



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

STATE OF NORTH CAROLINA
Office of the State Auditor

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September 10, 2007

Ms. Debbie Dodd, Owner
North Hills Child Care Center, Inc.
4711 Six Forks Rd
Raleigh, NC 27609

RE: State Grants from the Department of Health and Human Services
State Fiscal Year 2005, \$43,414,
State Fiscal Year 2006, \$49,021.

Dear Ms. Dodd:

We have completed an investigation, using certain limited procedures, as described below, related to management of state grant funds by North Hills Child Care Center, Inc. Our objective was to identify whether deficiencies in internal control; instances of noncompliance with laws, regulations, and/or deficiencies in the management of financial resources existed based solely on the performance of these procedures. In addition to the fiscal years listed above, we also reviewed documentation for the current 2007 fiscal year.

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 interviewing personnel; examining accounting and other grant records for the purpose of identifying state grant transactions; reviewing available policies and procedures; and reviewing available board minutes

The results of the investigation conducted on July 11 and 12, 2007 disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations.

This letter, including your written response to the findings, will be published on our Electronic Publication System (EPS) at 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 North Hills Child Care Center, Inc., 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 Dempsey Benton
Department of Health and Human Services
Dr. Leah Devlin, Director
Division of Public Health, DHHS
Ms. Laketha Miller, Controller
Department of Health and Human Services

North Hills Child Care Center, Inc. FINDINGS AND RECOMMENDATIONS

Overview: North Hills Child Care Center, Inc. is a child care facility with a license capacity to serve up to 174 children. Enrollment at the time of our visit was 130. North Hills receives the **Child and Adult Care Food Program** (CACFP) grant funding. The grant is set up as a reimbursement grant. North Hills was preparing for an August monitoring visit by the Division of Public Health—Women’s & Children’s Health Section.

1. NORTH HILLS CHILD CARE CENTER, INC. (NORTH HILLS) DID NOT HAVE WRITTEN POLICIES AND PROCEDURES GOVERNING GRANT FUNDS.

North Hills did not have written documentation that established internal control policies and procedures over financial transactions. It was evident in the financial documentation reviewed that internal controls existed but there was nothing in writing describing the processes around most financial functions, such as, account receivables, accounts payables, reconciliation activity, how and when expense transactions are entered, dual signature requirements, program expense allocations and/or deposits of funds. Such lack of policies and procedures can lead to inconsistent handling of funds and result in poor stewardship of State grant funds.

Recommendation:

North Hills needs to establish written internal control policies and procedures over all financial activities. The policies and procedures over financial transactions should include internal controls to protect State grant funds. A copy of the internal control policies and procedure manual should be sent to the Division of Public Health as evidence that internal controls have been strengthened.

2. NORTH HILLS CHILD CARE CENTER, INC. DID NOT COMPLY WITH ALL THE REQUIREMENTS OF ITS CACFP GRANT AGREEMENT.

The CACFP grant documentation reviewed demonstrated the following non-compliance:

- February 2006 CACFP billing--North Hills could not locate or provide enrollment forms for 13 of 35 participants tested for annual enrollment applications.
- January 2007 CACFP billing--North Hills could not locate or provide enrollment forms for 5 of the 33 participants tested for annual enrollment applications.
- One client file for a CACFP participant could not be located.

Recommendation:

Department personnel should perform a more thorough review of client files at its next scheduled monitoring visit. North Hills should request and maintain new annual enrollment forms from any participant whose forms were missing. Going forward, North Hills must keep all CACFP participant client files up to three years to verify enrollment in the food program.

GRANTEE'S RESPONSE



North Hills Child Care Center
4711 Six Forks Road, Raleigh NC 27609
(919) 782-3380 Fax (919) 782-9937

August 24, 2007

Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Mr. Merritt

Dear Mr. Merritt:

This letter is in response to the recent audit with North Hills Child Care Center, located at 4711 Six Forks Road, Raleigh, NC 27609. Attached is a copy of a written Internal Control Policy and Procedure for Financial Activity as well as a written response to your audit findings.

If you have any further questions, please contact me at (919) 782-3380.

Sincerely;

A handwritten signature in black ink that reads "Debbie S. Dodd". The signature is written in a cursive style and is positioned above a light blue horizontal line.

Debbie S. Dodd
Owner/Director

GRANTEE'S RESPONSE



North Hills Child Care Center
4711 Six Forks Road, Raleigh NC 27609
(919) 782-3380 Fax (919) 782-9937

Office of the State Auditor
Mr. Merritt
August 24, 2007

Response to Findings and Recommendations

#1

Our center has established an Internal Control Policy and Procedures for financial activities effective August 24, 2007. This procedure will help to ensure accuracy of handling of grant funds as well as all other funds generated through the center.

#2

Personnel shall perform a more thorough review of its client files routinely. All annual enrollment forms will be spot checked monthly to insure accuracy of all documentation required by the program. All participant client files will be kept on file for up to three years.

Our center will move forward in order to be in compliance for all grant requirements.

GRANTEE'S RESPONSE



North Hills Child Care Center
4711 Six Forks Road, Raleigh NC 27609
(919) 782-3380 Fax (919) 782-9937

Internal Control Policies and Procedures for Financial Activities

- *All tuition monies are collected daily from customers by administration on duty: The center accepts personal checks, money orders, or cash only. A documented receipt is written by administration for cash or if requested for check.*
- *All tuition monies are recorded on an accounts receivable ledger and recorded on each individual customers account (posting card).*
- *All tuition monies are balanced and deposited into the business checking account.*
- *All tuition monies received by Human Services for voucher children are deposited by direct deposit only from each individual agency.*
- *All business expenses are paid by check from the center. Documentation of expenses is attached with the check stub.*
- *At months end: All check stubs and other necessary documentation such as: payroll, tax information is sent directly to the accountants.*
- *The accounting firm will process all necessary accounting practices required: reconciliation activity, posting of each check is entered for expense allocations. All accounting measures are handled directly by the accounting firm. The*

GRANTEE'S RESPONSE

- accounting firm will sign off on such documentation for review by North Hills Child Care. North Hills Child Care Owner/Director will sign off on such documentation.*
- *Any necessary information required to be sent into other agencies: such as State/Federal is then forwarded by the Owner.*