SMART START – DIRECT SERVICE PROVIDERS (DSP)

State Authorization: General Statute (G.S.) 143B-168.10 - 143B-168.15 and Session Law 2007-323, Section 10.19.

N. C. Department of Health and Human Services
Division of Child Development

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N. C. DHHS Confirmation Reports:
SFY 2009 audit confirmation reports for payments made to Counties, Area Programs, Boards of Education, Councils of Government, District Health Departments and Bioterrorism Grant Subrecipients will be available by around late August to early September at the following web address: http://www.dhhs.state.nc.us/control/
At this site, page down to "Letters/reports/forms for ALL Agencies" and click on "Audit Confirmation Reports (State Fiscal Year 2008-2009)". Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from the DHHS are found at the same website except select "Non-Governmental Audit Confirmation reports (State Fiscal Years 2007-2009)".

The auditor should not consider the Supplement to be "safe harbor" for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the Supplement a "safe harbor" for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

I. PROGRAM OBJECTIVES

The objective of Smart Start is to explore and effect innovative approaches and strategies for aiding parents and families in the education and development of preschool children. State legislation (G.S. 143B-168.10) establishes The North Carolina Partnership for Children, Inc. (NCPC) for the purpose of developing a comprehensive, long-range strategic plan for early childhood development and the provision, through public and private means, of high-quality early childhood education and services for children and families.

History & Development of Smart Start

The 1993 enacting Smart Start legislation established a state-level nonprofit organization, NCPC, with a mission to develop a comprehensive, long-range strategic plan for early childhood development and to find ways to provide, through a public-private partnership, services to children and families. It charged the NCPC with oversight of 12 local demonstration projects. These first 12 "pioneer" sites were to be located in each of the 12 congressional districts and each was to be a new, private, local nonprofit, §501(c)(3) organization (an organization qualifying as tax exempt according to §501(c)(3) of the Internal Revenue Code) responsible for developing a plan for services to children and families in their service-delivery area.

The original legislation in 1993 also designated the State's Department of Human Resources (DHR) – now the Department of Health & Human Services (DHHS) to administer the Smart Start program and report quarterly to the General Assembly through its Joint Legislative Commission on Governmental Operations on the results of the local demonstration projects. The Department's responsibilities included the development of a statewide selection process for the first 12 sites, a needs and resource assessment for each of the 100 counties in North Carolina, administration of funds and contracts, and the provision of technical assistance to those demonstration sites. Each local partnership and NCPC were subject to review and audit by the NC State Auditor and were required to adopt the Open Meeting Law and the Public Records Law.

Smart Start was created as a locally-driven model, loosely based upon the "re-inventing government" approach, in which higher levels of government establish performance-based outcomes and then allow local communities flexibility and autonomy in devising means to attain them. The 1993 legislation contained language stating that "It is the intent of the General Assembly that communities be given the maximum flexibility and discretion practicable in developing their plans…" for young children. As such, communities were charged to come together and plan to meet the needs of young children and their families.

The legislation also called for the "local plan (to) address the assessed needs of all children to the extent feasible," but went on to emphasize that "they shall devote an appropriate amount of their State allocations…to meet the needs of children below poverty and their families" (1993 Legislation). It delineated the specific activities and services for which each local allocation should be used within three broad categories: child care services, family-centered services, and other 'appropriate' services including health-related and staff/organizational development. Smart Start was crafted to be a comprehensive approach to impact the early years of a child's life through services providing child care, support to families, health care, and other kinds of assistance. The aggregate administrative costs for local partnerships were limited to 8% or less of the total Smart Start grants to counties. By legislative mandate, matching support for this public-private initiative must total 10% of the Smart Start allocation each year. Of the 10%, at least 7.5% must be cash and no more than 2.5% may be in-kind contributions.

Pursuant to state legislation, NCPC requires a specific composition for local partnership boards that includes employees of specific community organizations (e.g., school systems, social service agencies, any university or community colleges, health and mental health agencies, public libraries, county and city governments) as well as representatives of specific groups (e.g., parents, child care providers, business leaders, faith communities, recipients of public assistance). The following table summarizes the expansion of Smart Start from 1993-2009 for local partnerships.

Expansion of Smart Start 1993-2009

State Fiscal Year	# of Partnerships Added/ (Merged)	Cumulative # of Partnerships	Cumulative # of Counties Served	Annual Fiscal Budget Totals
93/94	**12**	**12**	**18**	**$14,453,810**
94/95	**12**	**24**	**32**	**$42,440,482**
95/96	**11**	**35**	**43**	**$53,580,864**
96/97	**12**	**47**	**55**	**$63,618,364**
97/98	**34**	**81**	**100**	**$91,865,615**
98/99	**0**	**81**	**100**	**$136,755,828**
99/00	**0**	**81**	**100**	**$206,082,015**
00/01	**0**	**81**	**100**	**$220,495,741**
01/02	**0**	**81**	**100**	**$211,147,926**
02/03	**0**	**81**	**100**	**$191,522,435**
03/04	**1**	**82**	**100**	**$183,957,679**
04/05	**(1)**	**81**	**100**	**$183,993,547**
05/06	**(1)**	**80**	**100**	**$183,931,150**
06/07	**(1)**	**79**	**100**	**$197,646,311**
07/08	**(1)**	**78**	**100**	**$197,770,746**
08/09	**0**	**78**	**100**	**$202,495,615**

Note: Several partnerships have elected to form together on a regional basis serving multiple counties. The reduction in the number of partnerships over the past several fiscal years is the result of partnership mergers.

In 1996, the administration of the Smart Start program and responsibility for technical assistance to local partnerships were transferred from DHHS to NCPC. Smart Start funds are allocated annually. Each year, on or about April 1, county partnerships submit a plan for the use of funds in the next fiscal year, beginning July 1, to the NCPC for review and approval.

The local nonprofit partnerships use the allocation they receive to support the administration of their organization and to make program grants (through contracts) to community-based organizations that directly serve young children and their families. These program grants usually fall within five broad categories explained below; but within each of these broader core services, there can be some flexibility and innovation in addressing specific community needs.

<u>Smart Start's Comprehensive Approach</u>

North Carolina has taken a holistic approach to serving the needs of children through its Smart Start program. It recognizes that services must touch all facets of a child's environment in the early years. While specific programs differ from county to county, Smart Start funds support local programs and services that focus on young children in five core categories. The five core areas are:

- **Child Care Quality –** improving the quality of child care and early childhood education;
- **Child Care Availability –** making child care and early education available to every child who needs it;
- **Child Care Affordability –** making child care and early education affordable to all families;
- **Health –** giving each child access to comprehensive health care; and

- **Family Support –** getting families the information and resources they need to support the emotional, intellectual and physical development of their children.

To early childhood experts, there are four key components of *quality*, out-of-home care that will most benefit young children: 1) low child-to-teacher ratios, 2) small groups of children, 3) staff that is well trained and educated, and 4) workers that stay in their jobs long enough to form stable bonds with children. Smart Start focuses on ways to enhance the quality of child care by influencing these same components. Local partnerships may offer incentives to child care programs that work to obtain a higher level of licensure; or to pay for teacher training in CPR, First Aid, or playground safety; or to support increased compensation to a child care provider tied to education level and length of stay at a child care center.

Programs to make child care more *available* address the supply of care in a community. It may mean support of transportation initiatives to help parents get their children to child care. It might also mean funding incentives to get child care programs to offer specialized types of care not currently available or in short supply, such as infant-toddler care, emergency/sick care, or programs for children with special needs.

Helping make early childhood services more *affordable* is a major focus of Smart Start. In 2000, 59% of all women in North Carolina worked outside the home. More than 20% of North Carolina children ages 0-5 years live in single parent households. Of North Carolina children ages 0-5, 58% have all parents employed. With the average fee of $400 to $600 a month per child, affordable child care is critical to the economic stability of families. The cost of care generally determines the choices parents make for their children and sometimes is put above considerations of the quality or appropriateness of care. In addition, higher quality care is more expensive because there are more and better trained staff per child. Families at all income levels struggle to pay for the care of their children that allows the adults to go to work or attend school.

As child care is increasingly recognized as a major link between welfare and work, more and more Smart Start funding is allocated for child care subsidies to low and moderate income, working families. Smart Start has helped to reduce the waiting lists for child care in many counties. While ensuring that care is affordable for all children is a top priority, subsidizing child care also presents a unique opportunity to help improve the quality of care by tying subsidy dollars to the care that the parents purchase.

Health and safety programs funded with Smart Start fill gaps in child health care services. In some counties, there is a sufficient supply of both health providers and services, but consumers are unaware of or cannot access them. Other counties face shortages in health programs due to their remote location or inability to attract qualified providers. Ultimately, school readiness depends upon the healthy development of young children and early detection of health-related problems.

Smart Start supports parent education regarding the importance of early preventive health care. Smart Start has provided funding to purchase health and dental equipped vans with a nurse and dentist, to go into under-served areas to provide health screenings and immunizations. Vision and hearing screening programs conducted in child care centers have pinpointed problem areas in children long before they reach kindergarten.

Family support programs are the fifth core service provided through Smart Start. Studies have shown that children who have not received sensitive, responsive adult care are more likely to have lower levels of school achievement, require special education by grade 3, exhibit more behavioral problems, and use drugs and alcohol during adolescence. Teen mothers, parents with less than a high school education, or parents in an abusive or violent relationship may be unable to provide the appropriate nurturing so vital to their young children.

Smart Start programs provide support to families with young children through parent education, home visit programs, education on what to look for when choosing care, and family literacy programs. Family resource centers have been successful models for addressing the multiple needs of at-risk families through the collaboration of different services in a "one-stop shopping" process. Many examples of family resource centers can be found. In some counties, Smart Start funds enable family centers to start up in public housing units, in neighborhood community centers, and other spaces where parents and children come together.

Evaluation & Monitoring of Smart Start

The 1993 enabling legislation called for a formative evaluation of process and efficiency issues, and for an evaluation summarizing the ultimate effectiveness and outcomes produced by the program. Formal, statistical evaluations of Smart Start have been done by the Frank Porter Graham (FPG) Center for Child Development at the University of North Carolina in Chapel Hill. The UNC Smart Start Evaluation Team at FPG has produced 32 narrative reports to date on various aspects of this initiative.

A research team at FPG Child Development Center released a report on "preschool child care quality" in March 2003. Based upon extensive evidence that child care quality can positively affect children's learning, one of the main ways that Smart Start has tried to achieve the school readiness goal is by improving the quality of children's experiences in early care and education programs. In this study, which included 110 preschool child care programs, the FPG team measured the quality of classroom practices and the center's level of participation in Smart Start-funded technical assistance activities. The FPG report drew three main conclusions: (1) between 1993 and 2002, child care quality in this sample steadily and significantly increased; (2) participation in Smart-Start funded activities was significantly positively related to child care quality; and (3) children who attended higher quality centers score significantly higher on measures of skills and abilities deemed important for success in kindergarten than children from lower-quality centers.

Monitoring of Smart Start occurs in many ways. The NC Office of the State Auditor conducts annual audits of NCPC and audits, no less frequently than biennially, of each local partnership. This work ensures the fiscal accountability for all public and private funds going to Smart Start.

Contract monitoring occurs at both the State and local level for compliance with competitive bidding practices, established contracting procedures, and requests for funds based upon actual expenditures. Accountability for performance is also monitored through the annual plan review process and with outcome data reported annually to the State.

II. PROGRAM PROCEDURES

Smart Start funds are allocated to local partnerships by NCPC. Local partnerships, in turn, make decisions through their planning process about the use of their allotments. This supplement is targeted for Direct Service Providers (DSPs), to the agencies that receive funds from local partnerships. Not less than thirty percent (30%) of the funds spent in each year of each local partnership's direct services allocation shall be used to expand child care subsidies. Most of the 30% is allotted to county departments of social services and is used as a part of the departments' total funding for subsidized child care. Services provided by the local department of social services in agreement with the local partnership are set forth in Smart Start Funding Authorizations sent out by the Division of Child Development (DCD) of NCDHHS.

Smart Start funds also may be allotted by local partnerships to other public and private agencies (DSP) to purchase goods and services to benefit young children and their families. Activities to be performed by the DSPs are outlined in Attachment I to the local partnership's contract with NCPC. The local partnerships will also have a separate contract with the DSP.

In SFY 1997-98, all 100 counties were finally brought into the Smart Start program and local partnerships are now operating for all counties. Each local partnership develops a plan to support activities and services that will be made available and accessible to providers, children and families on a voluntary basis.

III. COMPLIANCE REQUIREMENTS – DIRECT SERVICE PROVIDER (DSP)

1. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirements – The North Carolina Constitution and supporting legal cases require that all State funds are expended for a public purpose.

The five core activities for which Smart Start funds may be spent are:

- **Child Care Quality –** improving the quality of child care and early childhood education;
- **Child Care Availability –** making child care and early education available to every child who needs it;
- **Child Care Affordability –** making child care and early education affordable to all families;
- **Health –** giving each child access to comprehensive health care; and
- **Family Support –** getting families the information and resources they need to support the emotional, intellectual and physical development of their children.

Services provided under Smart Start contracts are limited to those within an approved local partnership annual plan and allowed by G.S. 143B-168.10. Also see Special Provisions Session Law 2007-323, Section 10.19.

Note that Section 10.19(e) of Session Law 2007-323 prohibits capital expenditures and the expenditure of state funds for advertisement or promotional activities in State Fiscal Years 2007-2008 and 2008-2009.

Audit Objectives – Determine whether State awards were expended only for allowable activities. The allowable activities should be defined in the Smart Start contract(s) through which funds were provided to the DSP for the period being audited.

Suggested Audit Procedures

1. Review the activity description in grant or contract and determine if the activity meets the definition of one of the core activities.

2. Auditor should design audit procedures to determine that costs charged to the program are in accordance with approved activities pursuant to the contract terms.

2. ALLOWABLE COSTS/COST PRINCIPLES

Compliance Requirements – Effective July 1, 2005, North Carolina adopted rules that identified cost principles for grants of State funds. These cost principles were integrated into the Smart Start Cost Principles, which applied to all DSPs effective July 1, 2005. These Cost Principles were updated as of July 2, 2007.

In addition, the State has general criteria for allowable costs. The general criteria affecting allowability of costs under State awards are as follows:

1. Costs must be reasonable and necessary for the performance and administration of the award/grant and be allocable to the activity.

2. Costs must be authorized or not prohibited under State or local laws/regulations and approved by the funding agency.

3. Costs must conform to any limitations or exclusions set forth in the grant award as to type or amount of cost items.

4. Costs must be consistent with policies and procedures that apply uniformly to both State financed programs and other activities of the grantee organization.

5. Costs must be accorded consistent treatment and be determined in accordance with either generally accepted accounting principles or another comprehensive basis of accounting stipulated by the granting agency.

6. With the exception of the More at Four Program, costs must not be included as a cost or used to meet cost-sharing or matching requirements of another State financed program in either the current or prior period.

7. Costs must be adequately documented with time and attendance payroll records, personnel activity reports, or other time and effort records for employees charged to State awards or to more than one activity. Other types of documentation may include approved purchase orders, receiving reports, vendor invoices, canceled checks, etc. In addition, the costs must be correctly charged on the financial records as to account, amount, and period.

8. Costs must be net of all applicable credits that result from transactions that reduce or offset costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates and adjustments for overpayments or erroneous charges.

9. A cost is considered to be reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time a decision is made to incur the cost. Consideration must be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization, the performance of the award, or the provision of services.

10. A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefit received by the cost objective. In order for a cost to be allocable to a State grant or award, the cost must be treated consistently with other costs incurred for the same purpose under like circumstances. The cost must benefit both the award and other activities of the organization and be distributed to the cost objective in a reasonable proportion to the benefits received although a direct relationship to a particular cost objective cannot be shown. It should be noted that any cost allocable to a particular award or cost objective cannot be shifted to other State awards either to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award. NCPC issued Cost Allocation Guidelines effective July 2003 that are applicable to all local partnerships.

Audit Objectives – Determine whether:

1. Charges made to State awards were for allowable costs; and

2. Methods of allocating costs to State awards produce an equitable distribution.

Suggested Audit Procedures

Test a sample of transactions for compliance with the following criteria:

1. Complied with the allowability of costs provisions of or limitations in the program agreement, program regulations, Smart Start Cost Principles, Cost Allocation Guidelines or program statute.

2. Represented charges for actual costs, not budgeted or projected amounts.

3. Calculated in conformity with generally accepted accounting principles or another comprehensive basis of accounting when required.

4. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, or time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages and time and effort distribution are described in applicable OMB cost principles circulars. Documentation may be in an electronic form.

5. Not included as a cost or used to meet cost sharing requirements of other State-supported activities of the current or a prior period.

6. Determine that the costs charged are in accordance with the organization's approved indirect cost plan and NCPC's Cost Allocation Guidelines. Determine if cost allocation methodologies appear reasonable. Review the contract to determine if indirect costs are an allowable charge to the program.

3. CASH MANAGEMENT

Compliance Requirements – When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from a State agency. When funds are advanced, recipients may be required to follow specific procedures. Smart Start funds are frequently advanced.

Audit Objectives – Determine whether:

1. The direct service provider followed procedures established by the applicable sections of the contract with the local partnership; and

2. The subrecipients conformed to procedures required by the local partnership.

Suggested Audit Procedures

1. Select a sample of advances of State funds and compare to the dates the funds were disbursed and/or checks were presented to the banks for payments. Using these data, verify that:

a. The timing of disbursements were in compliance with contract requirements which allow the contractor, upon execution of the contract, to request and, upon approval by the local partnership, receive an advance of no more than one months operating expenses including start-up expenses. The amount of this advance is to reflect actual expenses anticipated for the specific upcoming one-month period. Monthly/bimonthly/quarterly payments shall be made based on actual expenditures incurred in accordance with the approved budget on file with both parties.

b. If applicable, procedures were established to minimize the time elapsing between drawdown and disbursement of State funds.

2. Select a sample of monthly payment requests (Financial Status Reports) and verify amounts paid to DSPs were correctly calculated and that the local partnership performed accurate reconciliations of the Financial Status Reports.

3. Determine that any unexpended funds held by the DSP were reported to the local partnership with the final claim for reimbursement. Payment for the final claim should have been reduced by this amount. If the remaining unexpended funds were in excess of the final claim for payment, the DSP should have returned the excess funds to the local partnership within time frames required by the local partnership.

4. CONFLICT OF INTEREST AND CERTIFICATION OF NO OVERDUE TAX DEBTS

Compliance Requirements – Nongovernmental Organizations

DSPs are required by their contracts with the local partnerships to formally adopt a policy which addresses conflicts of interest that might arise involving the entity's management, employees, and/or board members. The policy statement is expected to address situations in which any of the above referenced individuals may directly or indirectly benefit from the entity's disbursement of funds received from the State. In addition, the policy should specify actions to be taken by the entity or individuals or both to avoid either actual conflicts of interest or the appearance of an impropriety. Before a private, not-for-profit entity receives and disburses State funds, the entity should have adopted and have on file a copy of the policy statement.

Audit Objective – Before receiving and disbursing State funds, determine whether the grantee has adopted and has on file a conflict of interest policy and that the grantee was in compliance with the policy.

Suggested Audit Procedures

1. Ascertain that the grantee has a conflict of interest policy in accordance with its contract with the local partnership.

2. Check the policy and verify through board minutes that a policy was adopted before the grantee received and disbursed State funds. Also, from review of board activities, determine that grantee is in compliance with this policy.

5. ELIGIBILITY

Compliance Requirements – The specific requirements for eligibility are unique to each State program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. The best source of information about individuals to be served is the local partnership's plan that has been approved by NCPC and the DSPs contract work plan.

Audit Objectives – Determine whether the following is true:

1. Required eligibility determinations were made, (including obtaining any required documentation/verifications) and that individual program participants or groups of participants (including area of service delivery) were determined to be eligible. Only eligible individuals or groups of individuals (including area of service delivery) participated in the program.

2. Subawards were made only to eligible subrecipients.

3. Amounts provided to or on behalf of eligible individuals or entities were calculated in accordance with program requirements.

Suggested Audit Procedures

1. Determine the eligibility criteria related to the performance of the contract.

2. Review to determine if an eligibility determination system is in place.

3. Perform sample tests to determine if eligibility criteria are being followed.

   a. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both.)
   b. Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.
   c. Benefits were discontinued when the period of eligibility expired.

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements – The specific requirements for equipment management are as follows:

Title to furniture, fixtures and equipment costing in excess of $500 acquired by the DSP with State funds shall vest in the DSP, subject to the following conditions:

1. The DSP shall use the furniture, fixtures and equipment in the project or program for which it was acquired as long as needed. When furniture, fixtures and equipment is no longer needed for the project or program or if operations are discontinued, or at the termination of the contract, the DSP shall notify the local partnership and receive written instructions regarding the disposition of furniture, fixtures and equipment.

2. Any unused or unneeded furniture, fixtures, equipment or materials held by the Contractor shall be reported to the Local Partnership, which has the option of placing said furniture, fixtures, equipment and materials at another facility.

3. Furniture, fixture and equipment controls and procedures must be in place to safeguard the assets according to the procedures mandated for the Local Partnership.

Audit Objectives – Determine whether:

1. The grantee maintains proper records for equipment and adequately safeguards and maintains equipment; and

2. Disposition of any equipment acquired with State awards is in accordance with the requirements of the awarding agency.

Suggested Audit Procedures

1. Obtain contractor's policies and procedures for equipment management and ascertain if they comply with the awarding agency's policies and procedures.

2. Select a sample of equipment transactions and test for compliance with the awarding agency's policies and procedures for management and disposition of equipment.

   Identify equipment acquired under State awards during the audit period and trace selected purchases to the property records. Verify that the property records contain information about the equipment required by the awarding State agency. Such information could include a description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of State participation in the cost, location, condition, and any ultimate disposition data including the date of disposal and sales price or method used to determine current fair market value.

3. Select a sample of equipment identified as acquired under State awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained.

4. Dispositions of Equipment

   a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were made in accordance with the awarding agency's requirements.

   b. For dispositions of equipment acquired under State awards, perform procedures to verify that the dispositions were properly reflected in the property records.

8. PERIOD OF AVAILABILITY OF STATE FUNDS

Compliance Requirements – Smart Start contracts specify a time period during which the contractor may use the State funds. Where a funding period is specified, a contractor may charge to the award only costs resulting from cash disbursements that occur during the funding period.

Audit Objective – Determine whether State funds were disbursed within the period of availability.

Suggested Audit Procedures

1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of availability and document the availability period.

2. Determine that all costs were expended prior to the end of the contract period.

3. Review for prepayments or for disbursements after the end of the contract period. All such activity should have prior approval from the funding entity.

4. Select a sample of adjustments to the State funds and verify that these adjustments were for transactions that occurred during the period of availability.

9. PROCUREMENT AND SUSPENSION AND DEBARMENT

Compliance Requirement – Smart Start DSPs are prohibited from entering into a contract with a party that has been suspended or debarred by the State of North Carolina.

Audit Objective – To determine that the Smart Start DSP has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina.

Suggested Audit Procedure – Test a sample of contracts and verify that the DSP has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina. A list of debarred parties can be found at http://www.ncpandc/actions.asp

10. PROGRAM INCOME

Compliance Requirements

1. Program income is defined as follows: "Program income includes but is not limited to income from services rendered, the use or rental of real or personal property acquired with State funds, sales of commodities, etc. Interest earned on State funded deposits is considered to be program income."

2. Program income must only be spent to enhance the activities performed under the contract or to decrease the cost to the Local Partnership of performing those activities; it cannot be used towards administrative costs. Program income may only be expended on approved activities.

3. Written authorization to expend program income by a Subcontractor must be obtained from the Local Partnership prior to expenditure.

4. DSP program income must be expended in the year earned.

5. All program income at the DSP unexpended as of June 30th of the year earned must be reverted. The DSP must revert all its program income to the local partnership. The local partnership must revert all the DSP program income and its program income to NCPC.

Audit Objectives – Determine whether program income was:

1. Earned in current year;

2. Expended appropriately in current year;

3. Accounted for; and

4. Correctly reported to the local partnership, with any excess returned to the local partnership.

Suggested Audit Procedures

1. Review accounting records for program income to determine if the income was properly accounted for, was expended in the appropriate period, and was expended for services ONLY.

2. Review authorization from the Local Partnership to the DSP to expend program income.

3. Determine that all program income unexpended at the end of the fiscal year was reverted to the Local Partnership.

12. REPORTING

Compliance Requirements

Financial Reporting

The specific requirements for financial reporting are found in the provisions of the Smart Start local partnership contract with the DSP.

Program Reporting

The specific contract requirements for program reporting are found in the contracts with the contracting entity.

Audit Objective – Determine whether required reports for State awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

Suggested Audit Procedures

1. Obtain an executed copy of the contract and review applicable provisions of contract agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review instructions for completing the reports.

    a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual). The Smart Start program requires the use of the cash basis of accounting for reporting purposes.

    b. For program reports, determine the criteria and methodology used in compiling and reporting the data.

2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:

    a. Comparing current period reports to prior period reports;

    b. Comparing anticipated results to the data included in the reports; and

    c. Comparing information obtained during the audit of the financial statements to the reports.

Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.

3. Select a sample of each of the following report types:

   a. Financial reports:

      (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.

      (2) Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of State awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.

      (3) Ascertain that financial reports were submitted when due.

   b. Program reports:

      (1) Trace the data to records that accumulate and summarize data.

      (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.

   c. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.

   d. Test mathematical accuracy of reports and supporting worksheets.

4. Test the selected reports for completeness.

   a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, and reserve funds).

   b. For program reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.

5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the awarding agency or pass-through entity in the case of a subrecipient.