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**SMART START – LOCAL PARTNERSHIPS (LP)**

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**State Authorization:** General Statute (G. S.) 143B-168.10 - 143B-168.16 and Session Law 2018-5.

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

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**N. C. DHHS Confirmation Reports:**

SFY 2019 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCO's), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address: <https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports>. At this site, click on the link entitled **“Audit Confirmation Reports (State Fiscal Year 2018-2019)”**. 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 2017-2019)”**

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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 community-based approaches and strategies for aiding parents and families in the education and development of preschool children. State legislation (G. S. 143B-168.11) 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.

**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 local partnerships, the agencies that expend the funds received from NCPC. 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. To the extent practicable, these funds shall be used to enhance the affordability, availability, and quality of child care services as described in this section. The North Carolina Partnership may increase this percentage requirement up to a maximum of fifty percent (50%) when, based upon a significant local waiting list for subsidized child care the North Carolina Partnership determines a higher percentage is justified. Local

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partnerships shall spend an amount for child care subsidies that provides at least fifty-nine million dollars (\$59,000,000) for the Temporary Assistance to Needy Families (TANF) maintenance of effort requirement and the Child Care Development Fund and Block Grant match requirement (G.S. 143B-168.15. (g) and page 110 of Session Law 2018-5 under Child Care and Development Fund Block Grant 01. Child Care Services).

Smart Start funds also may be allotted by local partnerships to other public and private agencies (Direct Service Provider or 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.

### **Smart Start's Comprehensive Approach**

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 four core categories. The four core areas are:

- **Child Care and Education Quality** – improving the quality of child care and early childhood education;
- **Child Care and Education Affordability** – making child care and early education affordable to all families;
- **Health and Safety** – 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 or to support increased compensation to a child care provider tied to education level and length of stay at a child care center.

Helping make early childhood services more *affordable* is a major focus of Smart Start. 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.

Smart Start provides tuition assistance programs that help families afford child care. By law, 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. To the extent practicable, these funds shall be used to enhance the affordability, availability, and quality of child care services as described in this section. The North Carolina Partnership may increase this percentage requirement up to a maximum of fifty percent (50%) when, based upon a significant local waiting list for

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subsidized child care the North Carolina Partnership determines a higher percentage is justified. Local partnerships shall spend an amount for child care subsidies that provides at least fifty-nine million dollars (\$59,000,000) for the Temporary Assistance to Needy Families (TANF) maintenance of effort requirement and the Child Care Development Fund and Block Grant match requirement (G.S. 143B-168.15. (g) and page 110 of Session Law 2018-5 under Child Care and Development Fund Block Grant 01. Child Care Services). These funds supplement other funding streams in the community, particularly State and Federal subsidy funds distributed through local departments of social services. Other funds may come from businesses that offer employees child care in the workplace or partial payment for the care of dependents as a part of their benefits package. A few businesses may purchase slots for employee children at particular centers.

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 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 focus on prevention and help 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 and developmental delays.

Smart Start supports parent education regarding the importance of early preventive health care, and training for medical providers to complete developmental screenings along with well-child check-ups. Smart Start also funds support for community and child care obesity prevention activities and child care health consultation to assure safe and healthy environments in child care.

*Family support* programs are the fourth 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 visiting programs, education on what to look for when choosing care, and early literacy programs.

### **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 Center 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,

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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.

Recent studies by Duke University determined that Smart Start reduced later incidence of special education placement as well as grade retention in 3<sup>rd</sup> grade. Smart Start combined with More at Four/NC Pre-K was associated with higher reading and math scores in grades 3, 4, and 5.

Monitoring of Smart Start occurs in many ways. The NC Office of the State Auditor conducts an annual audit of NCPC and, no less frequently than biennially, each local partnership is audited by an independent auditor. 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 policies and procedures, compliance with contractual requirements and requests for funds based upon actual expenditures. Accountability for performance is monitored through the annual planning process and with outcome data reported annually to the State. Smart Start also has uniform population-based performance indicators to monitor community impact annually.

### III. COMPLIANCE REQUIREMENTS – LOCAL PARTNERSHIPS (LP)

#### 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 four core activities for which Smart Start funds may be spent are:

- **Child Care and Education Quality** – improving the quality of child care and early childhood education;
- **Child Care and Education Affordability** – making child care and early education affordable to all families;
- **Health and Safety** – 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 with an approved local partnership annual plan and allowed by G.S. 143B-168.15. Also see Session Law 2018-5.

Note that Section 11B.8. (h) of Session Law 2018-5 prohibits capital expenditures and the expenditure of State funds for advertisement or promotional activities for the 2017-2019 fiscal biennium.

**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 for the period being audited.

#### **Suggested Audit Procedures**

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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.
3. Auditor should design audit procedures to determine that all contract conditions are met before grants are awarded.

### **2. ALLOWABLE COSTS/COST PRINCIPLES**

**Compliance Requirements – Effective July 1, 2005**, North Carolina adopted rules that identified cost principles for grants of State funds (09 NCAC 03M-0201). These cost principles were integrated into the Smart Start Cost Principles effective July 1, 2005. These Cost Principles were updated as of July 1, 2012, August 1, 2016, July 1, 2017, and July 1, 2018.

In addition, the State has adopted 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 NC Pre-Kindergarten 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. Additionally, in accordance with NCGS Session Law 2018-5 local partnerships must comply with NCPC's salary schedule for Executive Directors.
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:

- A. Charges made to State awards were for allowable costs; and
- B. 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 Title 2 CFR, Part 200, Subpart E. Documentation may be in an electronic form.
5. With the exception of the NC Pre-Kindergarten Program, 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 local partnership followed procedures established by the applicable sections of the contract with NCPC; and
2. The local partnership implemented procedures to assure that subrecipients conformed to the same requirements that applied to 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 bank for payment. Using these data, verify the following:

The timing of disbursements were in compliance with contract requirements which allow the local partnership, upon execution of the contract, to request and, upon approval by NCPC, receive an advance of one month's operating expenses including additional amounts as approved by NCPC. Monthly payments after the initial advance shall be made based on the remainder of the approved budget on file with NCPC and the number of months remaining in the fiscal year. Expenditures will be reported monthly. Cash-on-hand will be monitored and adjusted monthly to maintain a level not to exceed 60 days.

2. Select a sample of local partnership Expenditure Certification e-mails and trace to supporting documentation showing that the costs for which payment was requested were paid prior to the date of the payment request and that requests are supported by accounting reports.
3. Determine that any unexpended funds held by the local partnership were reported to NCPC with the final claim for reimbursement. If the remaining unexpended funds were in excess of the final claim for payment, the local partnership should have returned the excess funds to NCPC within time frames required by NCPC.

## **4. CONFLICT OF INTEREST**

### **Compliance Requirements**

#### **Nonprofit Organizations**

Local partnerships are required by their contract with NCPC 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. In the contract with NCPC, the local partnerships expressly state that they have adopted the following policy or a more restrictive version:

- A. All appointed local board members shall avoid conflicts of interests and the appearance of impropriety. Should instances arise when a conflict may be perceived, any individual who may benefit directly or indirectly from the local partnership's disbursement of funds shall abstain from participating in any decision or deliberations by the local partnership regarding the disbursement of funds.
- B. Local Partnership employees, in the performance of local partnership duties, must seek only the furtherance of the local partnership mission. At all times, employees are

prohibited from using their job title, the organization's name, or property, for private profit or benefit.

- C. The directors, officers, employees, or agents of the local partnership should neither solicit nor accept gifts, entertainment, favors, or other items of more than nominal monetary value from contractors/vendors. This policy is not intended to preclude bona-fide local partnership fund-raising activities.
- D. Disclosure – All conflicts of interest shall be disclosed by the person or persons concerned.
- E. Record of Conflict – The official minutes of the Board of Directors shall reflect that any conflict of interest was disclosed and the person(s) with conflicts of interest did not participate in discussion or vote on the matter.

**Audit Objective** – Determine whether the local partnership, before receiving and disbursing State funds, has adopted and has on file a conflict of interest policy and that the local partnership was in compliance with the policy.

### **Suggested Audit Procedures**

1. Ascertain that the local partnership has a conflict of interest policy in accordance with its contract with NCPC.
2. Check the policy and verify through board minutes that a policy was adopted before the local partnership received and disbursed State funds. Also, from review of board activities, determine that the local partnership 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 legislation and the provisions of contract or grant agreements pertaining to the program. This compliance requirement specifies the criteria for determining the subrecipients that may participate in the program and the amounts for which they qualify. The criteria about subrecipients to be served are indicated in the activity description in the contract with NCPC.

**Audit Objectives** – Determine whether:

1. Required eligibility determinations were made, (including obtaining any required documentation/verifications) and that subrecipients (including area of service delivery) were determined to be eligible. Only eligible subrecipients (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 subrecipients 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 subrecipients 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 subrecipients 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 personal property management are as follows:

Title to personal property costing in excess of \$500 per item acquired by the local partnership with State funds shall vest in the local partnership, subject to the following conditions:

1. The local partnership shall use the personal property in the activity, service or program for which it was acquired as long as needed. When personal property is no longer needed for the activity, service or program or if operations are discontinued, the local partnership shall follow NCPC's approved Fixed Asset Disposal Policy as it may be revised from time to time.
2. When acquiring replacement personal property, the local partnership may use personal property purchased through a NCPC project or program as trade-in against replacement personal property or may sell said personal property and use the proceeds to offset the costs of replacement personal property subject to NCPC's Fixed Asset Disposal Policy.
3. Personal property controls and procedures should be maintained in accordance with the contract between NCPC and the local partnership to adequately account for and identify the personal property.

**Audit Objectives** – Determine whether:

1. The local partnership maintains proper records for personal property and adequately safeguards and maintains personal property; and
2. Disposition of any personal property acquired with State awards is in accordance with the requirements of the awarding agency.

### **Suggested Audit Procedures**

1. Obtain the local partnership's policies and procedures for personal property management and ascertain if they comply with the awarding agency's policies and procedures.
2. Select a sample of personal property transactions and test for compliance with the awarding agency's policies and procedures for management and disposition of personal property.

Identify personal property 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 personal property 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

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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 personal property identified as acquired under State awards from the property records and physically inspect the personal property including whether the personal property is appropriately safeguarded and maintained.
4. Dispositions of Personal Property
  - a. Determine the amount of personal property 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 personal property acquired under State awards, perform procedures to verify that the dispositions were properly reflected in the property records.

### 7. MATCHING, LEVEL OF EFFORT, EARMARKING

**Compliance Requirements** – The specific legislative requirements for matching and level of effort are included in Session Law 2018-5.

NCPC and all local partnerships shall, in the aggregate, be required to match one hundred percent (100%) of the total required legislative match requirement in each fiscal year of the biennium as follows: contributions of cash shall be equal to at least thirteen percent (13%) and in-kind donated resources shall be equal to no more than six percent (6%) for a total match requirement of nineteen percent (19%) for each year of the 2017-2019 fiscal biennium. NCPC may carry forward any amount in excess of the required match for a fiscal year in order to meet the match requirement of the succeeding fiscal year.

Only in-kind contributions that are quantifiable shall be applied to the in-kind match requirement. Volunteer services may be treated as an in-kind contribution for the purpose of the match requirement of this subsection. Volunteer services that qualify as professional services shall be valued at the fair market value of those services. All other volunteer service hours shall be valued at the statewide average wage rate as calculated from data compiled by the Division of Employment Security of the Department of Commerce in the Employment and Wages in North Carolina Annual Report for the most recent period for which data are available. Expenses, including both those paid by cash and in-kind contributions, incurred by other participating non-State entities contracting with NCPC, or the local partnerships, also may be considered resources available to meet the required private match. In order to qualify to meet the required private match, the expenses shall:

1. Be verifiable from the contractor's records;
2. If in-kind, other than volunteer services, be quantifiable in accordance with generally accepted accounting principles for nonprofit organizations;
3. Not include expenses funded by State funds;
4. Be supplemental to and not supplant pre-existing resources for related program activities;
5. Be incurred as a direct result of the Early Childhood Initiatives Program and be necessary and reasonable for the proper and efficient accomplishment of the Program's objectives;
6. Be otherwise allowable under federal or State law;

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7. Be required and described in the contractual agreements approved by NCPC, or the local partnership; and
8. Be reported to NCPC, or the local partnership by the contractor in the same manner as reimbursable expenses.

NCPC shall establish uniform guidelines and reporting format for local partnerships to document the qualifying expenses occurring at the local partnership and contractor levels. Local partnerships shall monitor qualifying expenses to ensure they have occurred and meet the requirements prescribed in this section.

*Matching* – The auditor should recognize that **NCPC has altered slightly the legislative match requirement that NCPC imposes on local partnerships**. Since the match requirement includes NCPC and all local partnerships in the aggregate, NCPC requires that each local partnership match 19% of its Smart Start funds in cash or in-kind. The cash and in-kind contributions are required to be reported to NCPC on a “cash and in-kind contribution” report that is sent to NCPC following the end of the fiscal year.

### Audit Objectives

1. *Matching* – Determine whether the minimum amount or percentage of contributions of matching funds was provided.
2. *Supplanting* – Determine whether specified service or expenditure levels were maintained.

### Suggested Audit Procedures

1. Matching
  - a. Review contractual agreements to determine required match amounts.
  - b. Determine match amounts reported in the cash and in-kind reports by the local partnership and the DSPs.
  - c. Test transactions used to match for compliance with the legislative requirements.
2. Supplement Not Supplant
  - a. Ascertain if the entity used State funds to provide services which they were allowed to make available under State or local law and were also made available by funds subject to a supplement not supplant requirement.
  - b. Ascertain if the entity used State funds to provide services that were provided with non-State funds in the prior year.
    - (1) Identify the State-funded services.
    - (2) Perform procedures to determine whether the State program funded services that were previously provided with non-State funds.
    - (3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of State contribution.

*Earmarking* – Smart Start provides tuition assistance programs that help families afford child care. By law, 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. To the

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extent practicable, these funds shall be used to enhance the affordability, availability, and quality of child care services as described in this section. The North Carolina Partnership may increase this percentage requirement up to a maximum of fifty percent (50%) when, based upon a significant local waiting list for subsidized child care the North Carolina Partnership determines a higher percentage is justified. Local partnerships shall spend an amount for child care subsidies that provides at least fifty-nine million dollars (\$59,000,000) for the Temporary Assistance to Needy Families (TANF) maintenance of effort requirement and the Child Care Development Fund and Block Grant match requirement. These funds supplement other funding streams in the community, particularly State subsidy funds distributed through local departments of social services. Other funds may come from businesses that offer employees child care in the workplace or partial payment for the care of dependents as a part of their benefits package. A few businesses may purchase slots for employee children at particular centers.

### **Suggested Audit Procedures**

*Earmarking* – Verify that the required expenditures from a local partnership’s Smart Start direct services allocation were used to expand child care subsidies.

## **8. PERIOD OF PERFORMANCE**

**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**

### *Procurement*

Procurements shall be conducted in accordance with instructions contained in NCGS Session Law 2018-5. Circumventing these regulations by reducing large purchases to a series of small purchases or by any other means is not permitted.

### *Suspension and Debarment*

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**Compliance Requirement** – Smart Start local partnerships 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 local partnership 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 local partnership 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.pandc.nc.gov/actions.asp>.

## 10. PROGRAM INCOME

### Compliance Requirements

1. Program income is defined as follows: “Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with State funds, the sale of commodities or items fabricated under a grant agreement, etc. Interest earned on State funded deposits is considered to be program income.”
2. Program income must be spent to achieve services objectives ONLY; it cannot be used towards administrative costs. Program income may only be expended on approved service activities. Written authorization from NCPC to expend program income is not necessary.
3. Program income must be expended either in the year earned or by June 30<sup>th</sup> in the year subsequent to the year earned.
4. All program income at the **Local Partnership** unexpended as of June 30<sup>th</sup> of the year subsequent to the year earned must be reverted to NCPC. NCPC will revert the funds to DCDEE.
5. A signed hard copy of the *Program Income Report* along with the reversion check payable to NCPC is to be submitted to NCPC at a specified date following the end of each fiscal year.
6. The carry forward amount at June 30<sup>th</sup> cannot exceed the Program Income earned in the fiscal year to which the program income report applies.

**Audit Objectives** – Determine whether program income was:

1. Carried forward from the previous year;
2. Earned in current year;
3. Expended appropriately in current year;
4. Accounted for; and
5. Correctly reported with any excess returned to NCPC.

### Suggested Audit Procedures

1. Review the annual program income report submitted to NCPC and review disbursement for reversion, if applicable.

2. Review documentation for expenditures to determine that program income was expended for services ONLY and in the appropriate period.

## **12. REPORTING**

### **Compliance Requirements**

#### *Financial Reporting*

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

#### *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. 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.
  - 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.

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- (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 the 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.

### **13. SUBRECIPIENT MONITORING**

**Compliance Requirements** – A local partnership is responsible for the following:

1. Identifying to the DSP the State award information (e.g., grant number, if applicable, title; award name; name of State agency) and applicable compliance requirements.
2. Monitoring the DSP's activities to provide reasonable assurance that the DSP administers State awards in compliance with State requirements.
3. Ensuring required audits are performed and requiring the DSP to take prompt corrective action on any audit findings.
4. Evaluating the impact of DSP activities on the local partnership's ability to comply with applicable State laws.

Factors such as the size of awards, percentage of the total program's funds awarded to DSPs, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

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Monitoring activities may take various forms such as reviewing reports submitted by the DSP, performing site visits to the DSP to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of DSP activities such as eligibility determinations, reviewing the DSP's single audit or program-specific audit results and evaluating audit findings and the DSP's corrective action plan.

The DSP contract specifies that the DSP will apply the following requirements to subrecipients:

- If the DSP disburses or transfers any State funds to other organizations, except for the purchase of goods or services, it shall require such organization to file with it similar reports and statements as required by G. S. 143C-6-23. The DSP shall require such organizations to furnish to the Office of State Auditor and the funding agencies, upon request, all financial books, records, and any other information requested by them to provide full accountability for the use and expenditure of State funds.
- If the DSP disburses or transfers any pass-through federal funds received by the State to other organizations, it shall require such organizations to comply with the applicable requirements of Title 2 CFR, Part 200, Subpart F.

**Audit Objectives** – Determine whether the local partnership:

1. Identified State award information and compliance requirements to the DSP;
2. Monitored subrecipient activities to provide reasonable assurance that the DSP administers State awards in compliance with State requirements;
3. Ensured required audits are performed and requires appropriate corrective action on monitoring and audit findings; and
4. Evaluated the impact of subrecipient activities.

### **Suggested Audit Procedures**

(Note: The auditor may consider coordinating the tests related to subrecipients performed as part of Activities Allowed or Unallowed (tests that subrecipient agreements were for allowable activities), Cash Management (tests of cash reports submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of suspension and debarment certifications) with the testing of Subrecipient Monitoring.)

1. Discuss DSP monitoring with the local partnership staff to gain an understanding of the scope of monitoring activities including the number, size, and complexity of awards to subrecipients.
2. Test contract to ascertain if the local partnership made DSPs aware of the award information and requirements imposed by laws, regulations, and the provisions of the contract or grant agreements pertaining to the program by including appropriate language in its contract with the DSP. This testing should include procedures to verify that the local partnership required DSPs to have audits done in accordance with the State Single Audit Implementation Act and the Local Government Commission requirements or the Nonprofits State Funds Accountability Act, whichever is applicable.
3. Review the local partnership's documentation of subrecipient monitoring to ascertain if the local partnership monitored that subrecipients used State funds for authorized purposes and took actions in response to monitoring findings. This review should include procedures to verify that the local partnership monitored the activities of subrecipients not subject to the State's single audit requirements using techniques such as those discussed in the Compliance Requirements provisions of this section.



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4. Verify that the local partnership receives audit reports from DSPs required to have an audit in accordance with the State's single audit requirements, issues timely management decisions on audit and monitoring findings, and requires DSPs to take timely corrective action on deficiencies identified in audits and DSP monitoring.
5. Verify that the effects of DSP noncompliance are properly reflected in the local partnership's records.

### 14. SPECIAL TESTS AND PROVISIONS

**Compliance Requirement** – The North Carolina Partnership for Children, Inc. shall not reduce the allocation for counties with less than 35,000 in population below the 2012-2013 funding level.

**Audit Objectives** – Determine whether:

1. The local partnership is serving a county with less than 35,000 in population.
2. The local partnership is receiving an allocation amount not less than the 2012-2013 funding level.

#### **Suggested Audit Procedures**

1. Obtain the latest census from the State of North Carolina to determine if the county has less than 35,000 in population.
2. Obtain the local partnership's contract with NCPC for the current fiscal year and for the 2012-2013 fiscal year to ensure the current allocation amount is not less than the allocation amount received in fiscal year 2012-2013.

**Compliance Requirement** – All non-State entities that receive, use or expend State funds, including federal funds passed through the N. C. Department of Health and Human Services, are subject to the financial reporting requirements of G. S. 143C-6-23. These requirements include the submission of a written statement that the entity does not have any overdue tax debts as defined by G. S. 105-243.1 at the federal, State or local level (see G. S. 143C-6-23.(c)).

Local partnerships are required to provide NCPC with a written statement of no overdue tax debts.

**Audit Objective** – Determine whether the local partnership has a written statement stating that the local partnership does not have any overdue tax debts before receiving and disbursing State funds.

#### **Suggested Audit Procedures**

1. Ascertain that the local partnership has a written statement stating no overdue tax debts in accordance with G. S. 143C-6-23.(c).