



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

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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June 13, 2007

Ms. Maude Cherry, Owner  
Little Angels Child Care Center  
958 Sutton Road  
Rocky Mount, NC

Re: State Grants from the Department of Health and Human Services—  
State Fiscal Year 2005, \$54,436.58  
State Fiscal Year 2006, \$41,508.60

Dear Ms. Cherry:

We have completed an examination of grant funds encompassing certain limited procedures, as described below. This examination related to management of state grant funds by Little Angels Child Care Center, (Little Angels) was conducted April 26, 2007. Our objective was to identify whether or not deficiencies in internal control; instances of noncompliance with laws, regulations, and/or deficiencies in the management of financial resources existed.

These procedures do not constitute an audit, examination, or a review as described in professional standards governing those types of services. Furthermore, our procedures were not agreed upon by you or any third party. Our procedures do not provide a basis for providing any level of assurance regarding internal control, compliance or financial management and should not be relied upon for that purpose. Specifically, our procedures consisted of the following:

- Interviewing personnel;
- Examining accounting records for the purpose of identifying state grant transactions;
- Reviewing available policies and procedures; and
- Reviewing available board minutes

The examination of grant funds disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations. Your response to the draft findings is also included as part of this final letter.

This letter, including your written response to the findings, will be published on our Electronic Publication System (EPS) at [www.ncauditor.net](http://www.ncauditor.net). You and others who are interested in the publication should register with EPS on the web site. Registered parties will receive an email notification and a link to the publication as soon as it is available.

This letter is intended solely for the information and use of the management of the Little Angels Child Care Center, the Governor, the General Assembly, and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



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

LWMjr/jef

Attachment

CC: Secretary Carmen Hooker Odom  
Department of Health and Human Services  
Ms. Laketha Miller, Controller  
Department of Health and Human Services  
Dr. Leah Devlin, Director  
Division of Public Health, DHHS

## **Little Angels Child Care Center, Inc. FINDINGS AND RECOMMENDATIONS**

**Overview:** Little Angels Child Care, Inc. is a child care facility with a license capacity to serve up to 66 children. Enrollment at the time of our visit was 43. All of the children were noted as income eligible to receive the Child and Adult Care Food Program (Food Program). The grant is set up as a reimbursement grant. The last monitoring visit by the Division of Public Health—Women's & Children's Health Section was in August of 2005. During that visit, the agency monitors noted noncompliance which included lack of required documentation to support claims for reimbursement.

During the April 26, 2007 evaluation by our office, we noted the following concerns, which include lack of required documentation. These issues should be addressed immediately by the grantee and followed up by the funding agency.

1. LITTLE ANGELS CHILD CARE CENTER, INC. DOES NOT HAVE AN ADEQUATE ACCOUNTING SYSTEM TO TRACK STATE GRANT TRANSACTIONS.

All monies received by the grantee are deposited into a single bank account that is used as a personal checking account, co-mingling both State grant funds and personal funds. Since Little Angels is a corporation, those revenues should be separate from any personal accounts. The system of accounting results in the co-mingling of funds, failure to track program expenses, and inability to provide financial information for Little Angels, or to provide clear records on how grant funds were spent.

*Recommendation:*

Little Angels should design and implement an accounting system that will allow expenditures to be linked to each funding source. This will provide the required level of recordkeeping to allow determination of compliance with grant terms. All grant supporting documentation, which includes financial records, must be maintained on site.

2. LITTLE ANGELS CHILD CARE CENTER, INC DID NOT COMPLY WITH ALL THE REQUIREMENTS OF ITS FOOD PROGRAM GRANT AGREEMENT.

The Food Program grant documentation reviewed demonstrated the following non-compliances:

- Little Angels did not apply for a grant amendment as required for a change in organizational structure or the closing of a facility.
  - ◆ Two facilities were closed during the grant periods reviewed with no amendments filed.

- Little Angels's Food Program monthly billing records were tested for the months of January 2005, January 2006, and January 2007. Errors in the number of meals billed and the number of days participants attended were noted as follows.
  - ◆ In January 2005, 11 additional meals were billed in error based on attendance records;
  - ◆ In January 2006, 14 additional meals were billed in error based on attendance records.
  
- Little Angels could not locate or provide the required client annual enrollment applications for the Food Program participants.
  - ◆ No forms were provided for January 2005.
  - ◆ January 2006 enrollment forms were provided; however, 39 client annual enrollment forms were missing and 7 enrollment forms did not have the required information and are considered incomplete.
  - ◆ No annual enrollment forms were provided for review for the fiscal year 2007 participants.
  
- Little Angels could not locate or provide all the individual client files for participants that were billed under the Food Program grant.
  - ◆ Review of January 2005 grant participants uncovered 20 missing client files;
  - ◆ Review of January 2006 grant participants uncovered 11 missing client files; and
  - ◆ Review of January 2007 grant participants uncovered 2 missing client files.

*Recommendation:*

Little Angels should review the specific grant requirements. Little Angels should then develop written policies and procedure to ensure compliance to all the Food Program grant requirements. Further, Little Angels needs to immediately request new annual enrollment forms from all participants included in the Food Program monthly billings. Going forward, Little Angels must collect and maintain all required supporting documentation as required in the grant agreement. Additionally, Little Angels should develop a secondary review process of all Food Program monthly billing documents to help prevent errors in future monthly grant billings.

GRANTEE'S RESPONSE

*Little Angels Child Care Center, #2*  
(252) 985-7309, 958 Sutton Road, Rocky Mount, N.C. 27801

May 29, 2007

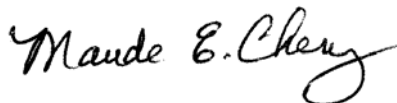
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RE: Concerns found on Visit

I am submitting this letter concerning the corrections to be made from the visit on April 26, 2007 to Little Angels Child Care Center #2.

- 1- All monies received by the LACC will be placed in separate accounts with a modified system to track all expenditures, such as records, bank statements, ledgers will be kept on the premises; but not linked to personal funds and purchases.
- 2- LACC did not know to apply for a grant amendment when two facilities were closed during the grant periods.
- 3- LACC will review all grant requirements as requested. We will request new annual enrollment forms from all the participants in the CACFP. With new modifications to be put in place, LACC will collect and maintain all required documentation as required from the agreement. We will also develop a secondary review process for all CACFP documents to ensure accuracy and no errors or missing forms.

Sincerely,



Maude E. Cherry, Owner