

STATE OF NORTH CAROLINA

SPECIAL REVIEW

PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.

BURGAW, NORTH CAROLINA

MARCH 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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Ralph Campbell, Jr.
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LETTER OF TRANSMITTAL

March 5, 2003

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

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning Pender 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 black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr., CFE
State Auditor

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INTRODUCTION

Pender County Partnership for Children, Inc., (PCPC) is a nonprofit organization that administers state and private funds for early education of preschool age children (0-5 years) in Pender County. PCPC receives over 95 percent of its financial support from the North Carolina Partnership for Children, Inc., (NCPC) which was established to oversee the statewide Smart Start initiative. NCPC allocates Smart Start funds to local partnerships such as PCPC to administer the funds at the county level. Currently, 82 local partnerships exist to administer Smart Start funds in all 100 counties. The services provided at each local partnership are based on individual county needs.

NCPC provides technical assistance and training as it pertains to programmatic and organizational development and financial management for local partnerships. The local partnerships are responsible for developing a comprehensive long-range plan of services to meet the needs of preschool age children and their families within their service area.

In July 2002, PCPC's Board of Directors requested that NCPC conduct an investigation into the former Executive Director's alleged "mishandling of her office for personal profit." In a letter dated July 8, 2002, NCPC referred the Board of Directors to the Office of the State Auditor. The Board of Directors' original allegations included disbursement of partnership funds for unapproved program activities, violation of vendor contract policies and purchase of items for personal use. Additional issues arose during the course of the special review.

INTRODUCTION (CONTINUED)

We used the following procedures to conduct a special review of the allegations:

- Interviews with current and former PCPC employees.
- Interviews with PCPC Board members.
- Interviews with individuals external to PCPC.
- Examination of relevant documentation including invoices, travel reimbursement forms, check registers and applicable state and local policies and procedures.

This report presents the results of our special review. This review was conducted pursuant to G.S. §147-64.6(c)(16) rather than a financial audit. PCPC's annual financial audit is performed by the Office of the State Auditor. The financial audit report for the fiscal year ended June 30, 2002, is being released concurrently with this report.

PCPC is managed by an Executive Director who reports to a 21-person Board of Directors. PCPC currently employs four people in the positions of Interim Executive Director (also the Program Evaluator and Coordinator), two Early Childhood Specialists, and an Administrative Assistant. The Board meets monthly.

INTRODUCTION (CONCLUDED)

During fiscal year ended June 30, 2002, 98 percent of PCPC's financial support was in the form of Smart Start funds. The following is a summary of funding for the past two fiscal years.

	Fiscal Year Ended <u>June 30, 2001</u>	Fiscal Year Ended <u>June 30, 2002</u>
Receipts:		
State Awards	\$763,813	\$690,823
Private Contributions	23,870	0
Interest and Investment Earnings	928	274
Other Receipts	70	40
Sales Tax Refunds	<u>0</u>	<u>12,702</u>
Total Revenue	<u>\$788,681</u>	<u>\$703,839</u>

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FINDINGS AND RECOMMENDATIONS

1. THE FORMER EXECUTIVE DIRECTOR AUTHORIZED EXPENDITURES OF \$30,674.46 FOR ACTIVITIES NOT APPROVED BY THE NORTH CAROLINA PARTNERSHIP FOR CHILDREN, INC.

In accordance with G.S. §143-168.12(3), the North Carolina Partnership for Children, Inc., (NCPC) requires local partnerships to submit a proposal of all planned service activities to be approved for funding. Approved activities and programs are included in the annual contract between a partnership and NCPC. The contracts specify that any changes in the scope of services provided by a local partnership must be presented to NCPC in writing and if agreed upon, will be noted as an amendment to the original contract.

The contract between NCPC and PCPC states, “The funds provided by NCPC shall be used by the Local Partnerships only for the purpose and activities specified” Any expenditure charged to activities not included in the contract is considered an unallowable use of funds.

Upon receipt of funds from NCPC, PCPC enters into contracts with direct service providers for approved activities. PCPC reimburses direct service providers for expenditures incurred in the first three quarters of the year and advances funds to pay estimated fourth quarter expenditures. At the end of the fiscal year, if advances are greater than expenditures, then the service providers must revert unexpended funds to PCPC, who in turn must revert unexpended funds to NCPC.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

For the fiscal year 2001-2002, the Pender County Partnership for Children, Inc., (PCPC) approved activities were limited to Partnership Administration, Program Evaluation, the Prenatal & Child Outreach, the Dental Project, the Child Care Nurse Project, the Preschool Literacy Outreach, and the At Risk Preschool program.

In the fall of 2001, NCPC management became aware the former PCPC Executive Director was authorizing expenditures for the Child Care Resource and Referral (CCR&R) services program and the Quality Enhancement (QE) initiative, which were not included in the contract between NCPC and PCPC. NCPC issued a letter to PCPC's Board Chairman, dated November 16, 2001, explaining PCPC had charged approximately \$24,000 in expenditures for unapproved activities, specifically CCR&R and QE. The letter stated such conduct was in direct violation of the contract between NCPC and PCPC and any such expenditures had to cease immediately or be funded by sources other than Smart Start Funds. The letter expressed the need for PCPC to submit complete documentation for the two programs to NCPC for approval if the Partnership desired to include them in the scope of services available. The letter also stated NCPC would schedule a monitoring visit to PCPC in light of the accounting issues.

In a letter to PCPC Board Chairman, dated January 22, 2002, NCPC noted they received a revised activity proposal for QE that they approved and included in the contract effective January 15, 2002. In this letter, NCPC requested immediate reimbursement for

FINDINGS AND RECOMMENDATIONS (CONTINUED)

all Smart Start funds expended year-to-date on activities not in the contract. In addition, the NCPC letter stated the funds must be repaid from monies other than state funds.

NCPC completed a fiscal and programmatic monitoring visit of PCPC during December 2001. In February 2002, NCPC issued the report from the fiscal and programmatic monitoring visit and noted \$30,700 in expenditures charged to CCR&R and QE. The report states, "During discussion with the Executive Director during the monitoring visit, she acknowledged that prior to making these expenditures she was aware it was not a permissible practice...When asked why she charged these expenditures as noted above although she was aware it was not a permissible practice, she stated she was 'careless'."

According to the former Chairman of PCPC's Board of Directors, the Board became aware of the concerns about the former Executive Director with the January 22, 2002, letter. PCPC's Executive Committee met with the former Executive Director to discuss the unallowable program expenses. According to the former Chairman of the Board, the former Executive Director explained she had anticipated two programs, Quality Enhancement (QE) and Child Care Resources and Referral (CCR&R) to be approved by NCPC in the immediate future so she authorized expenditures for those programs and charged purchases to the CCR&R and QE service codes. She explained to the Board she felt the delay in approval resulted from NCPC "dragging its feet" with the approval process for months. The Executive Committee accepted her explanation for the unallowable expenses and directed the former Executive Director to comply with NCPC's

FINDINGS AND RECOMMENDATIONS (CONTINUED)

request. At that time, the former Executive Director told the Executive Committee she had raised all but a few thousand dollars in private donations to make the repayment to NCPC.

In March, following an approval from NCPC for an extension on the repayment, the former Executive Director told the Board she had raised the necessary monies through private donations. A deposit code sheet shows a deposit to checking for \$30,741.64 with the description "Private Donations." The former Chairman stated the Board assumed the situation had been resolved. A check for \$30,674.46, dated March 21, 2002, was signed by the former Executive Director and Chairman and mailed to NCPC. It was determined later that the money was not received through "private donations" but was received from Pender County. See the following finding for details.

Note: No explanation was given for the \$67.18 difference in the amount received from the County and the amount repaid to NCPC

RECOMMENDATION

We recommend PCPC revise existing policies to provide necessary internal controls to ensure that unapproved service codes are not charged, pursuant to contract terms. We recommend the Board of Directors develop an action plan to familiarize themselves with PCPC's policies and procedures to prevent Board Members from authorizing expenditures or signing checks for unapproved activities.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. THE FORMER EXECUTIVE DIRECTOR OBTAINED FUNDS ON BEHALF OF PCPC FROM PENDER COUNTY WITHOUT AUTHORIZATION.

PCPC's bylaws state, "No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors."

According to the former Chairman of the Board, the former Executive Director approached the Pender County Finance Officer without the Board's knowledge and requested to borrow the full amount owed to NCPC instead of raising the money from private donations (Finding 1). The County Finance Officer said the former Executive Director approached her about a loan for PCPC in April 2002. The County Finance Officer said the former Executive Director stated PCPC was not able to meet payroll obligations because of limited cash flow due to the State of North Carolina's publicized budget crisis. The former Executive Director said NCPC had recommended the local partnerships ask their direct service providers for money to meet current obligations. According to the County Manager, who also serves as a PCPC Board Member, the former Executive Director explained the advancement would be applied against the county's reversion of unexpended funds due at the end of the fiscal year.

Note: For the fiscal year ended June 30, 2001, Pender County was one of PCPC's direct service providers. Services provided by the Pender County Health Department included the Child Care Nurse and Dental projects. The Pender County Library provided the Preschool Literacy Outreach program.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The County Finance Officer told the former Executive Director to contact the Library Director and the Health Department Director to get their permission to revert funds from their programs to PCPC. The County Finance Officer provided us with memorandums from the Health Department Director and the Library Director authorizing the release of funds to the former Executive Director. The memorandums state the funds will be repaid to the Health Department in May and to the County “shortly.”

The memorandum from the Library Director states, “The State Partnership is requesting local partnerships to request these loans from grantees across the board in order to meet local payrolls. This is because of State of NC cash flow problems we are told.”

The County Finance Officer explained she acted on good faith in believing the former Executive Director’s explanation of the cash flow situation. She admitted she did not ask for verification of NCPC’s alleged request for the funds. She said she felt it was the same situation as the regular year-end reversion of unexpended funds and she never asks for verification from NCPC for that, either. On April 10, 2002, the County Finance Officer issued a check payable to PCPC for \$20,341.64 from Health Department programs and another on April 18, 2002, for \$10,400 from Library programs. The two checks totaled \$30,741.64, the amount deposited by PCPC with the description “Private Donations” (refer to Finding 1).

FINDINGS AND RECOMMENDATIONS (CONTINUED)

In June 2002, PCPC issued two checks totaling \$50,409.25 to Pender County to cover estimated fourth quarter service activity expenditures for the Health Department and the Library. Pender County considered \$30,741.64 as "...repayment of loan(s)..." and applied the remaining balance to fourth quarter expenditures. NCPC and PCPC took the position that the \$30,741.64 "loan" was independent of the Health Department and Library service activities. After lengthy negotiations, NCPC and PCPC agreed to reimburse Pender County for a portion of the unreimbursed service activities. NCPC funded the reimbursement by retroactively approving the previously unallowed Quality Enhancement program.

The former Executive Director was told by NCPC that she had to reimburse NCPC \$30,674.46 for charges to unapproved programs (Quality Enhancement and Child Care Resource and Referral). As a result, she asked the County for a "loan" or "refund of an advance" of \$30,741.64 to repay NCPC. NCPC's decision to retroactively approve all Quality Enhancement expenditures is inconsistent with its original decision to disallow the expenditures. As NCPC noted, the contract between NCPC and PCPC states that Smart Start funds are to be used only for activities specified in the contract.

Further, regardless of how the transaction is characterized, the former Director obtained funds from the County without authorization and without full disclosure to the Board.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Board implement necessary policies and procedures to ensure adequate Board oversight of PCPC transactions. Again, we reiterate the need for the Board to have adequate understanding of applicable legislation, contract stipulations, and state and local partnership policies and procedures to ensure adherence to such regulations. In addition, we recommend NCPC consistently apply contract provisions.

3. DURING FISCAL YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2002, PCPC INCURRED \$41,299.96 IN EXPENDITURES THAT APPEAR QUESTIONABLE IN NATURE.

Based on complaints expressed during our initial interviews, we reviewed the check register for fiscal years ended June 30, 2001, and June 30, 2002, and selected items for review, including amounts requiring bidding, payments made to related parties and employee travel reimbursements. Due to the high percentage of items originally selected for review, we elected to review all payments made to each vendor during fiscal years 2001 and 2002. Based on our review, we found purchases that appear to be a questionable use of organizational funds. In some cases we identified expenditures that may not have been allowable since they were for unapproved programs. For the purpose of this report, we classified the questionable expenditures into seven categories:

1. Wasteful expenditures – Expenditures that are unnecessary for achieving the organization’s mission, or appear to be excessive or unreasonable.
2. Food items – Expenditures for food and related items that appear excessive.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. Promotional purchases – Expenditures for promotional items that appear excessive.
4. Not properly bid – Purchases that were not properly bid.
5. Related party transactions – Payments to the former Executive Director’s husband and niece.
6. Questionable travel – Travel payments that appear excessive based on map mileage or current amounts.
7. Headstart or Kindergarten – Expenditures for the local Headstart program and the public school kindergartens. Neither is an approved Smart Start program.

The first three categories are discussed in this finding, and the last four are discussed in subsequent findings.

The following are some examples of wasteful expenditures, food purchases, and promotional purchases. See schedule 1 for a detailed list.

- \$4,405.92 for food from local stores, two local caterers and reimbursement to employees for a variety of meetings during the year. Several of the purchase orders do not have documentation to show a legitimate PCPC business purpose. For example, one purchase order was for a meeting of Healthy Carolinians, a group with no direct relationship to PCPC aside from the former Executive Director’s membership. PCPC’s Entertainment Policy states, “The Pender County Partnership for Children will only incur or reimburse entertainment expenses related to direct business affairs of the Partnership.”
- \$1,880.00 for storage units at a local hardware store. According to the Interim Director, charges in fiscal year 2002 included \$80 monthly payments for storage space for child car seats owned and distributed by the United Way organization. At other points during the two years reviewed, PCPC rented two additional storage

FINDINGS AND RECOMMENDATIONS (CONTINUED)

units at \$80 apiece per month. According to the Interim Director the expense is no longer being incurred.

- \$378.31 for purchase of flowers for either PCPC staff or Board members.
- \$148.84 to a school supply vendor for colored paper and laminate. The ship-to address on the purchase form was the former Executive Director's home address.
- \$345 for American Automobile Association (AAA) memberships for PCPC staff members.
- \$153.52 in late fees to two retail stores.
- \$300 to the Administrative Assistant for "clean-up" after a contractor at the Partnership. It is not explained why the contractor did not perform clean up as part of the services rendered or why the Administrative Assistant received additional payments beyond her salary.
- \$477.01 for unoccupied hotel rooms during the Smart Start Conference.
- \$22,632.64 to a vendor for promotional items, charged to several service codes including the Administrative, the Quality Enhancement and the CCR&R budgets. Items purchased include 250 neon badges, 1000 sipper cups, 1000 picture frame magnets, 300 night lights, 1000 light up balls, 1500 "wipe off" bears, 672 baby bibs, 288 stuffed bears, 1000 neon pencils, 2500 flying discs, 2000 sports bottles and 1000 magnets. We found no documentation to support competitive bidding policies were followed for this vendor or that substantiated the necessity of such purchases.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- \$2,185.92 for purchases at a retail store. These purchases include candy, film, film processing, soft drinks, photo albums, wrapping paper, gift bags and numerous disposable cameras. Also included were 62 tee-shirts the former Finance Officer said were purchased for Head Start children to wear to festivals. Such use of funds for unapproved programs is discussed in a subsequent finding.

The former Director did not respond to our attempts to set up an interview to discuss the questionable expenditures.

RECOMMENDATION

We recommend PCPC management and Board revise the accounting policies and procedures to ensure adequate control over payments to vendors, including limiting purchases to items that are identifiable as necessary for the performance of employee duties or advancement of the Smart Start initiative. We also recommend PCPC refrain from paying expenses for other organizations. In addition, we recommend the Board evaluate the appropriateness of any expenditure for entertainment in light of PCPC's and NCPC's mission.

4. PCPC PAID \$53,657.43 TO VENDORS WITHOUT ADHERING TO COMPETITIVE BIDDING POLICIES AND PROCEDURES.

PCPC's competitive bidding policy states, "local partnerships shall use competitive bidding practices in contracting for goods and services on all contract amounts of \$1,500 and above, and where practicable, for amounts less than \$1,500." For purchases between

FINDINGS AND RECOMMENDATIONS (CONTINUED)

\$1,500 and \$5,000 the policy requires three documented verbal quotes from potential vendors, including date and time of conversations, as well as an adequate description of the purpose of the expense. For purchases more than \$5,000 but less than \$15,000, three written quotes are required. Purchases more than \$15,000 and less than \$40,000 require an official Request for Proposal.

Some of the individual payments included in the total for improper bidding procedures fall below the \$1,500 threshold. These payments were included in the questionable bidding procedures amount because they consisted of several smaller payments made to the same vendors for the same types of services. For example, one vendor received numerous payments, some below \$1,500, for renovations at the same location.

PCPC was unable to provide adequate contract or competitive bidding documentation for \$22,574.35 in payments made to Carolina Maintenance and Construction Company. Services provided by this vendor include installation of playground equipment at program provider sites as well as work at PCPC. According to current and former staff members, the vendor was paid for leasehold improvements including installation of a closet, installation of cabinets and a sink, and enlargement of a room during the fiscal year ended June 30, 2002, although legislation prohibited such capital improvement expenditures.

According to the former Finance Officer, on June 25, 2001, the former Executive Director asked her for a printout of the remaining funds in the Repair and Maintenance budget.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The former Finance Officer stated the account balance on the printout was \$2,680. The former Finance Officer said the proprietor of Carolina Maintenance visited the former Executive Director in her office that same day and then presented a bill to PCPC for \$2,600. The description on the bill read, "Work inside building new office and entrance"; additional supporting documentation was not available. Although the proprietor of Carolina Maintenance estimated he provided the former Executive Director with either verbal or written quotes for 40% of the services he performed, he said he had not been required to respond to an official Request for Proposal. He also said the \$2,600 payment was based on a legitimate bill for services rendered and not affected by the funds available on the billing date. In addition, two other payments to Carolina Maintenance included what appeared to be competitive pricing quotes from other vendors, showing Carolina Maintenance as the low bidder. However, when contacted, one vendor who allegedly bid on the jobs stated neither he nor his partner recalled bidding on those particular jobs. The other vendor did not return our calls.

We noted an additional \$31,083.08 in payments to several vendors for whom we found no competitive bidding documentation or service contracts where applicable. Services provided and/or items purchased include playground equipment and toys/educational material for daycare providers, computer equipment, and accounting services for PCPC. See schedule 2 for a detailed list.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The former Executive Director did not respond to our attempts to set up an interview to discuss the purchasing concerns and potential policy violations noted above.

RECOMMENDATION

We recommend the Board reiterate and enforce the requirements for quotes and/or competitive bidding for service contracts and purchases over the threshold amounts. We also recommend PCPC request and maintain detailed invoices for all services rendered. We recommend Management implement and properly bid service contracts when one vendor will receive multiple payments that cumulatively exceed the bidding threshold for the same type of services.

5. PCPC OBTAINED SERVICES FROM THE FORMER EXECUTIVE DIRECTOR'S NIECE AND HUSBAND, THEREBY CREATING A CONFLICT OF INTEREST.

According to PCPC's check registers for the fiscal years ended June 30, 2001, and June 30, 2002, the former Executive Director's niece was paid a total of \$4,600. According to the niece, in October 2000 the former Executive Director hired her cleaning company to perform cleaning services previously provided by PCPC's Administrative Assistant. The niece explained she provided the former Executive Director with a quote for \$50 per cleaning (usually on a weekly basis) for basic cleaning services that included vacuuming and dusting the office and cleaning the bathroom.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The same individual was also paid to perform other services for PCPC. According to the niece, in May 2002 the former Executive Director hired her to deliver promotional fundraising buckets to different community businesses. She was responsible for contacting local businesses, informing them of PCPC's purpose and persuading them to place fundraising buckets at their locations. She was expected to document the locations of buckets placed, receive contact information and eventually follow up to collect donations. She estimated she placed 14 buckets in the community after visiting 50-60 businesses. She stated she checked on the buckets once or twice and collected receipts of approximately \$20 that she turned over to PCPC's former Program Evaluator and Coordinator. According to the niece, she was compensated at \$12 per hour and reimbursed 35 cents per mile. To her knowledge, no written documentation of her work exists other than timesheets she completed and mileage logs. According to the check register, the Executive Director's niece was paid \$600 for these services. Additionally, the former Executive Director had PCPC provide a cellular telephone for her niece to use during the time she was delivering the fundraising buckets. According to the niece, the former Executive Director told her she could use it for personal use as long as she paid for any minutes exceeding the plan. The Interim Executive Director stated no other PCPC employees were provided with cellular phones. The telephone has since been returned to PCPC and the service contract cancelled by the Interim Executive Director.

The former Executive Director also hired her husband to perform lawn care services and additional work at program provider sites at a cost of \$3,355. Work performed at provider

FINDINGS AND RECOMMENDATIONS (CONTINUED)

sites included installation of playground equipment such as sandboxes, beams and picnic tables as well as cleaning up after other contractors. Not only did this situation create a conflict of interest since the service provider's wife was responsible for authorizing payment to him, the provider sites were not approved to receive playground grant funds. In addition, it is not clear why clean up was not considered within the scope of the original service providers' duties.

No service contracts existed between either of these individuals and PCPC although payments exceeded the \$1,500 requirement for competitive quotes in at least one of the two years reviewed. See schedule 3 for a detailed list.

Several instances occurred in which the former Executive Director was the sole authorizing signature on checks payable to her husband and to her niece, in violation of PCPC's Conflict of Interest Statement Policy which states, "In order to avoid conflicts of interest or the appearance of impropriety, should instances arise where a conflict may be received, any individual who may benefit, directly or indirectly, from an entity's disbursement of funds, shall abstain from participating in any decisions or deliberation by the entity regarding the disbursements of funds."

We were unable to interview the former Executive Director and therefore unable to discuss the conflict of interest concerns and potential policy violations noted above.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend the Board review and reiterate to PCPC staff the significance of adherence to a comprehensive conflict of interest policy. To avoid even the appearance of impropriety, we recommend PCPC refrain from hiring relatives of Board and staff members.

6. PCPC SPENT \$67,199.93 ON HEAD START AND KINDERGARTEN PROGRAMS, NEITHER OF WHICH WERE APPROVED PROGRAM PROVIDERS.

According to the Interim Executive Director and the two Early Childhood Specialists at PCPC, the former Executive Director authorized payments for services and products for seven Head Start programs that were not approved to receive playground grant funds. Examples of services provided at the Head Start locations included, but were not limited to, installing and moving fencing, delivering and installing sand, installing play cushions, installing concrete, playground timbers, swings and play shades. Out of the \$67,399.93 total amount, \$653.39 was not only spent on unapproved programs but was also spent in fiscal year 2002 for delivery of sand and moving a fence at Head Start playground sites even though legislation prohibited the purchase of playground items during fiscal year 2002. The total amount for unapproved programs also includes \$1,475.12 for books that PCPC staff identified as being for Kindergarten classes, which falls outside the allowable scope of Smart Start's target age for children. Included in the questioned costs finding discussed

FINDINGS AND RECOMMENDATIONS (CONTINUED)

previously, the amount spent at Wal-Mart included 62 tee-shirts identified as purchased for Head Start children. See schedule 4 for a detailed list.

We contacted the Program and Planning Director at NCPC who said the partnerships can only authorize expenditures for unlicensed providers, which includes Head Start programs, if official permission has been given by NCPC. According to NCPC's Program and Planning Director, PCPC did not request or receive permission to provide materials or services for any unlicensed programs. In addition, the Program and Planning Director said an issue would exist because PCPC did not require the Head Start programs to formally apply to receive the playground grant, thereby violating their own grant policies and procedures.

As stated previously, we were unable to interview the former Executive Director and therefore we were unable to obtain a response from her.

RECOMMENDATION

We recommend PCPC authorize use of funds only for approved program providers as identified in the contract between PCPC and NCPC.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

7. PCPC INCURRED \$13,594.90 IN QUESTIONABLE TRAVEL EXPENSE REIMBURSEMENTS DURING THE FISCAL YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2002.

During the fiscal years ended June 30, 2001, and June 30, 2002, the former Executive Director received \$10,970.24 in travel reimbursements. Because the former Executive Director removed her vendor file when she was terminated, the Interim Executive Director recreated a travel reimbursement file for fiscal year 2002 relying upon copies of Recurring Invoice Payment Requests (RIPRS) for payments to the former Executive Director. The amount of mileage submitted by the former Executive Director appears to be excessive and without adequate documentation. Numerous forms for trips submitted for reimbursement stated the purpose of travel as “Errands”, “Meeting” and “Training”. Numerous requests for reimbursements for local mileage for “meetings” also existed. The Interim Executive Director said she did not see the need for such extensive travel by the PCPC Executive Director and her monthly travel has averaged \$82 while serving as Interim Executive Director compared to a monthly average of \$457 for the former Executive Director.

Additionally, actual mileage submitted for travel is more than map mileage in some instances. For trips to Wilmington, the former Executive Director submitted 96 miles roundtrip. According to map mileage the distance between Burgaw and Wilmington is 28 miles; therefore roundtrip mileage would be approximately 56 miles. Similarly, for travel

FINDINGS AND RECOMMENDATIONS (CONTINUED)

to Raleigh the former Executive Director claimed 335 miles traveled, while map mileage shows the roundtrip is 207 miles. For Chapel Hill, the former Executive Director claimed 358 miles, while map mileage shows 267 miles. There are similar discrepancies for trips reported to Hampstead and Lumberton.

We also identified instances in which the former Executive Director received reimbursement for two vehicles for the same trip. According to staff, the former Executive Director's husband would drive his truck and haul the PCPC's trailer to festivals. No explanation was given for the need for the former Executive Director to drive a separate vehicle.

On several instances, the former Executive Director's signature was the only authorizing signature on her reimbursement requests.

During the two years reviewed, PCPC also paid the Administrative Assistant \$2,624.66 for mileage reimbursement and travel expenses. The purposes listed include trips to the County Manager's Office, the Post Office, and the Health Department on an almost daily basis. According to the Interim Executive Director, this employee's average mileage has been reduced by half since the departure of the former Executive Director. The Administrative Assistant also said the former Executive Director had asked her to travel to Beulaville, NC to sit with the former Executive Director's mother who was ill. The Administrative Assistant said she made the trip twice a week for a period of one month.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

She stated three of those trips occurred during the work week. According to her, the former Executive Director told her to file for reimbursement of her mileage. The Administrative Assistant said two times she went to Beulaville during the week she was paid as if she had been at the partnership and was reimbursed for her mileage. She said she took compensatory leave for the third trip that occurred during working hours and did not file for mileage reimbursement. Additionally, the Administrative Assistant admitted miles submitted might not be accurate due to a broken odometer.

The PCPC's Personnel Policy for Reimbursement of Expenses states, "It is the policy of the Partnership to pay reasonable expenses incurred by staff members who travel on organization business." The policy requires documentation of departure and arrival times for destinations as for authorization of reimbursements.

As stated before, we were unable to interview the former Executive Director and therefore unable to obtain a response from her.

RECOMMENDATION

We recommend all PCPC employees adhere to travel reimbursement policies. We also recommend Management review all travel reimbursement requests for required documentation as well as evaluate the necessity for mileage incurred. In addition, we recommend PCPC review travel reimbursement payments and seek reimbursement for any that do not appear appropriate.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

8. THE FORMER EXECUTIVE DIRECTOR ALLOWED A PROGRAM PROVIDER TO KEEP UNEXPENDED FUNDS THAT SHOULD HAVE REVERTED TO NCPC.

According to the Interim Executive Director, she reviewed the Financial Status Report (FSR) submitted by Pender County Public Schools in July 2001, for the At Risk Preschool Program and noticed \$15,891.27 more in their budget than had had been allocated by PCPC.

When she contacted the Pender County Public Schools' Federal Programs Secretary to inquire about the additional \$15,891.27, she was told the program had not spent all fiscal year 2000 funds and the Director of the program had been told by the former Executive Director to keep the money and spend it in the current year. However, the contract between PCPC and its local program providers specifies that unexpended funds be reverted to PCPC. In turn, the contract between PCPC and NCPC specifies all of PCPC's unexpended funds revert to NCPC.

At the time of discovery, the Interim Executive Director (then functioning as the Program Evaluator and Coordinator) discussed the issue with the former Executive Director who told her not to worry about the money since it was from the previous year and to let the program spend it. The former Executive Director told her to tell the Pender County Public Schools' Federal Programs Secretary to remove the \$15,891.27 from the FSR and spend the funds.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the Interim Executive Director and PCPC's former Finance Officer, the program should have amended their fiscal year 2000 financial reports and returned the money to PCPC, who should then have reverted the funds to NCPC.

The Pender County Public Schools' Director of Federal Programs said at the direction of the former Executive Director, the program carried forward unexpended funds from fiscal year 2000 to fiscal year 2001. The Program Director said she did not know these funds should have reverted to PCPC. It should be noted that the Federal Programs Director serves as a board member of PCPC.

As stated previously, we were unable to interview the former Executive Director and therefore we were unable to obtain a response from her.

RECOMMENDATION

We recommend PCPC adhere to all financial management requirements stipulated in the contract between PCPC and NCPC. PCPC should consistently request all program providers revert all unexpended funds to PCPC for eventual return to NCPC. In addition, we recommend NCPC seek reimbursement of the \$15,891.27.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

9. THE PARTNERSHIP SPENT \$26,473.51 IN SALARIES FOR TWO PARTNERSHIP EMPLOYEES TO PERFORM ASSESSMENTS OF UNAUTHORIZED PROGRAMS.

PCPC's Early Childhood Specialists define their job duties as providing technical assistance to child care providers to increase the quality of care children receive and to increase the rating in centers/homes. According to the Early Childhood Specialists, child care providers for children age 0 to 5 are eligible to request technical assistance and assessments. According to NCPC's Program and Planning Director, kindergarten classes are outside of the scope of Smart Start's target to aid. The Interim Executive Director and the Early Childhood Specialists stated the former Executive Director assigned assessments for Pender County Kindergarten classes during fiscal years 2001 and 2002. The Early Childhood Specialists said they questioned the appropriateness of providing services for unapproved kindergarten classes and the former Executive Director told them they "could find another job" if they did not provide the assessments for the kindergarten classes and that PCPC needed the Pender County Public Schools' Director of Federal Programs as a "friend". The Director of Federal Programs is also a member of PCPC's Board of Directors. In June 2001, the Early Childhood Specialists performed assessments on 22 kindergarten classes. They assessed one class a day per Specialist, totaling two weeks of work time. Based upon their salaries at that time, the assessments for the kindergarten classes cost the Partnership \$1,721.51 in unallowable costs. The Specialists stated that from August 2001 through mid-January 2002, the former Executive Director

FINDINGS AND RECOMMENDATIONS (CONTINUED)

instructed them to perform additional assessments on 22 kindergarten classes as well. Based on their salaries during this time period, the unallowable costs to PCPC totaled \$24,752.00.

Since performance of assessments on kindergarten classes does not fall within the scope of allowable services for PCPC, the salary expenses incurred were not allowable use of Smart Start funds.

We contacted the Director of Federal Programs for Pender County Public Schools to discuss the issue of payment for unallowable assessments of the kindergarten classes. Her response was that in 2001 Pender County received a Ready Schools grant to improve the classroom environment for county kindergartens. She met with the former Executive Director and PCPC staff to develop ideas to improve the classrooms. According to her, the former Executive Director offered to help the kindergarten teachers prepare for upcoming classes by having staff perform assessments. The Program Director explained she is not familiar with Smart Start's "ins and outs" and did not know these assessments were outside the scope of Smart Start funded activities.

As stated before, we were unable to interview the former Executive Director and therefore unable to obtain a response from her.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

We recommend management take appropriate steps to ensure all services provided by PCPC staff are for approved program providers, resulting in no unallowable expenses. We reiterate that the Board should educate itself about allowable uses of Smart Start funds as well as avoid involvement in activities that could result in the appearance of a conflict of interest. Also, we recommend NCPC seek reimbursement of \$26,473.51 in unallowable costs.

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. PCPC expenditures for unapproved activities, resulting in a payback due to NCPC.	\$ 30,674.46
2. Questionable expenditures.	41,299.96
3. Violation of bidding procedures.	53,657.43
4. Payments to the former Executive Director's relatives.	7,955.00
5. Payments for unauthorized programs.	67,199.93
6. Questionable travel.	13,594.90
7. Unexpended funds not reverted to PCPC	15,891.27
8. Salaries for assessments of unauthorized programs.	<u>26,473.51</u>
	<u>\$256,746.46</u>

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Schedule 1

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
09/25/00	Maye's Rentals	\$ 80.00	Storage rental	Wasteful expenditure
09/25/00	Sam's Club	15.00	Secondary memberships for staff members.	Wasteful expenditure
09/26/00	Wal-Mart	93.25	Includes cups, crackers, batteries, shoeboxes (20), wastebaskets (5)	Wasteful expenditure
09/26/00	Wal-Mart	97.07	Cups, photo albums (12), packaged cards, disposable cameras	Wasteful expenditure
09/26/00	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
10/16/00	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
10/25/00	Martha's Flower Shoppe	14.72	Budvase - maternity	Wasteful expenditure
11/13/00	Donna Kvale	124.80	Travel to Head Start location for cleaning	Wasteful expenditure
11/13/00	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
12/12/00	Fed Ex	14.30	Overnight delivery charge - to individuals not related to PCPC business	Wasteful expenditure
12/12/00	Wal-Mart	59.98	"Festival Supplies" - yarn, sponges, candy, garment rack	Wasteful expenditure
12/12/00	Wal-Mart	62.01	"Festival Supplies" - candy, table cloths	Wasteful expenditure
10/25/00	Wal-Mart	241.37	Candy, costumes, tissue, yarn, soft drinks	Wasteful expenditure
09/26/00	Wal-Mart	501.04	"Educational Supplies and Materials" - paint balls, cowboy hats, gumballs, candy, batteries, tote boxes, flashlights, trashbags, film development, soft drinks, towel holder, disposable cameras, photo album, coffee maker, etc.	Wasteful expenditure
12/22/00	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
12/22/00	Wal-Mart	158.25	Wrapping paper, gift bags, storage jar	Wasteful expenditure
01/09/01	Food Lion	102.11	staff bonuses - gift certificates	Wasteful expenditure
01/09/01	James Sprunt CC	287.00	Tuition and student activity	Wasteful expenditure
01/09/01	James Sprunt CC	175.22	books	Wasteful expenditure
01/09/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
01/30/01	Fed Ex	13.26	Overnight delivery charge - to individuals not related to PCPC business	Wasteful expenditure
01/30/01	Hart's Florist	21.20	sympathy bouquet	Wasteful expenditure
01/30/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
02/26/01	Wal-Mart	\$ 37.37	Shoeboxes/supplies	Wasteful expenditure
02/26/01	Wal-Mart	46.84	Shoeboxes/supplies	Wasteful expenditure
03/08/01	DPD Team Concrete	922.20	Concrete for provider - highest bid selected	Wasteful expenditure
03/08/01	Fed Ex	21.46	Overnight delivery charge - to individuals not related to PCPC business	Wasteful expenditure
03/08/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
03/23/01	Martha's Flower Shophe	98.02	Flowers	Wasteful expenditure
04/09/01	Lowe's Hardware	123.11	"Wheelbarrow and shovel"	Wasteful expenditure
04/09/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
05/11/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
05/11/01	Sandra Miller	423.94	"Two Shade Tents" - from Sams	Wasteful expenditure
05/11/01	Sam's Club	95.52	"Late Fees/ Interest Fees"	Wasteful expenditure
05/11/01	Wal-Mart	67.09	Food/materials	Wasteful expenditure
05/24/01	Fed Ex	26.38	Overnight delivery charge - from former ED's husband to finance service	Wasteful expenditure
05/24/01	Hart's Florist	23.20	Birthday	Wasteful expenditure
06/07/01	Maye's Rentals	80.00	Storage rental	Wasteful expenditure
06/07/01	Wanda Phelps	300.00	Payment for cleaning up after construction for 3 back rooms and storage unit	Wasteful expenditure
06/29/01	Fed Ex	11.96	Overnight delivery charge - former ED to NCDMV	Wasteful expenditure
06/29/01	Lanier Signs	53.00	"Banner for Jo Lanier"	Wasteful expenditure
06/29/01	Martha's Flower Shophe	37.10	Centerpiece	Wasteful expenditure
06/29/01	Martha's Flower Shophe	28.62	Flowers	Wasteful expenditure
08/23/01	Martha's Flower Shophe	32.33	"Flowers Birthday"	Wasteful expenditure
08/23/01	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
08/23/01	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
09/07/01	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
10/08/01	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
10/08/01	Wal-Mart	109.97	Candy for Festival - Candy, tablecloth, spiderwebs, drinks	Wasteful expenditure
10/23/01	Wanda Phelps	7.95	Reimbursement for paying for Mayes Hardware past due account	Wasteful expenditure
11/07/01	James Sprunt Community College	1,246.80	Tuition/Books	Wasteful expenditure

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

Date	Payee	Amount	Description	Reason Questioned
11/07/01	Maye's Rentals	\$ 80.00	Storage Units	Wasteful expenditure
11/07/01	Teachers Aid	27.16	"Office Supplies" - Flags 120 pack, colored paper	Wasteful expenditure
11/07/01	Wal-Mart	22.12	"Festival Supplies" - ZZ Top CD, Celine Dion CD	Wasteful expenditure
11/07/01	Wal-Mart	61.03	"Festival Supplies" -Storage Boxes (4), 35 MM , Cameras (5), Soft Drinks, Utensils	Wasteful expenditure
11/07/01	Wal-Mart	75.83	"Festival Supplies" -Ribbon (3), T-Shirts (11)	Wasteful expenditure
11/07/01	Wal-Mart	50.78	"Festival Admin" - T-Shirts (8)	Wasteful expenditure
11/07/01	Wal-Mart	88.86	"Admin Festival Holly Ridge" - T-Shirts (14)	Wasteful expenditure
11/07/01	Wal-Mart	17.14	"Festival Materials and Supplies" - Candy	Wasteful expenditure
12/10/01	Martha's Flower Shoppe	55.90	"Flowers"	Wasteful expenditure
12/10/01	Maye's Rentals	80.00	Storage unit.	Wasteful expenditure
12/10/01	Office Depot	29.00	Late fee for November	Wasteful expenditure
12/10/01	Sherman Specialty	124.10	"Festival Supplies" - 12 American flags, 12 hats, 100 flag tattoos for Headstart children	Wasteful expenditure
01/08/02	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
01/08/02	Wal-Mart	5.02	Gift bag/Ribbon	Wasteful expenditure
01/08/02	Wal-Mart	157.94	T-Shirts (25)	Wasteful expenditure
01/08/02	Wal-Mart	47.80	"Holiday Candy"	Wasteful expenditure
01/18/02	Maye's Hardware	10.18	Saw - former ED's husband signed invoice	Wasteful expenditure
01/18/02	Office Depot	29.00	Late fee for December	Wasteful expenditure
01/18/02	Sheraton Greensboro	477.01	Unoccupied rooms during conference.	Wasteful expenditure
02/07/02	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
02/22/02	Wal-Mart	13.74	Film Development	Wasteful expenditure
03/12/02	Maye's Rentals	80.00	Rental Units	Wasteful expenditure
03/12/02	Maye's Rentals	40.00	Rental Unit - Storage for Car Seats	Wasteful expenditure
04/01/02	Bender-Burkot	148.84	Paper and laminate - sent to former ED's home address	Wasteful expenditure
04/01/02	James Sprunt Community College	1,860.34	Tuition	Wasteful expenditure
04/01/02	Staff Development for Education	15.00	Service Charge for late cancellation of conference attendance	Wasteful expenditure

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

Date	Payee	Amount	Description	Reason Questioned
04/01/02	Stone's Home Office	\$106.99	"Supplies" - Includes religious banners	Wasteful expenditure
04/12/02	Martha's Flower Shoppe	34.82	"Flowers"	Wasteful expenditure
04/12/02	Maye's Rentals	40.00	Rental Unit	Wasteful expenditure
04/12/02	Maye's Rentals	80.00	Rental Units	Wasteful expenditure
04/23/02	Trailers Unlimited	67.31	Mirrors for towing trailer affixed to former ED's husband's vehicle.	Wasteful expenditure
05/10/02	AAA	345.00	5 AAA memberships	Wasteful expenditure
05/10/02	Majestic Designs	58.58	blue bucket campaign for payback	Wasteful expenditure
05/10/02	Maye's Rentals	40.00	Rental Unit	Wasteful expenditure
05/10/02	Maye's Rentals	80.00	Storage Units	Wasteful expenditure
05/10/02	Wal-Mart	67.89	"Candy for Three Festivals"	Wasteful expenditure
05/10/02	Wal-Mart	23.39	"Workshop" - Snack foods, plates	Wasteful expenditure
06/17/02	Wal-Mart	15.90	Candy, film developing	Wasteful expenditure
06/14/02	Martha's Flower Shoppe	32.40	"Flowers for birthday"	Wasteful expenditure
06/14/02	Wal-Mart	42.31	ACCU wrapper, coin wrappers, batteries	Wasteful expenditure
06/14/02	Wal-Mart	37.83	T-Shirts for Emblems (4)	Wasteful expenditure
06/27/02	Snapdragon Screen Print	211.51	28 Custom T-Shirts	Wasteful expenditure
06/27/02	Snapdragon Screen Print	17.04	Printing on T-Shirts	Wasteful expenditure
11/13/00	W. Phelps	18.02	Cleaning supplies charged for unapproved activity.	Wasteful expenditure.
11/13/00	W. Phelps	1.59	Cleaning supplies charged for unapproved activity.	Wasteful expenditure.
03/08/01	NACCRR Membership	125.00	Membership for unapproved activity.	Wasteful expenditure.
03/23/01	NACCRR Membership	1,500.00	CCR&R Software - for unapproved activity.	Wasteful expenditure.
04/24/01	NACCRR Network	320.00	CCR&R Conference - for unapproved activity.	Wasteful expenditure.
04/24/01	NACCRR Network	240.00	CCR&R Conference - for unapproved activity.	Wasteful expenditure.
01/18/02	NACCRR	100.00	NACCRR Membership - for unapproved activity.	Wasteful expenditure.
09/25/00	Wanda Phelps	2.23	Reimbursement for CCR&R meeting	Food purchases
09/25/00	Sam's Club	29.29	"Meeting Food Supplies and Materials Service Related"	Food purchases
09/26/00	Food Lion	36.14	"Food for CCR&R Meeting" - snack food, bread, soft drinks, sandwich platter	Food purchases

Schedule 1

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
09/26/00	Food Lion	\$ 43.06	"Service Related Supplies" "CCR&R Food" - bread, vegetables, fruit, platter, peanuts, mayonnaise, pickles, applesauce, cups, subs	Food purchases
09/26/00	Food Lion	22.74	"CCR&R Meeting Food Expense" - soft drinks, deli	Food purchases
09/26/00	Food Lion	50.43	"Meeting for CCR&R" - soft drinks, snacks, bread, cups, deli	Food purchases
09/26/00	Sandra Miller	42.21	"Office Supplies", "Meeting Food"	Food purchases
09/26/00	Wal-Mart	33.59	"CCR&R Meeting Food" - snack foods and soft drinks	Food purchases
10/16/00	Bagel Basket	150.25	CCR&R Meeting - 30 lunches	Food purchases
10/16/00	Food Lion	69.77	"CCR&R Food Meeting, QE Food, Administration Conference Food"	Food purchases
10/25/00	Bagel Basket	82.50	CCR&R Meeting - 15 lunches	Food purchases
10/25/00	Bagel Basket	78.81	CCR&R Meeting - 15 lunches	Food purchases
10/25/00	Food Lion	43.90	"CCR&R Meeting(food)" - soft drinks, rice	Food purchases
10/25/00	Food Lion	7.83	"Meeting Food Expense" - soft drinks, napkins	Food purchases
10/25/00	Food Lion	32.29	"Meeting Expense (food)" - ornamental gourds, halloween candy, kidney beans, popcorn, treat bags	Food purchases
11/13/00	Bagel Basket	78.70	Meeting/food expense - 15 lunches	Food purchases
11/13/00	Food Lion	24.26	"Meeting" - soft drinks, hot lunch plates	Food purchases
12/12/00	Bagel Basket	78.70	"Meeting expense food - Smoking meeting" - 15 lunches	Food purchases
12/12/00	Food Lion	77.97	"Playground Safety Workshop" - cups, snack foods, bread, candy, toothpaste, condiments, soft drinks	Food purchases
12/12/00	Food Lion	36.03	"Meeting Expense(food)" - soft drinks, snack foods for school board	Food purchases

Schedule 1

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
12/12/00	Food Lion	\$ 47.16	"CCR&R Meeting Food Expense, Food" - cups, soft drinks, mayonnaise, peanut butter, subs	Food purchases
12/12/00	Food Lion	9.15	"CCR&R Meeting" - snack food	Food purchases
12/12/00	Food Lion	66.61	"Meeting Expense (food)" - soft drinks, cups, fruit tray, snack foods	Food purchases
12/12/00	Food Lion	21.76	"Meeting Expense Food" - soft drinks, tea	Food purchases
12/22/00	Reade's Restaurant	30.48	"45 Ham Biscuits" - Playground breakfast	Food purchases
12/22/00	Food Lion	41.13	"CCR&R Meeting Food" - soft drinks, candy, sandwich tray, snacks	Food purchases
01/09/01	Food Lion	54.26	"CCR&R Meeting Food" - sandwich platter, soft drinks, utensils, hot cocoa, vienna sausage, snack crackers	Food purchases
01/30/01	Food Lion	26.57	"CCR&R Food" - soft drinks, candy, sandwich tray, orange juice, snacks	Food purchases
01/30/01	Food Lion	30.60	"Meeting/Playground" - Orange juice, candy, bananas, fruit, snacks	Food purchases
01/30/01	Food Lion	7.93	"CCR&R Meeting" - Soft drink, cookies	Food purchases
01/30/01	Food Lion	26.38	"Meeting" - soft drinks, tuna lunch kit, snack foods	Food purchases
02/09/01	Food Lion	58.86	"Meeting Food" - Snack foods, cups, napkins, butter, soft drink, spaghetti, sausage, hot chocolate, cereal, candy, sliced cheese, mayonnaise, evap milk, sugar, tuna dinner, tuna 4 pack, plates	Food purchases
02/26/01	Bagel Basket	82.99	CCR&R Meeting - 15 lunches	Food purchases
02/26/01	Linda Cole	120.00	CCR&R Breakfast for 20 people	Food purchases
02/26/01	Food Lion	9.92	"Admin Meeting" - Evap milk, orange juice, doughnuts	Food purchases
02/26/01	Food Lion	18.35	"CCR&R Meeting" - soft drinks, cups, salt	Food purchases
02/26/01	Food Lion	14.72	"Food for meeting" - soft drinks, candy, peanut butter	Food purchases

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
03/08/01	Food Lion	\$ 27.84	"Food for NCPC Meeting" - Soft drinks and paper towels	Food purchases
03/08/01	Wanda Phelps	13.50	Reimbursement for cookies for NCPC meeting	Food purchases
03/09/01	Food Lion	18.94	"Board Meeting Food" - Evaporated milk, sugar, coffee, cups	Food purchases
03/09/01	Food Lion	8.04	Cutlets, mayonnaise, cleaner	Food purchases
03/09/01	Food Lion	50.90	"CCR&R Meeting" - Deli platter, bread, condiments, soft drinks	Food purchases
03/09/01	Food Lion	30.15	"Board Meeting" - Doughnuts, Orange juice, utensils	Food purchases
03/09/01	Food Lion	17.61	"Food for Playground Meeting" - Doughnuts, candy, soft drinks	Food purchases
03/23/01	Food Lion	36.48	"Food for Service Providers Meeting" - soft drinks, candy, rice, corn starch, cheese nips	Food purchases
04/09/01	Bagel Basket	78.71	CCR&R Meeting - 15 lunches	Food purchases
04/09/01	Bagel Basket	78.71	CCR&R Meeting - 15 lunches	Food purchases
04/09/01	Food Lion	20.19	"CCR&R Meeting" - soft drinks	Food purchases
04/09/01	Food Lion	16.18	"CCR&R Meeting" - soft drinks	Food purchases
04/09/01	Wanda Phelps	7.50	Reimbursement for cookies for CCR&R meeting	Food purchases
04/24/01	Linda Cole	160.00	CCR&R Breakfast for 20 people	Food purchases
05/11/01	Bagel Basket	78.70	CCR&R Meeting - 15 lunches	Food purchases
05/11/01	Linda Cole	160.00	CCR&R Breakfast for 20 people	Food purchases
05/11/01	Food Lion	10.20	"Festival Topsail Beach" - 4 soft drinks	Food purchases
05/11/01	Food Lion	23.27	"CCR&R Meeting" - soft drinks	Food purchases
05/24/01	Food Lion	13.29	"Supplies for Springfest" - ice, rice, soft drinks	Food purchases
05/24/01	Food Lion	4.88	"Admin. Food" - Popcorn	Food purchases
05/24/01	Wanda Phelps	13.77	Reimbursement for CCR&R breakfast	Food purchases
06/29/01	Bagel Basket	82.28	CCR&R Meeting - 15 lunches	Food purchases

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

Date	Payee	Amount	Description	Reason Questioned
06/29/01	Food Lion	\$188.33	"Meeting"	Food purchases
06/29/01	Food Lion	43.51	"Meeting Expense" - Snack foods, soft drinks	Food purchases
06/29/01	Food Lion	16.28	"Meeting Expense"	Food purchases
06/29/01	Wanda Phelps	21.85	Reimbursement for drinks for CCR&R meeting	Food purchases
08/23/01	Linda Cole	240.00	Breakfast - 40 people	Food purchases
10/23/01	Bagel Basket	54.86	Healthy Carolinians Meeting - 10 lunches	Food purchases
10/23/01	Bagel Basket	82.29	CCR&R meeting - 30 lunches	Food purchases
11/08/01	Food Lion	23.41	"Food for Meeting" - Candy	Food purchases
12/05/01	Food Lion	71.53	"Office Supplies" - soft drinks, candy, sugar, coffee, Glade Plug ins	Food purchases
12/10/01	Linda Cole	212.50	Breakfast - 25 people	Food purchases
12/10/01	Food Lion	70.15	Healthy Carolinians meeting - soft drinks, candy, salads	Food purchases
01/18/02	Bagel Basket	77.63	CCR&R meeting - 15 lunches	Food purchases
03/12/02	Food Lion	115.81	"4 Different Meetings" - Soft drinks, candy, snack foods, condiments, chicken tenders, deli trays, etc.	Food purchases
03/12/02	Food Lion	77.34	Cups, snack foods, condiments, Sugar, chicken tenders, fruit and cheese tray	Food purchases
03/12/02	Food Lion	13.02	Fruit punch, ice, cookies, peanuts	Food purchases
02/22/02	Bagel Basket	43.33	Meeting - 7 lunches	Food purchases
03/12/02	Food Lion	81.65	Soft drinks, ice, snack foods, chicken tenders, deli trays, condiments	Food purchases
04/01/02	Food Lion	48.77	"Food for CCR&R Meeting 3/5/02" - Soft drinks, snack foods, deli platters, candy	Food purchases
04/01/02	Food Lion	83.40	Soft drinks, deli trays, deli meats, snack foods	Food purchases
04/12/02	Food Lion	7.10	cups, napkins, plates	Food purchases
04/12/02	Food Lion	50.59	"Supplies for Meeting" - Soft drinks, snack foods	Food purchases
04/12/02	Food Lion	25.05	Soft drinks, snack food, salad, salad dressing, popcorn, chicken tenders	Food purchases
04/12/02	Food Lion	16.43	cups, napkins, plates, cheese, fruit	Food purchases

Schedule 1

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
04/23/02	Food Lion	\$ 25.69	"Supplies" - soft drinks, snack foods, cups, orange juice, napkins	Food purchases
8/23/01	Bagel Basket	82.28	CCR&R meeting - 15 lunches	Food purchases
01/30/01	Great North American	2,299.58	"Promotional Supplies" - baby bibs(672)	Promotional purchases
01/30/01	Great North American	405.66	"Promotional Supplies" - Neon pencils (1000)	Promotional purchases
01/30/01	Great North American	990.35	"Promo Supplies" - sipper cups(500)	Promotional purchases
01/30/01	Great North American	2,812.56	"Promotional Supplies" - 5 1/2 inch flyer(2500)	Promotional purchases
01/30/01	Great North American	3,999.82	"Promo Supplies" - sports bottles(2000)	Promotional purchases
01/30/01	Great North American	833.60	"Promo Supplies" - Magnets(1000)	Promotional purchases
05/11/02	Great North American	1,822.76	"Stuffed Bears" (288)	Promotional purchases
01/18/02	Great North American	238.36	Neon Bandages (250)	Promotional purchases
01/18/02	Great North American	891.81	Sipper Cups (500)	Promotional purchases
01/18/02	Great North American	710.00	Picture Frame Magnets (1000)	Promotional purchases
01/18/02	Great North American	530.81	Night Lights (300)	Promotional purchases
01/18/02	Great North American	2,288.99	Light up balls (500)	Promotional purchases
01/18/02	Great North American	2,155.00	Light up balls (500)	Promotional purchases
01/18/02	Great North American	2,653.34	Wipe Off Bears (1500)	Promotional purchases

Total \$41,299.96

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Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 - June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
11/13/00	Office Showcase	\$1,928.84	Furniture for evaluations	Not properly bid.
12/12/00	Carolina Maintenance	3,650.00	Leasehold Improvements	Not properly bid.
12/12/00	Century Small Business Solutions	1,650.00	Income tax return preparation	Not properly bid.
12/12/00	Playground Designs/ Ren Chapman	300.00	Install playground equipment - Friendly	Not properly bid.
12/22/00	Ren Chapman	2,800.00	Trike Storage Unit	Not properly bid.
01/30/01	CDW-G	2,399.16	Computer	Not properly bid.
02/26/01	Dell Computers	4,867.40	2 computers plus 2 printers	Not properly bid.
02/26/01	Complete Playground/ Ren Chapman	1,360.00	Deliver and Install Shade tent	Not properly bid.
04/24/01	Office Showcase	1,722.00	CCR&R Desk	Not properly bid.
05/11/01	Carolina Maintenance	1,195.00	Valerie Green Sandbox	Not properly bid.
05/11/01	Carolina Maintenance	1,195.00	Sandbox for G. Lanier	Not properly bid.
05/11/01	Carolina Maintenance	1,600.00	"Build new office in back"	Not properly bid.
05/11/01	Office Showcase	5,033.08	Desk stations	Not properly bid.
05/16/01	Able Installations	4,391.58	Childlife system	Not properly bid.
06/07/01	Office Showcase	2,931.02	Finance Desk	Not properly bid.
06/29/01	Carolina Maintenance	2,600.00	Work inside building	Not properly bid.
01/18/02	Carolina Maintenance	2,875.00	"Cabinets/sink in breakroom repaired and plumbing repaired"	Not properly bid.
01/18/02	Gregson Accounting	1,700.00	"Balance Forward"	Not properly bid.
04/23/02	Carolina Maintenance	1,440.00	"Shelves"	Not properly bid.
04/23/02	Carolina Maintenance	1,778.00	"Repair and maintenance to closet and office"	Not properly bid.
04/23/02	Carolina Maintenance	2,446.35	"Repair to inside of building"	Not properly bid.
04/23/02	Carolina Maintenance	1,195.00	Sandbox Tikes are Us	Not properly bid.
06/14/02	Carolina Maintenance	400.00	"Repair damage door and replace"	Not properly bid.
06/14/02	Carolina Maintenance	1,800.00	"Enlarge room and repair floor"	Not properly bid.
06/15/02	Carolina Maintenance	400.00	"Replace fan and repair light"	Not properly bid.

Total \$53,657.43

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Schedule 3

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 – June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
11/13/00	Angela Longley	\$ 50.00	"Office Cleaning"	Related party transactions.
12/12/00	Angela Longley	150.00	"Cleaning service"	Related party transactions.
12/22/00	Angela Longley	50.00	"Cleaning service"	Related party transactions.
01/30/01	Angela Longley	250.00	"Cleaning service"	Related party transactions.
02/26/01	Angela Longley	150.00	"Cleaning service"	Related party transactions.
03/23/01	Angela Longley	100.00	"Cleaning service"	Related party transactions.
04/24/01	Angela Longley	150.00	"Cleaning service"	Related party transactions.
04/24/01	Mike Miller	135.00	"Lawn Service"	Related party transactions.
05/11/01	Mike Miller	90.00	"Lawn Service"	Related party transactions.
05/11/01	Mike Miller	385.00	"Maple Hill Clean up"	Related party transactions.
05/11/01	Mike Miller	390.00	"Maple Hill Clean up"	Related party transactions.
05/11/01	Mike Miller	725.00	"Malpass Hill" – install picnic tables, balance beams, sand studios	Related party transactions.
05/11/01	Mike Miller	400.00	"Playground equipment disposal at Malpass Hill"	Related party transactions.
05/24/01	Angela Longley	150.00	"Cleaning service"	Related party transactions.
06/29/01	Angela Longley	250.00	"Cleaning service"	Related party transactions.
06/29/01	Mike Miller	270.00	Lawn Service 5/13/01, 5/20/01, 5/27/01, 6/3/01, 6/18/01, 6/30/01	Related party transactions.
06/29/01	Mike Miller	45.00	Lawn service for 6/26/01	Related party transactions.
06/29/01	Mike Miller	225.00	Clean up after construction work at Maple Hill	Related party transactions.
08/23/01	Angela Longley	350.00	Cleaning for 7/9/01, 7/16/01, 7/23/01, 7/30/01, 8/6/01, 8/16/01, 8/20/01	Related party transactions.
08/23/01	Mike Miller	225.00	Lawn Service for 7/7/01, 7/14/01, 7/21/01, 8/4/01	Related party transactions.
09/24/01	Mike Miller	315.00	Lawn Service for 8/11/01, 8/18/01, 8/25/01, 9/1/01, 9/8/01, 9/15/01, 9/22/01	Related party transactions.

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 – June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
10/08/01	Angela Longley	\$450.00	Cleaning for 8/23/01, 8/28/01, 9/2/01, 9/13/01, 9/20/01, 9/27/01, 10/1/01, 10/4/01, 10/8/01	Related party transactions.
11/07/01	Angela Longley	350.00	Cleaning for 10/12/01, 10/16/01, 10/21/01, 10/25/01, 10/29/01, 11/01/01, 11/05/01	Related party transactions.
12/10/01	Angela Longley	250.00	Cleaning for 11/12/01, 11/19/01, 11/26/01, 12/04/01, 12/10/01	Related party transactions.
01/08/02	Angela Longley	200.00	Cleaning 12/17/01, 12/23/01, 12/30/01, 1/7/02	Related party transactions.
02/07/02	Angela Longley	250.00	Cleaning for 1/13/02, 1/17/02, 1/21/02, 1/28/02, 2/4/02	Related party transactions.
03/12/02	Angela Longley	250.00	Cleaning for 2/9/02, 2/11/02, 2/18/02, 2/25/02, 3/4/02	Related party transactions.
04/23/02	Angela Longley	350.00	Cleaning services for 3/11/02, 3/18/02, 3/23/02, 3/25/02, 3/28/02, 4/1/02, 4/8/02	Related party transactions.
05/10/02	Angela Longley	250.00	Cleaning services for 4/15/02, 4/22/02, 4/29/02, 5/5/02, 5/9/02	Related party transactions.
05/10/02	Mike Miller	150.00	Lawn Service for 4/13/02, 4/20/02, 4/27/02	Related party transactions.
06/14/02	Angela Longley	600.00	"Contracted Services for distribution of promotional and fundraising materials 60 hours x \$10.00	Related party transactions.

Total \$7,955.00

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 – June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
02/09/01	School Specialty	\$199.77	"Invoice #39930613"	Headstart or kindergarten.
02/09/01	Tree Enterprises	1,979.50	"Supplies/Materials" - mats and storage bins	Headstart or kindergarten.
02/09/01	Tree Enterprises	304.50	"Supplies/Materials" - mats and storage bins	Headstart or kindergarten.
02/09/01	Tree Enterprises	919.50	"Supplies/Materials" - mats and storage bins	Headstart or kindergarten.
02/26/01	Seegar's Fence	364.72	"Maple Hill Fence"	Headstart or kindergarten.
04/24/01	Seegar's Fence	790.00	"Playground Grant Pender High Head Start extensions of fence"	Headstart or kindergarten.
03/08/01	Prime Design	1,607.00	"Concrete for Maple Hill"	Headstart or kindergarten.
03/23/01	Complete Playground	500.00	Playground grant - Maple Hill HS swing and border	Headstart or kindergarten.
03/23/01	Kaplan	699.44	"Playground Grant materials Maple Hill Head Start"	Headstart or kindergarten.
03/23/01	Kaplan	144.12	"Maple Hill Blocks"	Headstart or kindergarten.
03/23/01	Little Tykes	3,521.02	"Playground grant swings timbers Maple Hill Head Start"	Headstart or kindergarten.
04/24/01	ABC School Supply	301.80	South Topsail Head Start Materials	Headstart or kindergarten.
04/24/01	Complete Playground	400.00	Playground grant - shade tents for Maple Hill HS, Pender High HS	Headstart or kindergarten.
04/24/01	Complete Playground/ Ren Chapman	375.00	Playground grant - Pender High HS swings	Headstart or kindergarten.
04/24/01	Kaplan	538.45	"Playground grant materials Maple Hill Head Start"	Headstart or kindergarten.
04/24/01	Kaplan	36.00	"Playground grant Maple Hill Head Start Materials back order item"	Headstart or kindergarten.
04/24/01	Kaplan	62.04	"Playground grant Maple Hill Head Start Materials back order item"	Headstart or kindergarten.
04/24/01	Majestic Designs	333.90	"Signs for playgrounds" - Pender High HS, South Topsail HS, Malpass Corner Elementary, Maple Hill	Headstart or kindergarten.
04/24/01	Prime Design	493.00	"Addition concrete" - invoice says for Maple Hill Head Start	Headstart or kindergarten.
04/24/01	Seaside Mulch	1,590.00	"Sand and delivery to Maple Hill Head Start"	Headstart or kindergarten.
04/24/01	Seaside Mulch	295.50	"Playground grant surfacing materials for Pender High Head Start"	Headstart or kindergarten.

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 – June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
04/24/01	Seegar's Fence	\$1,487.61	"Playground grant South Topsail Extend Fence"	Headstart or kindergarten.
05/11/01	ABC School Supply	338.76	South Topsail Head Start Log Cabin	Headstart or kindergarten.
05/11/01	Carolina Maintenance	1,195.00	Maple Hill Sandbox	Headstart or kindergarten.
05/11/01	Carolina Maintenance	1,195.00	Sandboxes at Pender High	Headstart or kindergarten.
05/11/01	Contract Connection	962.80	Pender High Head Start playground grant - swings	Headstart or kindergarten.
05/11/01	Ross T. Harrell	1,475.00	"Trike pad for PHHS"	Headstart or kindergarten.
05/11/01	Ross T. Harrell	1,525.00	"Trike pad for STHS"	Headstart or kindergarten.
05/11/01	Kaplan	1,223.96	"Playground grant South Topsail Head Start Materials"	Headstart or kindergarten.
05/11/01	Kaplan	470.67	"Playground Grant materials Maple Hill Head Start"	Headstart or kindergarten.
05/11/01	Kaplan	33.30	"Playground grant Backorder item: floor tom-tom South Topsail Head Start"	Headstart or kindergarten.
05/11/01	Leisure Lines	1,950.00	"Playground grant for sun shades for Maple Hill, Pender High HS"	Headstart or kindergarten.
05/11/01	Maye's Hardware	1.91	Bolts for Maple Hill	Headstart or kindergarten.
05/11/01	Burgaw Elementary	7,000.00	Preschool Grant	Headstart or kindergarten.
05/11/01	Town of Burgaw	3,000.00	Playground Grant	Headstart or kindergarten.
05/24/01	Kaplan	62.04	"Playground Grant Backorder Item South Topsail Head Start"	Headstart or kindergarten.
05/24/01	Maye's Hardware	15.22	Concrete for Maple Hill HS	Headstart or kindergarten.
05/24/01	Maye's Hardware	9.51	Sand for Maple Hill and NB II	Headstart or kindergarten.
06/07/01	Contract Connection	1,337.80	South Topsail playground grant - swings	Headstart or kindergarten.
06/07/01	Kaplan	72.04	"Playground Grant South Topsail Head Start"	Headstart or kindergarten.
06/29/01	Carolina Maintenance	1,195.00	Sandbox, South Topsail	Headstart or kindergarten.
06/29/01	Carolina Maintenance	1,465.00	Sandbox, Malpass Corner	Headstart or kindergarten.
6/29/2001	Contract Connection	1,306.19	Playground grant - Malpass Corner	Headstart or kindergarten.
6/29/2001	Contract Connection	10,956.42	Playground grant Pender High Head Start	Headstart or kindergarten.
06/29/01	Contract Connection	10,030.07	Malpass Corner Playground Grant	Headstart or kindergarten.

Pender County Partnership for Children, Inc.
Questionable Expenditures
July 1, 2000 – June 30, 2002

<u>Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>	<u>Reason Questioned</u>
06/29/01	Mike Dewey	\$ 385.00	Playground grant for South Topsail - timbers	Headstart or kindergarten.
06/29/01	Lakeshore Learning	521.31	"Playground grant South Topsail"	Headstart or kindergarten.
06/29/01	Maye's Hardware	3.35	Spikes for Maple Hill HS	Headstart or kindergarten.
06/29/01	Seaside Mulch	135.50	"Playground grant Playcushion South Topsail"	Headstart or kindergarten.
06/29/01	Seaside Mulch	262.70	"Playground grant South Topsoil play cushion"	Headstart or kindergarten.
09/07/01	Ronnie Lockaby	100.00	"Clean Up After Construction"	Headstart or kindergarten.
09/26/01	Ronnie Lockaby	100.00	"Sand and Labor for Pender High"	Headstart or kindergarten. Also during ban on playground purchases.
10/08/01	Alfred C. Owens	100.00	Picking up sand and delivery to South Topsail	Headstart or kindergarten. Also during ban on playground purchases.
10/08/01	Seaside Mulch	136.50	Play cushion for Pender High School	Headstart or kindergarten. Also during ban on playground purchases.
10/08/01	Seegar's Fence Company	216.89	"Moving Gate for Pender High School" - Invoice says installing 4 feet of chain link fence and move gate	Headstart or kindergarten. Also during ban on playground purchases.
01/08/02	Brame	542.24	Books (17)	Headstart or kindergarten.
01/18/02	NAEYC	932.88	"Books"	Headstart or kindergarten.

Total \$67,199.93

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PENDER COUNTY
PARTNERSHIP
for CHILDREN



March 4, 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:

This letter serves as the response by the Pender County Partnership for Children, Inc. (hereinafter referred to as "PCPC") to the Special Review of the Pender County Partnership for Children, Inc. dated February 4, 2003 by the Office of the State Auditor.

The findings contained in the Special Review report address the need for effective oversight of the PCPC by the Board of Directors. Overall, the Special Review recommendations focused upon the need for our Board of Directors to implement policies and procedures to ensure adequate oversight of PCPC and to develop an action plan to familiarize ourselves with PCPC's implemented policies and procedures. The recommendations also addressed the need for PCPC to comply with legislative and contractual provisions.

General Response

The Board of Directors of PCPC is committed to providing quality services to children *in a manner that provides for fiscal accountability of state funds*. We agree with your assessment that oversight of the PCPC must be significantly strengthened.

It is important to note that the Executive Director and Board Chair at the time these issues occurred are no longer associated with PCPC. In addition, the PCPC Board has contracted with an experienced neighboring Smart Start partnership to provide additional direction, guidance, and technical assistance. Our contract with the Onslow County Partnership for Children will run at least through the end of this fiscal year and will enable us to strengthen leadership and further our understanding of the Smart Start program and its requirements.

As soon as we became aware of the extent of our problems, we immediately took action to correct the deficiencies in PCPC oversight and operations with assistance from our funding agency, The North Carolina Partnership for Children, Inc. (hereafter referred to

as "NCPC"). In September 2002, we began participating in NCPC's Local Partnership Performance Improvement Plan that requires satisfactory completion of a corrective action plan that details actions needed to address financial and compliance deficiencies. NCPC's Improvement Plan requires satisfactory completion of **all** actions stipulated in this corrective action plan no later than June 30, 2003.

Our corrective action plan addresses the need for enhanced oversight of PCPC by its Board of Directors. As a result, we have established the following committees: Executive, Finance, Personnel, Board Development/Nomination, and Grant Review. These committees meet regularly to monitor operations and to review policies and procedures.

In addition, increased emphasis has been placed on Board attendance and, as a result, the Board has had a quorum at nine of ten meetings this fiscal year. In addition, NCPC will be providing us with required Board development training in the near future. We have also developed a Board orientation for all Directors to be held at our March 2003 Board meeting. These actions and increased participation have enabled the board to develop a fuller understanding of Smart Start program requirements and compliance issues, as well as our responsibilities as Board members.

Our corrective action plan also addresses the need for enhanced policies and procedures in the following areas: accounting, monitoring of grantees and service providers, grants management, insurance coverage, personnel, and competitive bidding. As a result, PCPC began the process of revising and enhancing its policies and procedures governing nearly all aspects of its operation. These enhanced policies and procedures address legislative and contractual compliance. Several of the required policies and procedures have already been approved. We will ensure that all required policies are approved by the PCPC Board no later than the end of this fiscal year.

As a result of our participation in NCPC's Local Partnership Performance Improvement Plan, NCPC is providing additional intensive training and technical assistance. The Board has received training regarding its roles and responsibilities and staff has attended several training sessions in the areas of grants management, contracts, competitive bidding, and monitoring of service providers and grantees. In addition, NCPC staff is reviewing all of our enhanced policies and procedures and has provided programmatic technical assistance in reviewing our services for compliance with legislation and contractual requirements. On-going training and technical assistance will be provided by NCPC until our financial and compliance deficiencies have been corrected.

We reiterate that we understand the gravity of these issues and are committed to providing quality services to Pender County's children in a fiscally responsible manner. We are well underway in the process of improving our operations and will remain strongly committed to this process until we can clearly demonstrate that we are effective managers of taxpayer funds.

Responses to Specific Findings

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

Recommendation 1

We recommend PCPC revise existing policies to provide necessary internal controls to ensure that unapproved service codes are not charged, pursuant to contract terms. We recommend the Board of Directors develop an action plan to familiarize themselves with PCPC's policies and procedures to prevent Board Members from authorizing expenditures or signing checks for unapproved activities.

Response:

PCPC agrees with the recommendation and has revised existing policies to provide necessary internal controls to ensure that funds are not expended for unapproved service activities and unapproved services codes are not charged. In the future, PCPC will not spend Smart Start funds on activities that are not in its contract with NCPC. The Grants Review Committee reviews all activities to ensure compliance with legislative and contractual requirements.

In addition, as required by the corrective action plan discussed above, the Board of Directors is reviewing all policies and procedures governing PCPC operations and is monitoring compliance with these policies and procedures.

Recommendation 2

We recommend the Board implement necessary policies and procedures to ensure adequate Board oversight of PCPC transactions. Again, we reiterate the need for the Board to have adequate understanding of applicable legislation, contract stipulations, and state and local partnership policies and procedures to ensure adherence to such regulations...

Response:

PCPC strongly agrees with the recommendation. The board is participating in intensive training for the purpose of understanding applicable legislation, contractual requirements, and NCPC and PCPC policies and procedures to ensure adherence to all legislative and contractual requirements.

In addition, at the upcoming Board orientation, training will be provided on the current Smart Start legislation and our contract with NCPC. In the future, this information will be furnished to all Board members on an annual basis.

Recommendation 3

We recommend PCPC management and Board revise the accounting policies and procedures to ensure adequate control over payments to vendors, including limiting purchases to items that are identifiable as necessary for the performance of employee duties or advancement of the Smart Start initiative. We also recommend PCPC refrain from paying expenses for other organizations. In addition, we recommend the Board evaluate the appropriateness of any expenditure for entertainment in light of PCPC's and NCPC's mission.

Response:

PCPC agrees with the recommendation and will adopt and implement accounting policies and procedures that ensure adequate control over payments to vendors, including limiting purchases to items that are identifiable as necessary for the performance of employee duties or advancement of the Smart Start initiative. The accounting policies are scheduled for approval at the March 2003 Board meeting.

In addition, the Board has developed and approved a policy regarding expenditures of Smart Start funds. The new policy stipulates that expenditure of Smart Start funds for entertainment, promotional items and expenses of other organizations is prohibited.

Recommendation 4

We recommend the Board reiterate and enforce the requirements for quotes and/or competitive bidding for service contracts and purchases over the threshold amounts. We also recommend PCPC request and maintain detailed invoices for all services rendered. We recommend Management implement and properly bid service contracts when one vendor will receive multiple payments that cumulatively exceed the bidding threshold for the same type of services.

Response:

PCPC agrees with the recommendation and is in the process of approving revised and enhanced competitive bidding procedures to ensure compliance with all legislative and NCPC bidding requirements in the future. These policies and procedures stipulate that the total amount of the purchase should be considered for purposes of evaluating bidding thresholds and that orders may not be split to reduce the threshold limit.

The enhanced accounting policies and procedures require that supporting documentation be maintained for all services rendered or goods received.

These policies are scheduled for approval at the March 2003 Board meeting.

Recommendation 5

We recommend the Board review and reiterate to PCPC staff the significance of adherence to a comprehensive conflict of interest policy. To avoid even the appearance of impropriety, we recommend PCPC refrain from hiring relatives of Board and staff members.

Response:

PCPC agrees with the recommendation. The Personnel Committee will review its Conflict of Interest policy and reiterate to PCPC staff the importance of adherence to this policy. All current employees have signed a Conflict of Interest policy statement that is maintained in the employee personnel files.

In addition, the Board has approved a nepotism policy to address the hiring of, and contracting with, relatives of employees and Board members.

Recommendation 6

We recommend PCPC authorize use of funds only for approved program providers as identified in the contract between PCPC and NCPC.

Response:

PCPC strongly agrees with the recommendation. As stated above, PCPC has recently established a Grants Review Committee of the Board to review the allocation of funds to service providers and grantees. In the future, funds will only be authorized for approved program providers as identified in the contract between PCPC and NCPC.

Recommendation 7

We recommend all PCPC employees adhere to travel reimbursement policies. We also recommend Management review all travel reimbursement requests for required documentation as well as evaluate the necessity for mileage incurred. In addition, we recommend PCPC review travel reimbursement payments and seek reimbursement for any that do not appear appropriate.

Response:

PCPC agrees with the recommendation and is in the process of revising its travel policies to include additional guidelines and controls. The policy stipulates that the Board Chair or designee must approve travel reimbursement requests for the Executive Director.

PCPC is reviewing all travel reimbursement payments to the former Executive Director and will request reimbursement for any that do not appear to be appropriate.

Recommendation 8

We recommend PCPC adhere to all financial management requirements stipulated in the contract between PCPC and NCPC. PCPC should consistently request all program providers revert all unexpended funds to PCPC for eventual return to NCPC. In addition, we recommend NCPC seek reimbursement of the \$15,891.27.

Response:

PCPC agrees with the recommendation and is now adhering to all financial management requirements stipulated in the contract between PCPC and NCPC. PCPC shall consistently require that all program providers revert all unexpended funds to PCPC for return to NCPC.

In addition, PCPC is seeking reimbursement of the \$15,891.27 from the Pender County school system. A certified letter was sent on February 26, 2003 to the Superintendent of the Pender County Public Schools to request reimbursement of this amount.

Recommendation 9

We recommend management take appropriate steps to ensure all services provided by PCPC staff are for approved program providers, resulting in no unallowable expenses. We reiterate that the Board should educate itself about allowable uses of Smart Start funds as well as avoid involvement in activities that could result in the appearance of a conflict of interest. Also, we recommend NCPC seek reimbursement of \$26,473.51 in unallowable costs.

Response:

Education specific to allowable uses of Smart Start funds shall be incorporated into the board's required training in order to avoid expenditures on activities that could result in the appearance of conflict of interest. In addition, NCPC has provided training to the Board regarding conflict and interest and all Board members have signed a Conflict of Interest policy statement.

Currently, all activities funded by Smart Start are approved by NCPC and incorporated into the contract between PCPC and NCPC. In the future, the Grants Review Committee will ensure that all activities funded with Smart Start funds are approved by, and in contract with, NCPC.

In addition, PCPC will work with NCPC to resolve the \$26,473.51 in unallowable costs.

Mr. Ralph Campbell, Jr., CFE

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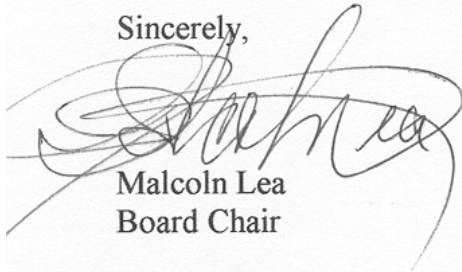
March 4, 2003

Conclusion

PCPC agrees with the recommendations in the Special Review report. We deeply regret that these issues have occurred and reiterate the commitment of our board and staff to ensure fiscal accountability for all state funds in the future. We feel that we have made much progress thus far in correcting our deficiencies but realize there is still work to be done. We will continue to work closely with NCPC until all the items identified in our corrective action plan and this Special Review report are resolved.

We appreciate the opportunity to respond to these issues.

Sincerely,

A handwritten signature in dark ink, appearing to read "Malcolm Lea", is written over a horizontal line. The signature is fluid and cursive.

Malcolm Lea
Board Chair

Cc: PCPC Board of Directors
Karen Ponder, NCPC Executive Director

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North Carolina Partnership for Children

March 4, 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 (hereinafter referred to as "NCPC") response to the Special Review of the Pender County Partnership for Children, Inc. (hereinafter referred to as the "Pender Partnership") dated February 4, 2003 by the Office of the State Auditor.

The findings contained in the Special Review address the need for improved and effective managerial oversight of the Pender Partnership by its Board of Directors, including the need for it to become more familiar with the policies and procedures governing partnership operations.

I. General Response

NCPC, as well as the Pender Partnership, concurs with the need for the Pender Partnership Board to strongly enhance its oversight through improved policies and procedures and increased Board familiarization with its operations. As a result, NCPC and the Pender Partnership have undertaken the following immediate and aggressive actions to correct deficiencies:

- A. The Pender Partnership has contracted with an experienced and stable Smart Start partnership to provide administrative direction, technical assistance, and guidance.
- B. NCPC has mandated that the Pender Partnership participate in its Local Partnership Performance Improvement Plan. NCPC will not release the Pender Partnership from this plan until it has corrected its financial and compliance deficiencies.
- C. The Pender Partnership has developed and implemented a comprehensive Action Plan to correct deficiencies.

Office 1100 Wake Forest Road
Raleigh, NC 27604



Phone 919-821-7999 Fax 919-821-8050
Web www.ncsmartstart.org

building brighter futures

- D. The Pender Partnership Board is reviewing and enhancing its policies and procedures in all areas of partnership operation.
- E. NCPC is providing intensive training and technical assistance to the Pender Partnership, including Board development and training.
- F. The Pender Partnership Board has established a committee structure to enhance its oversight of the partnership through involvement and review of partnership operations.
- G. Board attendance at meetings has improved dramatically this fiscal year.
- H. To provide rigorous oversight, NCPC has maintained a constant presence at the Pender Partnership this fiscal year.

As questionable activities by the former executive director came to light, NCPC and the Pender Partnership notified the Office of the State Auditor and began to take action to improve accountability immediately. Each action is discussed in greater detail below.

It is also important to note that the Executive Director and Board Chair at the time these issues occurred are no longer associated with the Pender Partnership.

A. Contract for Administrative Oversight.

As directed by NCPC, the Pender Partnership has contracted with another Smart Start partnership—the Onslow County Partnership for Children—to provide direction of its administrative function until at least the end of this fiscal year. This action will enable the Pender Partnership to obtain guidance, technical assistance, mentoring, and development for its staff and Board of Directors from an experienced and stable Partnership.

B. Local Partnership Performance Improvement Plan.

In September 2002, NCPC's Board of Directors approved a Local Partnership Performance Improvement Plan (the "Improvement Plan") to improve the financial and programmatic accountability of Smart Start partnerships that have been identified as having serious financial and/or compliance issues. **Immediately upon approval of the Improvement Plan, the Pender Partnership was notified that it would be required to participate. The Pender Partnership will not be released from this Improvement Plan until NCPC has performed a monitoring visit and verified that all financial and compliance deficiencies have been corrected.**

C. Development of Partnership Action Plan.

As a participant in the Improvement Plan, NCPC worked with the Pender Partnership to identify deficiencies and to develop a Partnership Action Plan to correct these deficiencies by June 30, 2003, with intensive training and technical assistance from

NCPC. If the Partnership does not correct deficiencies by this date, it will face serious consequences, including reduction or suspension of funding.

Action Plan items for the Pender Partnership included the need for increased Board oversight of the Partnership, as well as the need to enhance and increase familiarization with policies and procedures governing Partnership operations, including accounting, contracts management, competitive bidding, and compliance with legislative and contractual provisions.

D. Enhanced Policies and Procedures.

As stated above, the Pender Partnership's Action Plan identified numerous areas in which enhanced policies and procedures were needed. In the course of scrutinizing its operations in light of NCPC's Improvement Plan, the Partnership identified the need to enhance its policies and procedures in additional areas. **As a result, the Partnership is well underway in the process of revising and enhancing its policies and procedures governing virtually all aspects of its operations.** To date, Board approval has been obtained for enhanced policies and procedures governing several functional areas. Board approval of the remainder of the needed policies and procedures is anticipated to be obtained no later than its May 2003 Board meeting.

As stated above, NCPC will perform a follow-up monitoring visit after the Pender Partnership has approved the enhanced policies and procedures. The purpose of this visit is to determine whether these enhanced policies and procedures have been implemented and are operating as intended and that all financial and compliance issues have been corrected.

E. Intensive Training and Technical Assistance by NCPC.

To assist the Pender Partnership with meeting the objectives of the Plan, NCPC has, and will continue to, provide the Pender Partnership with intensive training and technical assistance until such time as it is released from the Plan. As a result of the intensity of the assistance offered under this Plan, NCPC has had a considerable presence at the Pender Partnership this fiscal year. Training has been provided in a wide variety of areas, and there have been numerous on-site technical assistance visits by NCPC this fiscal year.

F. Board Committee Structure.

In addition, in order to strengthen oversight of the Pender Partnership, its Board of Directors has established committees that meet regularly to monitor operations. Board committees have been established to monitor partnership operations as follows: Executive, Finance, Personnel, Grants Review, and Board Development/Nomination.

The Pender Partnership also has new Board leadership in that it elected a new Board Chair this fiscal year.

G. Board Attendance.

The Pender Partnership has historically had problems obtaining a quorum at its meetings of the Board of Directors. Emphasis has been placed upon Board attendance and quorums have been met at 9 of 10 Board meetings this fiscal year.

H. NCPC Oversight of Pender Partnership.

As a result of the serious nature of the deficiencies, NCPC has significantly increased its oversight of the Pender Partnership this fiscal year. As part of its intensive oversight, NCPC has attended 4 of 10 Pender Partnership board meetings and has attended three executive committee meetings this fiscal year. In addition, a joint programmatic and financial monitoring visit was performed in October 2002.

II. Responses to Specific Recommendations

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

Recommendations 1, 3, 4, 5, 6, and 7

These recommendations address the need for improved and effective managerial oversight of the Pender Partnership and do not require a specific response from NCPC as they are addressed directly to the Pender Partnership. The specific actions taken by NCPC and the Pender Partnership to strengthen oversight are detailed above.

Recommendation 2:

...In addition, we recommend NCPC consistently apply contract provisions.

NCPC Response:

NCPC agrees with the recommendation and notes that it does strive to consistently apply contract provisions.

As evident from the lengthy description of the facts and circumstances contained in the Special Review report, this situation was very complex and had the potential of adverse impact to other parties, specifically the children and taxpayers of the County of Pender.

NCPC approval of the Quality Enhancement Activity in question was delayed until January 2002 as a result of its inability to obtain the information necessary for approval

from the Pender Partnership in a timely manner. Unfortunately, it was discovered that the Pender Partnership had expended funds *prior* to NCPC's approval of the activity, and NCPC thus requested repayment.

In a letter to NCPC dated March 6, 2002, the Pender Partnership indicated that private funds had been obtained to reimburse NCPC for these expenditures. A check for the expenditures was received by NCPC on March 22, 2002, and the situation was considered resolved. The fact that the funds were obtained from the County of Pender by means of an untruthful representation of need by the former Pender Partnership Executive Director did not fully come to light until June and July 2002.

After verification of the untruthful representation to the County of Pender, NCPC reviewed the situation, taking into consideration the value of the activity and the potential impact to other parties.

The activity in question is of considerable value and is consistent with the Smart Start mission to improve the quality of child care for the children of North Carolina. Under this activity, six child care centers/homes received quality enhancement grants to enable them to achieve higher licensure and/or to increase the number of available child care slots. As a result of these grants, the number of child care slots at these centers increased from 155 to 214, an increase of 38%. In addition, four centers have achieved or applied for higher licensure. One center demonstrated dramatic improvement, increasing its star-rating from one star to four stars.

Thus, after a careful and lengthy consideration of the value of the activity and the potential impact of this situation upon the children and taxpayers of the County of Pender, NCPC made the difficult decision to retroactively approve this activity to minimize the adverse impact.

Notwithstanding the above explanation, NCPC reiterates its agreement with the recommendation and will place emphasis on the application of contract provisions in a consistent manner in the future.

Recommendation 8:

...we recommend NCPC seek reimbursement of the \$15,891.27 [for expenditures for the At Risk Preschool Program that were not expended in the fiscal year ended June 30, 2000 and that were not reverted to NCPC as required by the contract between PCPC and NCPC.]

NCPC Response:

NCPC agrees with the recommendation and will seek reimbursement of the \$15,891.27 from the Pender Partnership.

Mr. Ralph Campbell, Jr., CFE
March 4, 2003
Page 6 of 6

Recommendation 9:

...we recommend NCPC seek reimbursement of \$26,473.51 in unallowable costs [for expenditures on service activities outside the scope of Smart Start's target population to aid.]

NCPC Response:

NCPC agrees with the recommendation and will seek reimbursement of the \$26,473.51 from the Pender Partnership.

III. Conclusion

NCPC agrees with the recommendations in the Special Review report and will continue to provide intensive oversight of, and training and technical assistance to, the Pender Partnership. As stated above, NCPC has established a deadline for the Pender Partnership to correct its deficiencies and is prepared to take additional action in the event this deadline is not met. However, the Pender Partnership has made progress thus far in enhancing Board oversight and correcting the deficiencies noted. NCPC will continue to monitor the situation closely.

NCPC appreciates the opportunity to respond to these issues and the professional manner with which the Office of the State Auditor performed this engagement.

Sincerely,

A handwritten signature in cursive script, appearing to read "Karen W. Ponder".

Karen W. Ponder
Executive Director

Cc: Pender Partnership Board of Directors

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March 5, 2003

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