMITTAL

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

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

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

Finding

1. Contract Management and Monitoring Deficiencies
2. Procedural Weaknesses with the Authorizing and Processing of Transactions
3. Control Environment Concerns

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.

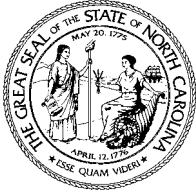
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Bladen County Partnership for Children, Inc. (Bladen 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 Bladen 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 Bladen 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 November 19, 2004, on our consideration of the Bladen 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 Bladen 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., CPA, CFP
State Auditor

November 19, 2004

Bladen 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		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$35,165)	\$ 318,827	\$ 12,000	\$ 330,827
Private Contributions		1,260	1,260
Special Fund Raising Events		80	80
Interest and Investment Earnings		10	10
Sales Tax Refunds		400	400
Total Receipts	318,827	13,750	332,577
Expenditures:			
Programs:			
Child Care and Education Quality	71,541		71,541
Family Support	92,384	217	92,601
Health and Safety	47,728		47,728
Support:			
Management and General	68,738	12,050	80,788
Program Coordination	30,058		30,058
Program Evaluation	11,000		11,000
Other:			
Sales Tax Paid		995	995
Total Expenditures	321,449	13,262	334,711
Excess of Receipts Over Expenditures	(2,622)	488	(2,134)
Net Assets at Beginning of Year	34,631	(3,731)	30,900
Net Assets at End of Year	\$ 32,009	\$ (3,243)	\$ 28,766
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 29,684	\$ (3,243)	\$ 26,441
Refunds Due From Contractors	2,325		2,325
	\$ 32,009	\$ (3,243)	\$ 28,766

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

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

Exhibit B

	<u>Total</u>	<u>Personnel</u>	<u>Contracted Services</u>	<u>Supplies and Materials</u>	<u>Other Operating Expenditures</u>	<u>Fixed Charges and Other Expenditures</u>	<u>Property and Equipment Outlay</u>	<u>Services/Contracts/Grants</u>	<u>Participant Training Expenditures</u>
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 71,541	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 71,541	\$ 0
Family Support	92,384	23,365	8,647	5,148	9,960	8,119	1,811	34,834	500
Health and Safety	47,728							47,728	
	<u>211,653</u>	<u>23,365</u>	<u>8,647</u>	<u>5,148</u>	<u>9,960</u>	<u>8,119</u>	<u>1,811</u>	<u>154,103</u>	<u>500</u>
Support:									
Management and General	68,738	22,474	27,499	1,517	8,562	6,107	2,579		
Program Coordination	30,058	22,079	892	1,582	3,384	2,121			
Program Evaluation	11,000		11,000						
	<u>109,796</u>	<u>44,553</u>	<u>39,391</u>	<u>3,099</u>	<u>11,946</u>	<u>8,228</u>	<u>2,579</u>		
Total Smart Start Fund Expenditures	<u>\$ 321,449</u>	<u>\$ 67,918</u>	<u>\$ 48,038</u>	<u>\$ 8,247</u>	<u>\$ 21,906</u>	<u>\$ 16,347</u>	<u>\$ 4,390</u>	<u>\$ 154,103</u>	<u>\$ 500</u>
Other Funds:									
Programs:									
Family Support	\$ 217	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 217	\$ 0	\$ 0
Support:									
Management and General	12,050		12,000			50			
Other:									
Sales Tax Paid	995			995					
Total Other Funds Expenditures	<u>\$ 13,262</u>	<u>\$ 0</u>	<u>\$ 12,000</u>	<u>\$ 995</u>	<u>\$ 0</u>	<u>\$ 50</u>	<u>\$ 217</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Bladen County Partnership for Children, Inc. (Bladen Partnership) is a legally separate nonprofit organization incorporated on August 21, 1997. The Bladen Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Bladen 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 Bladen 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.

The Bladen Partnership did not have any temporarily or 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, Bladen Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Bladen 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 other comprehensive basis of accounting used by the Bladen 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 Bladen 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 Bladen Partnership to a concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Bladen 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 Bladen 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 Bladen Partnership was awarded and has received \$353,992 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Bladen Partnership has returned \$17,934 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

B Management and Administrative Services - The Partnership for Children of Cumberland County, Inc. provided management and administrative services to the Bladen Partnership during the 2004 fiscal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year. The Chairman of the Bladen Partnership Board also served as a member of the Cumberland Partnership Board. Associated with the payment for these services, the following expenditure activities were recorded in the accompanying financial statements:

<u>Expenditures</u>	<u>Amount</u>
Management and Evaluation Services	\$ 49,154
Payroll Reimbursement	63,340
Multi-County Accounting and Contracting Grant	12,000
Repairs and Maintenance and Other Expenses	5,016
Other Contracted Services	<u>6,047</u>
	<u>\$ 135,557</u>

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, professional development, or health insurance benefits for child care providers.

Family Support - Used to account for service activities including family resource centers, ongoing parenting education, or community outreach information and resources.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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), supplies and materials, and communication costs (telephone and printing) 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	\$ 4,644
2006	4,644
2007	4,644
2008	4,644
2009	4,644
Total Minimum Lease Payments	<u>\$ 23,220</u>

Rental expense for all operating leases during the year was \$16,220.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Compensated Absences – As a result of the Bladen 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 \$1,278. No funds or reservation of net assets has been made for this commitment.

Bladen 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
Bladen Community College	* \$ 20,547	\$ 0	\$ 0	\$ 0
Bladen County Health Department	* 34,574			
Bladen Family Support Initiative	* 34,835			
Children's Developmental Services	* 13,154			
R.C. Gilbert and Associates	23,000	(2,325)		
Various Health Care Providers	16,430			
	<u>142,540</u>	<u>(2,325)</u>		
Individuals:				
Health Insurance Reimbursement Recipients	13,888			
	<u>\$ 156,428</u>	<u>\$ (2,325)</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

***Bladen 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
Bladen County Department of Social Services	\$ 182,484
Child Care Services Association - WAGE\$ Program	<u>34,522</u>
	<u>\$ 217,006</u>

* These organizations are represented on the Partnership's Board as described in Note 4A - 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.

***Bladen County Partnership for Children, Inc.
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 (Various)	Various	\$ (16,213)	\$ 0
Early Childhood Initiatives Program (Prior Year)	N/A	(18,952)	
Early Childhood Initiatives Program (Current Year)	*	353,992	321,449
Multi-County Accounting and Contracting Grant	N/A	<u>12,000</u>	<u>12,000</u>
Total State Awards		<u>\$ 330,827</u>	<u>\$ 333,449</u>

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

Bladen 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	\$ 8,322
Computer Equipment/Printers	<u>15,093</u>
Total Property and Equipment	<u><u>\$ 23,415</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.

***Bladen 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:

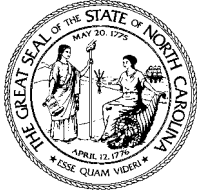
Cash	\$	1,207
In-Kind Goods and Services		<u>9,833</u>
	\$	<u><u>11,040</u></u>

Match Provided at the Contractor Level:

Cash	\$	26,693
In-Kind Goods and Services		<u>24,095</u>
	\$	<u><u>50,788</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.

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Leslie W. Merritt, Jr., CPA, CFP
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**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
Bladen County Partnership for Children, Inc.
Elizabethtown, North Carolina

We have audited the financial statements of the Bladen County Partnership for Children, Inc. (Bladen Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bladen 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 Bladen 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:

Finding

1. Contract Management and Monitoring Deficiencies
2. Procedural Weaknesses with the Authorizing and Processing of Transactions
3. Control Environment Concerns

**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)**

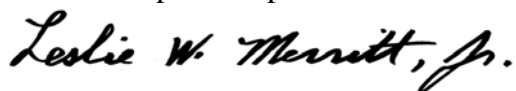
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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:

2. Procedural Weaknesses with the Authorizing and Processing of Transactions

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bladen 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 Bladen 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., CPA, CFP
State Auditor

November 19, 2004

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 grants. All three findings were also reported in the prior year.

1. CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

We have previously reported that weaknesses existed in the Bladen Partnership's contract management and monitoring activities. Deficiencies included the failure to properly execute contract amendments (resulting in contract overpayments) or to obtain adequate documentation to support a final accounting of payments to a Direct Service Provider (DSP). The latter resulted in the identification of questioned costs.

This finding is partially resolved. We noted improvements in the Partnership's execution of contract amendments; however, we continued to identify issues with the monitoring of contractor performance. Questioned costs identified in the previous year have not been completely resolved and we identified an additional \$2,860 in questioned costs during the current year. Other instances were noted where the Partnership's documentation of its DSP monitoring procedures was deficient or not available.

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

Recommendation: We recommend that the Bladen Partnership continue to refine and implement its contract management and monitoring policies and procedures. Procedures should address the documentation standards required to support the Partnership's monitoring efforts including the verification of subcontractor/recipient eligibility requirements prior to their receipt of Smart Start funding. The Bladen Partnership should consult with The North Carolina Partnership for Children, Inc. in the resolution of identified questioned costs.

Partnership's Response: Bladen Partnership has become fully staffed and has moved towards complete local level oversight with staff members actively participating in local level trainings and regional trainings with the North Carolina Partnership for Children. Monitoring policies and procedures have been strengthened by the Partnership and contractors have also participated in trainings by the North Carolina Partnership for Children.

Bladen Partnership gives priority to contracts management and compliance and will continue to work with the North Carolina Partnership for Children to ensure that eligibility of subcontractors/recipients is accurately and completely documented.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. PROCEDURAL WEAKNESSES WITH THE AUTHORIZING AND PROCESSING OF TRANSACTIONS

During previous audits, we have identified procedural weaknesses with the Bladen Partnership's authorizing and processing of transactions. Deficiencies have been identified in the approval processes for accounting transactions, the cash receipting processes, and supporting documentation for the disbursement processes.

This finding is unresolved. We continued to note deficiencies in the Partnership's approval procedures as accounting transactions were processed prior to approval. We also identified checks that were processed without adequate supporting documentation. In addition, we discovered checks totaling \$13,089 that were processed with a June 30, 2004, date, but were held and not mailed to the vendor until November 2004. The processing of checks in this manner represents a breakdown in implementation of the processing procedures of the Partnership. From an accounting perspective, these held funds were considered cash on hand at June 30th and have been accounted for as such in the financial statements.

Internal control is a process designed to provide reasonable assurance regarding the achievement of the organization's objectives in the areas of reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. As part of the internal control system, adequate financial policies and procedures should address the authorizing and processing requirements for financial accountability.

Recommendation: We recommend that the Bladen Partnership continue with the development and implementation of effective policies and procedures. Proper procedures should be implemented to ensure the timely approval of accounting transactions. In addition, procedures should be implemented to ensure that all disbursements are processed based on valid, original supporting documentation and mailed to the vendors once processed and signed.

Partnership's Response: Per requirements of the North Carolina Partnership for Children, Bladen contracts out accounting services and a misinterpretation of guidance within that service led to the breakdown of accounting procedures. Bladen Partnership now has internal control over approval of accounting transactions and the Executive Director is reviewing all transactions for proper supporting documentation prior to check processing. In addition, monthly bank statements are being reviewed for outstanding checks and additional tracking is done on items that are still outstanding over ninety days.

Financial integrity is a mission of the Board of Directors of Bladen Partnership and the Board, with full oversight and authority of the Partnership, carefully reviews financials at monthly board meetings. An officer of the Board authorizes check payments along with the Executive Director.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

3. CONTROL ENVIRONMENT CONCERNS

We previously reported deficiencies in the Bladen Partnership's control environment. The control environment sets the tone of an organization, influencing the control consciousness of its personnel. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control. Previously reported control environment deficiencies included concerns related to the Partnership's operational policies and procedures and the lack of managerial oversight within the Partnership's operations. In an effort to address these deficiencies, the operations of the Bladen Partnership were assumed by the Cumberland County Partnership for Children during the prior year.

This finding is partially resolved. The Bladen Partnership made changes in the management of the Partnership and has begun the process of developing and implementing new operational procedures; however, we continued to identify the need for further enhancement of those policies. Attention should be directed to procedures for the processing of material account transactions. While we noted that the Bladen Partnership Board was more involved in the decision-making processes for the Partnership, the Board of Directors of the Cumberland County Partnership for Children continued to direct the operations of the Bladen Partnership with the Bladen Partnership Board serving in an advisory capacity. The Cumberland County Partnership for Children continued to provide administrative and managerial oversight to the Bladen Partnership during the 2004 fiscal year.

The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations.

Recommendation: The Bladen Partnership Board should continue with the development and implementation of effective policies and procedures to demonstrate its accountability and oversight for the Partnership's operations. Assistance should be sought from The North Carolina Partnership for Children, Inc. as considered necessary in resolving these issues.

Partnership's Response: As Bladen Partnership moves back to independence, all policies and procedures are constantly being refined in accordance to the North Carolian Partnership for Children guidelines for the most effective procedures to ensure sound responsibility and accountability for the operations of the Partnership.

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April 4, 2005

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