



STATE OF NORTH CAROLINA

SPECIAL REVIEW

BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.

ELIZABETHTOWN, NORTH CAROLINA

JANUARY 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

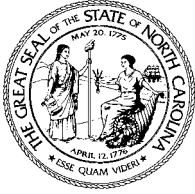
STATE AUDITOR

SPECIAL REVIEW

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ELIZABETHTOWN, NORTH CAROLINA

JANUARY 2003



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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LETTER OF TRANSMITTAL

January 23, 2003

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Ms. Karen Ponder, Executive Director
North Carolina Partnership for Children
Mr. Essic Williams, Chairman of the Board of Directors
Bladen County Partnership for Children, Inc.

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review of allegations concerning Bladen County Partnership for Children, Inc. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this report to the Governor, the Attorney General and other appropriate officials.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr., CFE
State Auditor

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INTRODUCTION

In 1993, the North Carolina General Assembly established the Early Childhood Education and Development Initiative commonly known as Smart Start. The Smart Start initiative was intended to improve the quality of childcare, make childcare more affordable and accessible, and provide access to health care services for children under the age of six.

The North Carolina Partnership for Children (NCPC) was also established in 1993 to administer Smart Start funding at the state level. NCPC provides technical assistance and administrative oversight for local Smart Start organizations known as local partnerships. Local partnerships administer Smart Start funding at the local level to meet the needs of preschool children within their service area.

The Bladen County Partnership for Children, Inc., (Bladen Partnership) is one of 82 local partnerships in North Carolina established to administer Smart Start funding and programs. A board of directors, comprised of 29 local members, meets monthly to oversee its activities. The Bladen Partnership currently employs an executive director and two additional employees. For the fiscal year that ended June 30, 2001, the Bladen Partnership received \$733,110 in Smart Start funding. During the same fiscal year, the Bladen Partnership's total Smart Start expenditures were \$724,220.

INTRODUCTION (CONCLUDED)

In August 2002, we received a call through the State Auditors Hotline alleging that an individual was selling playground equipment, already purchased by the Bladen Partnership, to childcare providers in Bladen County. The following procedures were used to conduct a special review of the allegation:

- ◆ Examination of the Bladen Partnership's documents and records.
- ◆ Inspection of the Bladen Partnership's playground installations in Bladen County.
- ◆ Interviews with employees of the Bladen Partnership.
- ◆ Interviews with employees of NCPC.
- ◆ Interviews with individuals external to the Bladen Partnership.
- ◆ Examination of regulations concerning the Early Childhood Education and Development Initiative in North Carolina.

This report presents the results of our special review. The review was conducted pursuant to G.S. § 147-64.6(c)(16) rather than a financial audit. The Office of the State Auditor or an independent public accounting firm under contract with the Office of the State Auditor performs an annual financial audit of the Bladen Partnership.

FINDINGS AND RECOMMENDATIONS

1. THE EXECUTIVE DIRECTOR OF THE BLADEN PARTNERSHIP AUTHORIZED PAYMENTS TOTALING \$54,488.17 FOR PLAYGROUND EQUIPMENT THAT COULD NOT BE LOCATED.

From June 21, 2000, to May 16, 2001, the Bladen County Partnership For Children, Inc. (Bladen Partnership) was engaged in a quality enhancement activity to improve playgrounds at daycare centers in Bladen County. The Bladen Partnership purchased \$318,568.03 worth of playground equipment during this period from various businesses including DayCare Specialties. In most instances, supporting documentation for these expenditures provided information about specific equipment purchases and the location of installations. However, a number of invoices from DayCare Specialties did not provide information about the location of playground equipment installations or the specific playground equipment that was installed. Nevertheless, checks were issued payable to DayCare Specialties, and in some instances, payable directly to the owner of DayCare Specialties for these installations.

Note: The Bladen Partnership's financial audit report for the fiscal year ended June 30, 2001 contained a material finding related to the absence of detail in supporting invoices. Specifically, the finding stated: "*Invoices from in-house program providers did not contain sufficient detail to determine the nature and extent of services provided.*"

Of the \$318,568.03 expended for playground equipment purchases and installations during the period identified above, DayCare Specialties was paid \$178,222.52 (schedule 1). We were unable to locate \$54,488.17 (schedule 2) of playground equipment purchased from DayCare Specialties. In contrast, we were able to locate and observe all

FINDINGS AND RECOMMENDATIONS (CONTINUED)

of the playground equipment purchased from other companies. As noted above, a number of invoices from DayCare Specialties did not include a location of installation (Exhibit 1). Consequently, without a location, we could not confirm the installation of playground equipment. Other invoices from DayCare Specialties included an equipment description and a location of installation (Exhibit 2). Yet, at several of these locations, equipment listed on the invoice was not at the specified location and the childcare provider said the items were never installed.

The owner of DayCare Specialties acknowledged that he received payments for work that was never completed. In fact, he provided two documents that substantiated the fact that several pieces of playground equipment were never installed (Exhibits 3 and 4). He said this occurred because many of his invoices were based on preliminary plans to install playground equipment at specific locations but were never installed. In addition, he said in some instances he was paid in advance of determining which childcare provider would receive the playground equipment.

The Bladen Partnership executive director said that in February 2002 (following a seven-month absence from work due to an automobile accident) she became aware of discrepancies related to playground equipment installations. Specifically, she said it was apparent playground equipment had not been installed because amounts reported to some childcare providers on Internal Revenue Service Form 1099 for playground enhancement

FINDINGS AND RECOMMENDATIONS (CONTINUED)

grants were incorrect. The 1099 forms received by some childcare providers reflected a playground equipment grant that was never received.

The executive director said that the playground enhancement program was supposed to be monitored but the program coordinator did not properly monitor the activity. She said that the owner of DayCare Specialties was “supposed to complete the task before he was paid”. Yet, in an April 23, 2002, memo to the owner of DayCare Specialties (Exhibit 5), the executive director acknowledges the fact that several pieces of equipment were never assigned to childcare providers. Although the executive director states in the memo that her automobile accident in June 2001 prevented the assignment of certain equipment, it is important to note that all of the payments to DayCare Specialties occurred before June 2001. Thus, DayCare Specialties was paid before a number of “tasks” were completed.

In response to questions about the issuance of checks to a vendor without verification that playground equipment was delivered and installed, the Partnership’s fiscal manager said she also questioned this practice. The fiscal manager stated that invoices from Daycare Specialties would generally come in over fax and be placed in her inbox for payment. She said that she often asked the executive director if she could verify that work had been completed before issuing checks. The fiscal manager said the executive director told her that she did not need to see the playgrounds before issuing checks.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The executive director of the Bladen Partnership authorized cash disbursements to all vendors, including DayCare Specialties, via her signature on checks. Although the executive director said that a procedure existed to document the delivery and satisfactory installation of playground equipment before a check was issued, we found no evidence that this procedure was followed. As a result, checks were issued to DayCare Specialties, or directly to the owner of DayCare Specialties for work that we could not verify was performed.

RECOMMENDATIONS

We recommend NCPC seek reimbursement of \$54,488.17 from the Bladen Partnership. We also recommend the board of directors consult with legal counsel concerning the independent contractor's incomplete performance of services. In addition, we recommend Bladen Partnership implement procedures to ensure that checks are not issued without verification that a product has been received or a service has been performed.

Note: This finding has been referred to the District Attorney for North Carolina Judicial District 13 and the North Carolina State Bureau of Investigation.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. SEVERAL PAYMENTS FOR INSTALLATION OF PLAYGROUND EQUIPMENT APPEAR EXCESSIVE.



BRISSON'S DAYCARE
Installation Cost \$8,553.00

During the review of invoices for the purchase and installation of playground equipment, we noted the amount paid to DayCare Specialties to install several pieces of equipment appeared excessively high. For example, DayCare Specialties was paid \$7,847 to install a piece of Little Tykes playground equipment that cost \$3,858. The amount charged to install the

equipment was nearly double its acquisition price. The following table is a summary of installation costs that appear excessive. In each instance, the equipment was purchased from Little Tykes Commercial Play Systems or Kaplan Companies, Inc. and installed by DayCare Specialties.



ADAM AND EVE DAYCARE:
Installation Cost \$7,847.00

FINDINGS AND RECOMMENDATIONS (CONTINUED)

DAYCARE CENTER	EQUIPMENT ACQUISITION COST	EQUIPMENT INSTALLATION COST
Adam and Eve Day Care	\$3,858.00	\$7,847.00 ¹
Brisson's Day Care	\$3,015.97	\$8,553.00 ¹
Candice's Day Care	\$2,607.60	\$5,053.00
Wanda's Day Care	\$5,034.32	\$6,469.00 ¹
Wee Care Day Care	\$6,646.78	\$11,049.00 ¹

¹Includes the installation of border timbers and sand.



CANDICE'S DAYCARE
Installation Cost \$5,053.00

The owner of DayCare Specialties said that he billed for installations of playground equipment at a rate of 25 to 45 percent of the cost of the equipment. The installations listed in the table above ranged from 129 to 284 percent of the cost of the equipment. The expected charge for installation would generally be less than half of the cost of the equipment. Yet, in one instance, the Bladen Partnership paid more than double the cost of the equipment for installation. Even though several of these installations included the installation of border timbers and sand, the amount paid by the Bladen Partnership still appeared high.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In our review of invoices from Kaplan Companies, Inc. we found that installation charges for similar, and in some cases identical pieces of equipment, ranged from 20 to 40 percent of the cost of the equipment.



Wanda's DayCare
Installation Cost \$ 6,469.00

The Bladen Partnership did not have a written contract with DayCare Specialties to perform installations of playground equipment.



WEE CARE DAYCARE
Installation Cost \$ 11,049.00

A written contract presumably would have included specific rates for installation of various types of playground equipment. In addition, there is no evidence that the Partnership utilized a competitive bidding process before employing DayCare Specialties.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATIONS

We recommend NCPC analyze the installation costs and compare the installation costs to the costs charged other partnerships and seek reimbursement for any excess from the Bladen Partnership. In addition, we recommend the Bladen Partnership board of directors ensure that future projects include written contracts outlining specific rates of compensation for contracted services and include competitive bidding procedures to ensure that compensation does not exceed reasonable and customary rates.

Note: This finding has been referred to the District Attorney for North Carolina Judicial District 13 and the North Carolina State Bureau of Investigation.

3. THE BLADEN PARTNERSHIP PAID DAYCARE SPECIALTIES FOR THE COST AND INSTALLATION OF PLAYGROUND EQUIPMENT AT AN UNDESIGNATED CHILDCARE FACILITY IN BLADEN COUNTY. ONE YEAR LATER, DAYCARE SPECIALTIES CHARGED A CHILDCARE PROVIDER FOR THE SAME PLAYGROUND EQUIPMENT.

On February 22, 2001, the Bladen Partnership issued a \$17,448 check to DayCare Specialties for two “toddler play centers” including installation. The invoice did not specify a location for the installation of the equipment. As noted in a previous finding, the executive director’s April 23, 2002, memo to the owner of DayCare Specialties (Exhibit 5) acknowledges that several pieces of playground equipment, including these two “toddler play centers”, were never assigned to childcare providers.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

During our inspection of daycare facilities in Bladen County, we confirmed that these “toddler play centers” had been installed, one at a daycare center and the other at an elementary school. However, the owner of the daycare center paid DayCare Specialties \$2,000 for a “toddler play center” and a swing set. The Bladen Partnership had already paid DayCare Specialties \$2,895 on December 20, 2000, to install a swing set at an undesignated daycare facility.

The owner of DayCare Specialties contends that because he was issued an IRS form 1099, the playground equipment “would be mine to do with as I see fit”. He said this was the understanding he had with the executive director of the Bladen Partnership. The executive director said that she did not convey this message to the owner of DayCare Specialties.

The issuance of an IRS form 1099 did not convey ownership of the playground equipment to DayCare Specialties. The Bladen Partnership paid DayCare Specialties for the acquisition and installation of playground equipment, and subsequently DayCare Specialties charged a childcare provider \$2,000 for the same equipment.

RECOMMENDATION

We recommend the board of directors consult with legal counsel concerning the independent contractor’s actions.

Note: This finding has been referred to the District Attorney for North Carolina Judicial District 13 and the North Carolina State Bureau of Investigation.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. THE EXECUTIVE DIRECTOR AUTHORIZED PAYMENTS TOTALING \$10,500 FOR A TRANSPORTATION STUDY THAT WAS NEVER PRESENTED TO THE BOARD OF DIRECTORS OR USED TO PROVIDE SERVICES TO CHILDREN IN BLADEN COUNTY.

Between July 26, 2000, and December 19, 2000, the owner of DayCare Specialties was paid \$10,500 in three installments of \$3,500 to conduct a transportation study and write a report. According to the executive director of the Bladen Partnership, the study was intended to assess the feasibility of providing transportation for children to daycare centers in Bladen County. The executive director said that she “didn’t have anybody that would do it”. It appears this led to the selection of DayCare Specialties to conduct the study and write a report. There is no evidence that the Bladen Partnership obtained competitive bids or executed a written contract for the project.

As noted in an earlier finding, the executive director was in automobile accident on June 6, 2001, and did not return to work until December 2001. The executive director said that in June 2001, while she was out, the owner of DayCare Specialties delivered 30 copies of a transportation study report to the Bladen Partnership office. The fiscal manager for the Bladen Partnership said she does not remember seeing a transportation study report and does not remember anyone delivering a report to the Bladen Partnership office. The fiscal manager did remember providing surveys to a few childcare providers and families in Bladen County.

In response to our request for a copy of the transportation study report, the owner of DayCare Specialties said the report was lost when the hard drive on his computer crashed

FINDINGS AND RECOMMENDATIONS (CONTINUED)

and he did not retain any paper copies. In addition, he said copies of the report provided to the executive director were in her car at the time of her automobile accident in June 2001, and were lost.

The executive director did provide us with a copy of a transportation study near the end of our special review. The unbound 24-page report contains general statistical information about Bladen County childcare facilities, identification of transportation needs, and a profile of the Bladen Area Rural Transportation System. The report also includes some conclusions and recommendations concerning transportation needs in Bladen County.

Nevertheless, the report was never presented to the Bladen Partnership's board of directors or used for any programmatic purpose related to the Smart Start initiative. Therefore, in our opinion, the \$10,500 paid to DayCare Specialties for this study represents a questioned cost.

RECOMMENDATION

We recommend NCPC seek reimbursement of the \$10,500 from the Bladen Partnership.

Note: This finding has been referred to the District Attorney for North Carolina Judicial District 13 and the North Carolina State Bureau of Investigation.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

5. PAYMENTS TO DAYCARE SPECIALTIES WERE NOT REPORTED TO THE INTERNAL REVENUE SERVICE FOR 2000 AND INCORRECTLY REPORTED FOR 2001 IN VIOLATION OF FEDERAL REGULATIONS.

As noted earlier, the Bladen Partnership paid DayCare Specialties \$178,222.52 for playground equipment installations and \$10,500 for a transportation study during an eleven-month period in 2000 and 2001. Specifically, DayCare Specialties was paid \$99,680.52 in 2000 and \$89,042 in 2001 for contract services.

Federal regulations require organizations to report payments exceeding \$600 to unincorporated businesses on IRS Form 1099-MISC annually. The Bladen Partnership did not issue an IRS Form 1099-MISC to DayCare Specialties for 2000 in violation of this requirement. The Bladen Partnership did issue an IRS Form 1099-MISC to DayCare Specialties for 2001, but only reported \$63,143 in payments, again in violation of the reporting requirement.

The Bladen Partnership's fiscal manager explained that she was unfamiliar with the reporting requirements outlined above. Moreover, according to the fiscal manager and the executive director, the amount that was reported to DayCare Specialties for 2001 represented payments made for playground equipment installations that were not completed.

RECOMMENDATION

We recommend the Bladen Partnership's board of directors implement procedures to ensure compliance with *Internal Revenue Code* reporting requirements.

STATEMENT OF QUESTIONED COSTS

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayers resulting from the findings of our review. We are simply noting areas where managerial oversight should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Unsupported payments to DayCare Specialties for playground equipment.	\$54,488.17
2. Payments to DayCare Specialties that appear excessive.	38,971.00
3. Unauthorized sale of playground equipment to a childcare provider.	2,000.00
4. Cost of transportation study.	<u>10,500.00</u>
Total	<u>\$105,959.17</u>

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Schedule 1

Bladen County Partnership for Children, Inc. Payments To Thomas Smith and His Business (DayCare Specialties) June 1, 2000 – June 30, 2001

Check Date	Check Number	Payee	Amount
06/30/00	1241	DayCare Specialties	\$ 3,519.95
07/26/00	1262	Thomas Smith for DayCare Specialties	4,100.00
08/09/00	1285	DayCare Specialties/Thomas Smith	4,800.00
08/21/00	1295	DayCare Specialties/Thomas Smith	10,383.40
09/06/00	1307	Thomas Smith	3,500.00
10/05/00	1338	Thomas Smith	4,598.17
10/19/00	1353	Thomas Smith DBA DayCare Specialties	3,375.00
11/02/00	1367	Thomas Smith DBA DayCare Specialties	11,974.00
11/15/00	1388	Thomas Smith DBA DayCare Specialties	21,728.00
11/29/00	1399	Thomas Smith DBA DayCare Specialties	20,127.00
12/19/00	1427	Thomas Smith DBA DayCare Specialties	11,575.00
02/22/01	1477	Thomas Smith DBA DayCare Specialties	17,448.00
03/06/01	1487	Thomas Smith DBA DayCare Specialties	8,557.00
03/22/01	1507	Thomas Smith DBA DayCare Specialties	8,913.00
04/05/01	1531	Thomas Smith DBA DayCare Specialties	2,604.00
04/19/01	1552	Thomas Smith DBA DayCare Specialties	25,548.00
05/03/01	1594	Thomas Smith DBA DayCare Specialties	9,485.00
05/19/01	1602	Thomas Smith DBA DayCare Specialties	16,487.00
Total Payments			\$ <u>188,722.52</u>
Total For Equipment And Installations			\$ 178,222.52
Total For Consulting			10,500.00
Total Payments			\$ <u>188,722.52</u>

Schedule 2

Bladen County Partnership for Children, Inc.
Schedule of Incomplete or Unidentified Playground Equipment Installations
June 1, 2000 – June 30, 2001

Date	Contractor	Childcare Provider	Description of Work	Amount
10/2/2000	Thomas Smith	Unidentified	Infant toddler activity station and installation	\$ 4,598.17
5/3/2001	Thomas Smith	Unidentified	Totter play structure and installation	9,485.00
5/16/2001	Thomas Smith	Unidentified	Playcenter 5 and installation	8,112.00
5/16/2001	Thomas Smith	Unidentified	Outdoor learning environment follow-up visits	2,280.00
4/18/2001	Thomas Smith	Big Bird Day Care	Outdoor learning environment	9,700.00
12/18/2000	Thomas Smith	Chestnutt's Day Care	Install playground equipment	3,280.00
5/16/2001	Thomas Smith	Chestnutt's Day Care	2 bay 4 seat swing	4,319.00
4/18/2001	Thomas Smith	East Arcadia School	Outdoor learning environment	6,755.00
11/28/2000	Thomas Smith	Joys of the Heart	Install playground equipment	3,655.00
4/4/2001	Thomas Smith	Pat's Day Care	Install small outdoor learning environment	2,304.00
				<hr/>
				<u><u>\$ 54,488.17</u></u>

: SPECIALTIES

FAX NO. : 9109042700

Feb. 22 2001 12:18PM P2



h. Jr. CPSI

St.
IC 28376

DayCare Specialties

Telephone 910-904-2600
Fax 910-904-2700

Date 2/22/01

nvoice

To: **Bladen Co. Partnership for Children**
Elizabethtown, NC

[illegible]

Signature

Thomas F. Smith JR, CPSI

PAID 2-22-01



Smith
Wade St.
Seford, NC 28376

Telephone 910-904-2600
Fax 910-904-2700

To: **Bladen Co. Partnership for Children
Elizabeth, NC**

[illegible]

Signature

Incomplete installs

3 Totter play centers

** 2 Undesignated at this time

1 Rainbow

1 Single bay Swing

**To be installed at East Arcadia

2 Infant toddlers swings

**Undesignated at this time

Fencing

**Tiny world

1 Hex Activity Center

Adam & Eve (on order)

1 Bed Rock

East Arcadia (on order)

1 Out door learning environment

Big Bird

Small One

**** Denotes equipment on hand**

Source: Thomas Smith

Exhibit 4

At this time 3 tottlers are not installed, these tottlers have been on hand for several months but have not been given a designated install site.

1-single bay swing and 1-bedrock are not installed at the East Arcadia at this time. The swing is available but the bedrock has not been received

2-I/T swings are not installed due to not being given a designated install site.

1-Hex activity center to be ordered by BCPC but has not been received at this time.

1-Outdoor learning center has not been installed at this time due to waiting on the land being cleared.

Fencing at Tiny World has not been installed, waiting on OK to install

Source: Thomas Smith

Exhibit 5

P.O. Box 2255
Elizabethtown, NC 28337

.....
Bladen County Partnership

April 23, 2002

Thomas Smith, Daycare Specialties
257 Wade Street
Raeford, NC 28376

Dear Thomas Smith:

Thank you so much for assisting Bladen County with the 2000-2001 Playground Safety/Enhancement Grant for Providers. Unfortunately, due to my accident, the remaining 3 pieces of equipment (and 1 small/ 1 large Outdoor Learning Environment) were not assigned. I appreciate you storing this Equipment and I will be contacting you immediately to arrange for disposition of the equipment referenced above. We will re-open this activity as soon as possible so that five eligible providers may receive the benefits of the now eliminated playground safety/enhancement activity. Please indicate your understanding and agreement of this information by signing your name below and returning this letter to me at your earliest convenience. Thank you again for your expertise and your assistance. Your services have improved the quality of child care environments throughout Bladen County.

Respectfully Submitted,

Yvette Womack
Executive Director

I am in agreement with the above information.

signature

date

Source: Thomas Smith

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RESPONSE FROM BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.

BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.

Post Office Box 2255 Elizabethtown, NC 28337

Phone: 910-862-3335 Fax: 910-862-7031

E-mail: ehansen@ccpfc.org

January 2, 2003

Mr. Ralph Campbell, Jr., CFE
State Auditor
Office of the State Auditor
2 South Salisbury Street
Raleigh, NC 27699-0601

Dear Mr. Campbell:

This letter serves as the written response to the Special Review of the Bladen County Partnership for Children (hereinafter referred to as "Bladen Partnership") dated December 12, 2002, by the Office of the State Auditor.

The findings contained in this Special Review address the need for enhanced managerial oversight of the Bladen Partnership. In November 2002, prior to the issuance of this Special Review, the Bladen Partnership began participating in the North Carolina Partnership for Children's (hereinafter referred to as "NCPC") Local Partnership Performance Improvement Plan (hereinafter referred to as "the Plan"). The purpose of the Plan is to improve the financial and programmatic accountability of SMART START local partnerships that have been identified to have serious financial and/or compliance deficiencies. As a participant in the Plan, the Bladen Partnership will receive from NCPC and the Cumberland County Partnership for Children (hereinafter referred to as "Cumberland Partnership") intensive on-site programmatic and financial technical assistance and training in identified areas; board development and education, as well as intensive financial and programmatic monitoring.

The Bladen Partnership Board of Directors contracted on December 18, 2002, with the Cumberland Partnership to assist the Bladen Partnership by providing all administrative functions (See Exhibit A). As a result of this contract, the Cumberland Partnership current policies, procedures and business practices are now in effect for the Bladen Partnership. Effective December 18, 2002, the overall management of the Bladen Partnership became the responsibility of the Cumberland Partnership. The Executive Director of the Cumberland Partnership is now functioning as the Executive Director of the Bladen Partnership. Audit recommendations related to improved policies and procedures regarding administrative practices are being addressed through these actions.

The Bladen Partnership Board has committed to participating in board development training, and several Board members will begin this training in January 2003. The Plan for the Bladen Partnership includes strategies for Board development, and this training is being incorporated into the monthly Board meetings.

Legal services are being retained, as recommended in the Special Review, to assist in pursuing resolution to the following findings (#1) independent contractor's incomplete performance of

"Building The Future By Focusing On Our Children"



BLADEN COUNTY PARTNERSHIP FOR CHILDREN, INC.

Post Office Box 2255 Elizabethtown, NC 28337

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Mr. Ralph Campbell, Jr., CFE, State Auditor

Page 2 of 3

January 2, 2003

services and to research and locate the unidentified locations of playground equipment purchased for \$54,488.17; (#2) excessive payments to Day Care Specialties; and (#3) the unauthorized sale of playground equipment to a child care provider. These legal services will include taking legal action as needed. The Cumberland Partnership Executive Committee is recommending to the Bladen Partnership Board (1) to send a letter of demand to Day Care Specialties requesting payback of funds in question; and (2) to request the State Bureau of Investigation to initiate an investigation into the matters.

Finding #4 is related to a transportation study that was not presented to the full board and, according to the opinion of the Special Review Team, was not used for any programmatic purpose. We agree that the report was not presented in a timely manner but copies of this study have subsequently been provided to all Board members. The Board is currently reviewing and evaluating the information in the report for use in the determination of future programmatic transportation strategies.

Finding #5 addresses incorrect reporting to the Internal Revenue Service of payments made to Day Care Specialties for 2000 and 2001. Corrected IRS Forms 1099-MISC have been submitted to the Internal Revenue Service for 2000 and 2001. This action was taken subsequent to a consultation with a CPA by the Cumberland Partnership Controller, Executive Director and Fiscal Manager. (Please see Exhibit B) The Bladen Partnership is now in compliance with the federal regulations related to Day Care Specialties.

A letter outlining these actions has been sent to the District Attorney for North Carolina Judicial District 13 and the Director of the State Bureau of Investigation. The Boards of the Bladen Partnership and the Cumberland Partnership will fully cooperate with these entities to resolve any issues related to violations of penal statutes or apparent issues of malfeasance, misfeasance or nonfeasance by an officer or employee of Bladen Partnership.

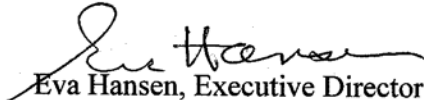
The draft report of the Special Review was provided to the Board of the Bladen Partnership and to the Executive Committee of the Cumberland Partnership. The results of the review and this response have been discussed with NCPC, the Executive Committee of the Cumberland Partnership, and a representation of the Bladen Partnership Board. A full report will be made to both the Cumberland Partnership and Bladen Partnership Boards in January at the regularly scheduled meetings. The Cumberland Partnership will continue to work with the Bladen Partnership and NCPC until all these issues are resolved to the satisfaction of NCPC and the legal system.

"Building The Future By Focusing On Our Children"



We strive to adhere to all rules and regulations in the operation of the Cumberland Partnership and Bladen Partnership as well as the implementation of SMART START in the Bladen community in accordance with North Carolina statutes and in the spirit of the SMART START legislation. Suggestions from the Special Review Audit Team that assist our operations are appreciated. We are committed to doing the right things for children in the right way.

Respectfully Submitted,



Eva Hansen, Executive Director
Bladen County Partnership for Children, Inc.
Cumberland County Partnership for Children, Inc.

Cc: Cumberland Partnership Board of Directors
Bladen Partnership Board of Directors
Karen Ponder, Executive Director, NC Partnership
Lyn Hankins, Assistant Director, Cumberland Partnership
Marie Clark, Controller, Cumberland Partnership
Laura Ward, Office Manager, Cumberland Partnership

"Building The Future By Focusing On Our Children"



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RESPONSE FROM NORTH CAROLINA PARTNERSHIP FOR CHILDREN



North Carolina Partnership for Children

January 2, 2003

Mr. Ralph Campbell, Jr., CFE
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Campbell:

As requested, this letter serves as the North Carolina Partnership for Children's ("NCPC") response to the Special Review of the Bladen County Partnership for Children (hereinafter referred to as the "Bladen Partnership") dated December 12, 2002 by the Office of the State Auditor.

Based on the results of this Special Review, the Bladen Partnership Board of Directors has taken immediate action to enhance managerial oversight of the Partnership. In November 2002, the Partnership began participating in NCPC's Local Partnership Performance Improvement Plan (the "Plan"). The purpose of the Plan is to improve the financial and programmatic accountability of Smart Start partnerships that have been identified to have serious financial and/or compliance issues. As a participant in the Plan, NCPC will provide the Bladen Partnership with intensive on-site technical assistance and training, as well as board development and education.

In addition, in December 2002, the Bladen Partnership contracted with an experienced Smart Start partnership—the Cumberland County Partnership for Children—to manage its administrative function.

Following are our responses to the specific findings in the Special Review report:

Recommendation #1:

We recommend NCPC seek reimbursement of \$54,488.17 from the Bladen Partnership. We also recommend the board of directors consult with legal counsel concerning the independent contractor's incomplete performance of services. In addition, we recommend Bladen Partnership implement procedures to ensure that checks are not issued without verification that a product has been received or a service has been performed.

Office 1100 Wake Forest Road
Raleigh, NC 27604



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Web www.ncsmartstart.org

building brighter futures

NCPC Response:

NCPC will seek reimbursement from the Bladen Partnership for any Smart Start funds expended for playground equipment that cannot be located.

As stated in the Bladen Partnership's response to the Special Review, legal counsel has been retained to assist with addressing the contractor's incomplete performance of services and the location of playground equipment in the amount of \$54,488.17. These legal services will include taking legal action as needed.

As a participant in NCPC's Performance Improvement Plan, the Bladen Partnership will receive intensive financial technical assistance and training from NCPC. As part of this technical assistance, NCPC will review the Bladen Partnership's disbursement procedures to ensure that controls have been implemented to prevent payment for goods and/or services prior to receipt of said goods and/or services.

Recommendation #2:

We recommend that NCPC analyze the installation costs and compare the installation costs to the costs charged other partnerships and seek reimbursement for any excess from the Bladen Partnership. In addition we recommend the Bladen Partnership board of directors ensure that future projects include written contracts outlining specific rates of compensation for contracted services and include competitive bidding procedures to ensure that compensation does not exceed reasonable and customary rates.

NCPC Response:

NCPC will require the Bladen Partnership to review the installation costs for the playground equipment and to obtain cost comparisons for installations of similar equipment. NCPC will require the Bladen Partnership to provide explanations for any material differences and will seek reimbursement from the Bladen Partnership for any Smart Start funds expended for installation costs that exceed reasonable and customary rates.

As stated in the Bladen Partnership's response to the Special Review, legal counsel has been retained to assist with addressing the contractor's excessive payments for playground equipment installation. These legal services will include taking legal action as needed.

As noted in the Special Review report, the Bladen Partnership did not have a written contract for the installation of this playground equipment and there was no evidence that a competitive bidding process was utilized. As a participant in the Local Partnership Performance Improvement Plan, NCPC will ensure that the Bladen Partnership receives training and technical assistance in the areas of contracting and competitive bidding. In

Mr. Ralph Campbell, Jr., CFE

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addition, NCPC will ensure that policies and procedures in these areas are developed and implemented by the Partnership.

Recommendation #3

This recommendation does not require a response from NCPC.

Recommendation #4:

We recommend NCPC seek reimbursement of the \$10,500 (for a transportation study) from the Bladen Partnership.

NCPC Response:

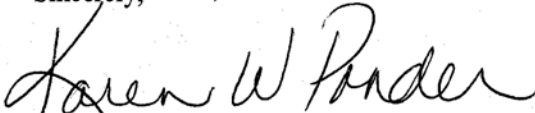
Given that the Bladen Partnership Board of Directors is currently reviewing and evaluating the information in the report for use in future programmatic transportation strategies, in our opinion, this study has met its purpose and the funds are not due back.

Recommendation #5:

This recommendation does not require a response from NCPC.

We appreciate the professional manner in which these issues were handled.

Sincerely,



Karen W. Ponder
Executive Director

Cc: Bladen Partnership Board of Directors
Cumberland Partnership Executive Committee
Eva Hansen, Executive Director, Cumberland County Partnership for Children and
Bladen County Partnership for Children

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