



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CABARRUS COUNTY PARTNERSHIP FOR CHILDREN

CONCORD, 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
CABARRUS COUNTY PARTNERSHIP FOR CHILDREN
CONCORD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

BOARD OF DIRECTORS

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ADMINISTRATIVE OFFICER

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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, Cabarrus County Partnership for Children

This report presents the results of our financial statement audit of the Cabarrus County Partnership for Children (Cabarrus 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 Cabarrus 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 Cabarrus 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 Cabarrus Partnership is one of these local partnerships. As such, the Cabarrus 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 Cabarrus 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. Internal Control Weaknesses
2. Contract Management Deficiencies

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 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



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cabarrus County Partnership for Children
Concord, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Cabarrus County Partnership for Children (Cabarrus 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 Cabarrus 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 Cabarrus County Partnership for Children 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 April 29, 2005 on our consideration of the Cabarrus 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 Cabarrus County Partnership for Children'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

April 29, 2005

***Cabarrus County Partnership for Children
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 \$21,760)	\$ 1,271,319	\$ 622,728	\$ 0	\$ 1,894,047
Private Contributions		7,695	8,800	16,495
Interest and Investment Earnings		160		160
Total Receipts	1,271,319	630,583	8,800	1,910,702
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		20,177	(20,177)	
	1,271,319	650,760	(11,377)	1,910,702
Expenditures:				
Programs:				
Child Care and Education Quality	404,516	5,000		409,516
Family Support	94,689	3,269		97,958
Health and Safety	488,641	19,798		508,439
More at Four	62,583	604,776		667,359
Support:				
Management and General	158,372	12,030		170,402
Program Coordination	34,165			34,165
Program Evaluation	20,800			20,800
Other:				
Sales Tax Paid		2,055		2,055
Total Expenditures	1,263,766	646,928		1,910,694
Excess of Receipts Over Expenditures	7,553	3,832	(11,377)	8
Net Assets at Beginning of Year Restatement (Note 10)	21,760	38,268		60,028
		(40,979)	40,979	
Net Assets at Beginning of Year after Restatement	21,760	(2,711)	40,979	60,028
Net Assets at End of Year	\$ 29,313	\$ 1,121	\$ 29,602	\$ 60,036
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 23,791	\$ 1,121	\$ 29,602	\$ 54,514
Refunds Due From Contractors	5,522			5,522
	\$ 29,313	\$ 1,121	\$ 29,602	\$ 60,036

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

***Cabarrus County Partnership for Children
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	\$ 404,516	\$ 1,853	\$ 289	\$ 835	\$ 3,418	\$ 0	\$ 0	\$ 398,121	\$ 0
Family Support	94,689	3,453	27,006	8,463	14,441	4,280	1,825	35,221	
Health and Safety	488,641							488,641	
More at Four	62,583							62,583	
	<u>1,050,429</u>	<u>5,306</u>	<u>27,295</u>	<u>9,298</u>	<u>17,859</u>	<u>4,280</u>	<u>1,825</u>	<u>984,566</u>	
Support:									
Management and General	158,372	95,859	15,093	1,470	10,944	32,203	2,803		
Program Coordination	34,165	28,511	2,146	179	274	3,055			
Program Evaluation	20,800							20,800	
	<u>213,337</u>	<u>124,370</u>	<u>17,239</u>	<u>1,649</u>	<u>11,218</u>	<u>35,258</u>	<u>2,803</u>	<u>20,800</u>	
Total Smart Start Fund Expenditures	<u>\$ 1,263,766</u>	<u>\$ 129,676</u>	<u>\$ 44,534</u>	<u>\$ 10,947</u>	<u>\$ 29,077</u>	<u>\$ 39,538</u>	<u>\$ 4,628</u>	<u>\$ 1,005,366</u>	<u>\$ 0</u>
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 5,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,000	\$ 0
Family Support	3,269			1,564	1,705				
Health and Safety	19,798							19,798	
More at Four	604,776	7,180	6,075	1,491	530			589,500	
	<u>632,843</u>	<u>7,180</u>	<u>6,075</u>	<u>3,055</u>	<u>2,235</u>			<u>614,298</u>	
Support:									
Management and General	12,030	7,729	521			30	3,750		
Other:									
Sales Tax Paid	2,055			2,055					
Total Other Funds Expenditures	<u>\$ 646,928</u>	<u>\$ 14,909</u>	<u>\$ 6,596</u>	<u>\$ 5,110</u>	<u>\$ 2,235</u>	<u>\$ 30</u>	<u>\$ 3,750</u>	<u>\$ 614,298</u>	<u>\$ 0</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Cabarrus County Partnership for Children (Cabarrus Partnership) is a legally separate nonprofit organization incorporated on June 18, 1998. The Cabarrus Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Cabarrus 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 Cabarrus 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 Cabarrus 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, Cabarrus Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Cabarrus 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. Personnel Cost** - The Cabarrus Partnership entered into a co-employment relationship with NorthEast Medical Center. This relationship is in accordance with Section 414(N) of the Internal Revenue Code and creates a dual employment relationship for the Cabarrus Partnership's existing workforce. Under an administrative agreement, NorthEast Medical Center assumed responsibilities for the preparation of monthly payroll and the payment of all applicable Federal, State, and Local Employment taxes. All payroll related cost paid in accordance to this agreement are reported as personnel costs in the Schedule of Functional Expenditures - Modified Cash Basis.
- H. 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 8.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. **Use of Estimates** - The preparation of financial statements in conformity with the modified cash basis of accounting used by the Cabarrus 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 Cabarrus 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 Cabarrus Partnership to a concentration of credit risk. At June 30, 2004, the Cabarrus Partnership's bank deposits in excess of the FDIC insured limit was \$58,477.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Cabarrus 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 Cabarrus 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 Cabarrus Partnership was awarded and has received \$1,293,079 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Cabarrus Partnership has returned \$29,463 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

More at Four – The Cabarrus Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Cabarrus Partnership was awarded \$623,900 and received \$610,728 under a current year cost-reimbursement contract. The Cabarrus Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Cabarrus Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Cabarrus Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Cabarrus 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 Cabarrus Partnership's Smart Start Allocation.
- B. Other Related Parties** - The Cabarrus Partnership has a leased employee relationship with the NorthEast Medical Center. A representative of the NorthEast Medical Center also serves on the Board of the Cabarrus Partnership. The Cabarrus Partnership paid a total of \$155,467 in personnel costs during the fiscal year.

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, salary supplements, provider training, special needs – support for child care professionals and learning materials and teaching aids.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including mobile family resource center, parenting skills training, general family support and community outreach information and resources.

Health and Safety - Used to account for service activities including oral health services, comprehensive screenings, child care health consultants, special needs – early intervention services/special education and home visiting.

More at Four – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program 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), and communication costs (telephone and printing) were allocated based on utilization data.

NOTE 6 - OPERATING LEASE OBLIGATIONS

The rental expense for all operating leases during the year was \$35,873.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - RISK MANAGEMENT

The Cabarrus 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 Cabarrus 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 Cabarrus 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 Cabarrus 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 \$4,380. No funds or reservation of net assets has been made for this commitment.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Intensive Home Visiting Program	\$ 21,701
Child Safety Campaign	7,601
Portable Cribs	300
	<u>\$ 29,602</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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
Intensive Home Visiting Program	\$ 19,798
Child Safety Campaign	378
	\$ 20,176

NOTE 10 - RESTATEMENT OF NET ASSETS

The Cabarrus Partnership received donor restricted funds for various activities during past fiscal years. These funds were incorrectly classified as unrestricted private contributions at the time of receipt. As a result, a reclassification of the net assets for both the Unrestricted Other and the Temporarily Restricted Funds is presented as follows:

	Net Assets Previously Reported	Net Effect of Prior Year Reclassification	July 1, 2003 Net Assets Restated
Unrestricted Funds - Smart Start	\$ 21,760	\$ 0	\$ 21,760
Unrestricted Funds - Other	38,268	(40,979)	(2,711)
Temporarily Restricted Funds		40,979	40,979
Total Net Assets	\$ 60,028	\$ 0	\$ 60,028

***Cabarrus County Partnership for Children
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
Cabarrus County Schools	* \$ 26,823	\$ 0	\$ 172,440	\$ 0
Cabarrus Health Alliance	* 449,211	(303)	19,798	
Child Care Resources, Incorporated	* 247,079	(4,000)		
Kannapolis City Schools	35,760		139,660	
Kids Korner Child Development Center, Incorporated			59,200	
Logan Community Child Development Center	*		115,020	
North East Medical Center	* 39,732			
Piedmont Developmental	67,233			
Piedmont Primary Academy, Incorporated			103,180	
Quality Improvement Grants	49,600	(1,219)	5,000	
	<u>915,438</u>	<u>(5,522)</u>	<u>614,298</u>	
Individuals:				
Salary Supplements	74,650			
Program Evaluation	20,800			
	<u>95,450</u>			
	<u>\$ 1,010,888</u>	<u>\$ (5,522)</u>	<u>\$ 614,298</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.

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

Schedule 2

Organization Name	DHHS Contracts
Cabarrus County Department of Social Services	* \$ <u>720,711</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.

***Cabarrus County Partnership for Children
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	\$ (21,760)	\$ 0
Early Childhood Initiatives Program (Current Year)	N/A	* 1,293,079	1,263,766
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
 North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	2090003656	* 610,728	604,776
Total Federal and State Awards		\$ 1,894,047	\$ 1,880,542

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

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

Schedule 4

Furniture and Noncomputer Equipment	\$ 16,265
Computer Equipment/Printers	<u>19,556</u>
Total Property and Equipment	<u><u>\$ 35,821</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.

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 16,495
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Match Provided at the Contractor Level:

Cash	\$ 116,652
In-Kind Goods and Services	<u>156,722</u>
	<u>\$ 273,374</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.



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

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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
Cabarrus County Partnership for Children
Concord, North Carolina

We have audited the financial statements of the Cabarrus County Partnership for Children (Cabarrus Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 29, 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 Cabarrus 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 Cabarrus 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. Internal Control Weaknesses
2. Contract Management 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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cabarrus 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*.

We noted other matters that we reported to the management of the Cabarrus Partnership in a separate letter dated July 26, 2005.

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

April 29, 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.

1. INTERNAL CONTROL WEAKNESSES

Our review of the Cabarrus Partnership's internal control system identified procedural weaknesses with the authorizing and processing of transactions as follows:

- Deficiencies were noted in the documentation of the cash receipting processes including the maintenance of a cash receipts log and the subsequent reconciliation to the bank statements. In addition, there is no policy for the verification of wire transfers.
- Approvals for bank reconciliations, journal entries, and other accounting transactions were not consistently documented. Evidence was not found to document the review of the accounting transactions or general ledger postings performed by the outsourced processor.
- Processing procedures such as the cancellation of invoices paid and verification of mathematical accuracy were not documented. Most journal entries appeared to be prepared by the outsourced processor and 3 of 10 sample items could not be located within the records of the Partnership.

Internal control is supported by a set of written guidelines, policies, and actions that seek to maximize fiscal integrity and minimize the likelihood of the misuse of funds by establishing a clearly defined and implemented set of financial checks and balances with the organization.

Recommendation: We recommend that the Cabarrus Partnership review its current operations and make appropriate changes. Emphasis should be placed on the implementation of effective policies to address the authorization and processing requirements for financial accountability and the documentation of those processes. The functions performed by the outsourced financial processor should be limited to those specified in contract.

Partnership's Response: The Cabarrus County Partnership for Children (herein after "Partnership") has and will continue to place a high emphasis on financial accountability and supporting documentation consistent with the Smart Start legislation; the North Carolina Partnership for Children contract and guidelines; local Board expectations; and private grant contracts and awards. The Partnership implemented stronger controls and improved supporting documentation in FY 04-05. The Partnership restricts the functions

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

of the outsourced local processing agency to those specified in contract. The Partnership is currently reviewing its policies, procedures and processes to ensure the Partnership maintains a superior level of internal control and documentation.

2. CONTRACT MANAGEMENT DEFICIENCIES

During our review of the Cabarrus Partnership's contract management processes, we identified that the Partnership consistently failed to amend its contracts with direct service providers. Although it appears that the Partnership Board authorized the additional funding, contract documents were not amended to formalize the increased contract amounts. Excess payments of \$76,000 and \$30,000 were noted for the More at Four program and the comprehensive dental program, respectively.

Contract management is essential to establishing terms and expectations for grant recipients to ensure that goals and objectives are properly communicated, adequately documented, and measurable by all parties to the contract.

Recommendation: We recommend that the Cabarrus Partnership enhance its contract management system to ensure that amendments to contracts are prepared to document agreement with contractual terms.

Partnership's Response: The Cabarrus County Partnership for Children (herein after "Partnership") immediately implemented a process for contracts management tracking to ensure all amendments to contracts are prepared and implemented in a timely manner; and that they are consistent with the actions approved by the Partnership Board.

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.

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August 23, 2005

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