



STATE OF NORTH CAROLINA

INVESTIGATIVE REPORT

PARTNERSHIP FOR CHILDREN OF LENOIR AND GREENE COUNTIES

FARMER “N” DELL NURSERY, INC.

KINSTON, NORTH CAROLINA

APRIL 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Perdue, Governor
Lanier M. Cansler, Secretary, Department of Health and Human Services
John Pruette, Executive Director, Office of School Readiness, Department of Public Instruction
Ashley Thrift, Board Chair, The North Carolina Partnership for Children, Inc.
Keith Sylvester, Executive Director, Partnership for Children of Lenoir and Greene Counties
Susie Evans, President, Farmer "N" Dell Nursery, Inc.

Ladies and Gentlemen:

Pursuant to North Carolina General Statute §147-64.6(c)(16), we have completed our investigation of allegations concerning the More at Four program provided by the Partnership for Children of Lenoir and Greene Counties and Farmer "N" Dell Nursery, Inc. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute §147-64.6(c)(12).

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

April 29, 2010

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INTRODUCTION

The Partnership for Children of Lenoir and Greene Counties (Partnership) contacted the Office of the State Auditor concerning a child care provider that allegedly used More at Four funds for activities not specified in the contract and that submitted falsified documents to receive those funds.

As part of its oversight responsibilities, the Partnership conducted an on-site monitoring visit to Farmer “N” Dell Nursery, Inc. (Daycare) in mid-January 2009 for the 2008-09 program year. The Partnership released their monitoring report to the Daycare on March 26, 2009. Shortly after the monitoring report was released, the Partnership discovered that payroll information provided by the Daycare was different than information the Daycare provided to its teachers. As a result, the Partnership forwarded this information to the Office of the State Auditor for investigation.

Our investigation of these allegations included the following procedures:

- Interviews with management and staff of the Partnership for Children of Lenoir and Greene Counties; North Carolina Department of Health and Human Services, Division of Child Development; North Carolina Department of Public Instruction, Office of School Readiness; and Farmer “N” Dell Nursery, Inc.
- Examination of relevant documents and records including review of financial records and reports, attendance reports, e-mails, and personnel information
- Review of policies, procedures, and State regulations including the North Carolina General Statutes, North Carolina Administrative Code, and North Carolina State Budget Manual

This report presents the results of our investigation. The investigation was conducted pursuant to North Carolina General Statute §147-64.6(c)(16) rather than as a financial statement audit or review. An independent public accounting firm performs a financial statement audit of the Partnership for Children of Lenoir and Greene Counties on a biennial basis.

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OVERVIEW

Partnership for Children of Lenoir and Greene Counties

The Partnership for Children of Lenoir and Greene Counties (Partnership) is a non-profit organization that provides funding and local oversight for the More at Four and Smart Start programs for these counties. The Partnership receives funding from the North Carolina Office of School Readiness, Smart Start grants, and private donors. The Partnership is governed by a board of directors following the rules and guidelines set by the North Carolina Partnership for Children, Inc.

The Partnership contracted with the North Carolina State Board of Education to provide a More at Four Program. In compliance with the legislative mandate¹, the Partnership established a More at Four Committee to identify providers and the number of program slots available for eligible children. After the Committee identified and awarded Farmer “N” Dell Nursery, Inc. (Daycare) as one of the area’s More at Four sites, the Partnership entered into a contract with the Daycare to provide More at Four services.

Farmer “N” Dell Nursery, Inc.

The More at Four Committee designated the Farmer “N” Dell Nursery, Inc. (Daycare) as a More at Four site in December 2002. The Daycare then contracted with the Partnership for Children of Lenoir and Greene Counties to operate a local More at Four program. From 2002 through 2009, the Daycare received \$757,910.83 in More at Four funds and \$443,414.86 in Smart Start funds.

More at Four Pre-Kindergarten Program

The purpose of the More at Four Pre-Kindergarten Program (More at Four) is to provide a high-quality educational experience for “at risk” four-year-olds to prepare them for success in kindergarten. More at Four is operated in almost all counties in the State by schools, child care centers, and Head Start agencies that meet quality standards. More at Four operates using purchase of service contracts between the North Carolina State Board of Education through the Office of School Readiness and the responsible county entity selected to administer the program by the County/Region More at Four Committee.

The More at Four local contract administrator (usually the local Partnership for Children) is required to monitor participating preschool programs for programmatic and fiscal compliance. Additionally, School Readiness is authorized to evaluate classroom structure and process and to use the information to assist with program improvements.

North Carolina Department of Public Instruction, Office of School Readiness

The Office of School Readiness (School Readiness) is organizationally located in the North Carolina Department of Public Instruction under the oversight of the North Carolina State Board of Education. School Readiness provides funding, academic

¹ To comply with the legislative mandate, the More at Four Pre-Kindergarten Program requires every county (or region) that chooses to participate in More at Four to establish and maintain a County/Region More at Four Committee.

OVERVIEW (CONCLUDED)

standards and curriculum, collaboration, professional development, teacher licensure (for nonpublic schools), technical assistance, monitoring, and evaluation to support public schools and child care centers in providing high-quality, pre-kindergarten programs such as More at Four.²

North Carolina Partnership for Children, Inc.

The North Carolina Partnership for Children, Inc., (NCPC) was established in 1993 to provide statewide oversight of the Smart Start initiative, a separate public-private initiative that supports comprehensive early childhood services for children from birth to kindergarten in all 100 counties. The purpose of Smart Start is to ensure that every child in North Carolina arrives at school healthy and ready to succeed. Smart Start funding is provided by the General Assembly along with private donations and may be used for many purposes including the support of pre-kindergarten programs such as More at Four.

North Carolina Department of Health and Human Services, Division of Child Development

In 1993, the Child Day Care Section and other units within the Department of Human Resources (now the Department of Health and Human Services) were reorganized into the Division of Child Development (Child Development). The creation of Child Development reflected the growing importance of child care to North Carolina families.

Child Development contains the Regulatory Services Section which monitors and licenses all child care programs in North Carolina and the Child Care Workforce Standards Section which promotes the professional development of child care providers across North Carolina. The Workforce Standards Section verifies child care provider credentials and educational assessments and approves training opportunities to assist in meeting staff requirements.

² www.osr.nc.gov

FINDINGS AND RECOMMENDATIONS

1. THE DAYCARE OWNER AND THE DAYCARE ADMINISTRATOR/LEAD TEACHER CREATED AND SUBMITTED FALSE DOCUMENTS TO INCREASE MORE AT FOUR AND SMART START FUNDING.

The owner of the Farmer “N” Dell Nursery, Inc. (Daycare) and the Administrator/Lead Teacher of the Daycare created and submitted false documents to the Partnership for Children of Lenoir and Greene Counties (Partnership) to conceal non-compliance with More at Four budgetary and contract requirements. The Administrator/Lead Teacher and the Daycare Owner admitted falsifying documents so that the Daycare could receive More at Four funding³ for which it did not qualify.

Specifically, the Daycare provided to the Partnership the following falsified documents pertaining to the More at Four staff:

- Federal Form W-2 Wage and Tax Statements for 2008
- Employment Security Commission Quarterly Reports for the third and fourth quarters of 2008
- Retirement Invoices for July 2008 through December 2008
- Insurance Invoices for July 2008 through January 2009
- Payroll Summaries for July 2008 through December 2008

Our comparison of the W-2s issued to the More at Four teachers to the W-2s provided to the Partnership differed in wage amounts and taxes withheld. The amounts on the false W-2s provided to the Partnership were significantly higher, reflecting the same amounts in the contract budget rather than the amounts actually paid to the teachers.

Our review of the employment contracts for the More at Four staff revealed that teacher salaries matched the amounts in the budget previously provided to the Partnership by the Daycare. However, the teachers were compensated significantly less than the employment contract and budget amounts. The teachers told us that the employment contracts were not presented to them to sign until later in the contract year and they acknowledged signing a blank contract. The teachers did not have knowledge of the contractual salary amounts or the amounts stated in the budget. The salary amounts on the employee contracts were filled in later by the Administrator/Lead Teacher.

In addition, quarterly reports submitted to the North Carolina Employment Security Commission (ESC) were altered to match the budgeted amounts. Insurance and retirement invoices were also falsified. The invoices included benefit amounts that the More at Four teachers never received. False payroll summaries were created to match the false W-2s and budgeted contract amounts.

³ For the fiscal year ended June 30, 2009, the Daycare received \$162,690 from the Office of School Readiness and \$60,929 from the local Partnership to provide services for the More at Four Program.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We discovered the altered documents in a file cabinet located on the Daycare premises. The ESC quarterly reports, retirement invoices, and insurance invoices had small pieces of paper with typed, false information taped to the original documents. These documents were photocopied to make them appear to be original documents. The photocopied, false documents had a note attached to the front page stating, "Fixed for M4 review" and a note attached to the false W-2s stated, "fixed for M4 Review (not real)." The false W-2s and payroll summaries were created in the Daycare's accounting software program so the appropriate amount of Federal and State taxes would be calculated and to make the documents appear authentic. Subsequently, the false W-2s and payroll summaries were deleted from the accounting records.

In addition, the Administrator/Lead Teacher provided a false Administrator Level III credential letter to the Partnership for credential verification. The credential letter was presented as if it had been issued by the North Carolina Department of Health and Human Services, Division of Child Development (Child Development). The Child Development Chief Director verified that the credential letter had not been issued and that it was not even the correct letter format. (*See finding 2*).

North Carolina General Statute § 110-107 and Title 10A of the North Carolina Administrative Code, Chapter 10.0308 outline the penalties for fraudulent misrepresentation regarding child care subsidies. Persons (including corporations) who make false statements to receive childcare subsidies may be guilty of a Class I felony if the subsidy is more than \$1,000 (Class 1 Misdemeanor if \$1,000 or less).

The law further states in G.S. § 110-91(14) that "Any effort to falsify information provided to the Department shall be considered by the Secretary to be evidence of violation of this Article on the part of the operator or sponsor of the child care facility and shall constitute a cause for revoking or denying a license to such child care facility."

RECOMMENDATION

The Office of School Readiness should seek restitution from the Daycare for the overpayment of More at Four funds. The Partnership for Children of Lenoir and Greene Counties should seek restitution from the Daycare for the overpayment of Smart Start funds pertaining to the More at Four program.

The North Carolina Partnership for Children and the Partnership for Children of Lenoir and Greene Counties should not enter into future contracts with the Daycare. The Division of Child Development should pursue all available remedies including revocation or denial of licensure to the Daycare.

NOTE: This finding will be referred to the District Attorney for North Carolina Judicial District 8 and the North Carolina State Bureau of Investigation.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. A DAYCARE EMPLOYEE SERVED AS LEAD TEACHER AND ADMINISTRATOR WITHOUT PROPER LICENSURE AND CREDENTIALS.

The Administrator/Lead Teacher did not obtain the required licensure to be the lead teacher in a More at Four classroom. As a result, the Daycare may not have qualified for the \$191,309 of More at Four funding it received for instruction in this classroom. Also, the Administrator/Lead Teacher misrepresented efforts to obtain credentials to be an administrator of a daycare center jeopardizing the Daycare's license to operate.

Teacher Licensure

Each More at Four classroom must be led by a teacher holding either a Birth-through-Kindergarten (B-K) Standard Professional II or a Preschool Add-on License. When a teacher holds less than the required license, the teacher must seek provisional approval and receive an exception letter from School Readiness. The teacher must obtain the required license within four years or funding for that classroom may not be approved.

The Administrator/Lead Teacher did not hold either of these licenses even though she had until October 2007 to obtain the proper license. The Administrator/Lead Teacher served as the lead teacher from October 2003 through June 2009 in the same More at Four classroom.

The Administrator/Lead Teacher misrepresented to the Partnership her progress toward licensure and the Partnership did not verify her statements. The Daycare Administrator/Lead Teacher told the Partnership during the January 2007 monitoring visit that the Pre-School Add-On License was being sought but had been delayed because the university she was attending had not received the necessary test results. The Administrator/Lead Teacher claimed that the license would be provided to the Partnership as soon as it was issued. The North Carolina State Board of Education indicated to us that the teacher had not applied for the license and no license was issued. The Partnership did not obtain documentation from the teacher for verification of progress toward obtaining the Pre-School Add-on License.

School Readiness guidelines prohibit payments for classrooms with unapproved teachers. Because the Administrator/Lead Teacher did not have the appropriate license, the More at Four classroom was led by an "unapproved teacher." As a result, School Readiness and the Partnership should not have provided More at Four and Smart Start funds for the slots in that classroom. During this period, the Daycare received a total of \$191,309 in More at Four program funds.

Administrator Credentials

Teachers in More at Four classrooms shall not serve as the administrator of the Daycare center while assigned to a More at Four classroom unless School Readiness grants an exception. School Readiness issued an exception letter allowing the dual role; however, the exception was based on false information provided to the Partnership. Because licensure may be revoked when a daycare operator willfully violates a rule

FINDINGS AND RECOMMENDATIONS (CONTINUED)

regarding child care licensure or has not made reasonable efforts to conform to standards, the falsification of licensing credentials and failure to pursue the required credentials may provide Child Development just cause to revoke the Daycare's license.

During the monitoring visit for the 2008-09 program year, the Administrator/Lead Teacher provided the Partnership with a letter that she claimed was from the Child Development, Child Care Workforce Standards Section (Standards Section) awarding the Administrator/Lead Teacher an Administrator Level III credential. However, the Standards Section Chief, whose signature appeared on the credential letter, indicated it was fabricated. Title 10A of the North Carolina Administrative Code, Chapter 09.2811(d)(1)(A) states that, for a five-star licensed center, the "on-site administrator shall have: A Level III North Carolina Early Childhood Administration Credential or its equivalent." The Administrator/Lead Teacher never submitted any additional information to the Standards Section to meet the Administrator Level III credential.

During the January 2007 compliance review, a Child Development daycare licensing consultant documented the change in administrators at the Daycare but never verified that the Administrator/Lead Teacher possessed the proper credential. Child Development management confirmed that the credential verification was not performed.⁴

RECOMMENDATION

The Office of School Readiness should seek restitution of \$191,309 paid to the Daycare for services that did not meet State standards from November 2007 through June 2009. School Readiness should determine whether services provided during the preceding four years met standards. The Division of Child Development should seek an administrative action of revocation of the Daycare's license. The Division of Child Development should verify that administrators possess the proper credentials to achieve daycare licensure. Further, the Partnership should conduct licensure and credential verification on all More at Four staff.

3. THE DAYCARE ADMINISTRATOR ALTERED ATTENDANCE RECORDS TO RECEIVE ADDITIONAL MORE AT FOUR FUNDS.

The Daycare Administrator/Lead Teacher altered attendance reports to justify payment for unfilled slots. An original attendance report maintained by one of the lead teachers indicated a certain student had not been present during December 2008. However, the attendance report the Partnership received via e-mail from the Daycare Administrator/Lead Teacher indicated the student was present six days during December

⁴ The Child Development Regulatory Services Section licensing consultants review daycare licenses, issue a star rating, and verify staff credentials every three years. In addition, the licensing consultants perform annual compliance reviews.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

2008. The teacher's April 2009 attendance report reflected a student attending only one day while the report submitted to the Partnership showed the student attended five days.

Teachers record student attendance each day in each More at Four classroom. At the end of each month, teachers submit attendance reports via e-mail to the Administrator/Lead Teacher. The Administrator/Lead Teacher then submits the attendance reports to the Partnership for payment.

More at Four Program Guidelines require that each child slot will be considered filled for payment purposes when four recorded attendance days occur within one month. The Partnership did not know the teacher's records reflected a difference from those submitted in support of payment requests. As a result, the Partnership made payments to the Daycare based on false information.

RECOMMENDATION

The Partnership should seek \$1,402 for repayment from the Daycare for the two student slots that were not actually filled. The Partnership should continue to monitor attendance records to ensure requirements for payment are met by performing periodic spot checks and parent verification. A procedure for verifying attendance with teachers should be included as part of the on-site monitoring visits.

4. THE DAYCARE DID NOT CONDUCT MONTHLY FIRE DRILLS IN VIOLATION OF STATE REGULATIONS AND FALSIFIED FIRE DRILL REPORTS.

The Daycare did not conduct monthly fire drills as required by State regulations. However, the Daycare maintained and posted records of monthly fire drills between November 28, 2007 and March 23, 2009. These falsified reports included the date, time, time to evacuate, and the signature of the Administrator/Lead Teacher (except for June 25, 2008). The Administrator/Lead Teacher admitted falsifying fire drill reports to reflect monthly fire drills when no fire drills were conducted. She explained that signing the fire drill reports without conducting fire drills was "a convenience" for her. The failure to conduct fire drills risks the safety of the teachers and children since they have not practiced what to do in a real emergency. In addition, the lack of fire drills could provide just cause for the Division of Child Development to revoke the Daycare's license.

The Kinston Department of Public Safety Operations Chief confirmed that they had never responded to any fire drill calls. Also, the fire department did not have any records of the Daycare notifying them to not respond to any fire alarms because drills were being conducted. The fire alarm at the More at Four classrooms is connected to the security system. The Daycare's contracted security company also confirmed that the Daycare had never placed the system in "test" mode for a fire drill.

State regulations require daycares to conduct and adequately document monthly fire drills. Each fire drill must be documented by giving the date each drill is held, the time of day,

FINDINGS AND RECOMMENDATIONS (CONTINUED)

the length of time taken to evacuate the building, and the signature of the person who conducted the drill. Title 10A of the North Carolina Administrative Code, Chapter 09.0302(d)(4) requires that this information be readily available to a Division of Child Development representative for review.

RECOMMENDATION

The Division of Child of Development licensing consultants should verify with local fire departments that monthly fire drills are conducted. If a daycare center contracts with a security company, records should be obtained to verify fire drills are properly conducted. The Division of Child Development should consider revocation of the Daycare's license for failure to conduct fire drills. Additionally, the Division of Child Development should consider assessing the appropriate civil penalties as permitted by Title 10A of the North Carolina Administrative Code, Chapter 09.2213.

5. THE DAYCARE DID NOT REPORT CASH BONUSES AND OTHER PAYMENTS IN VIOLATION OF FEDERAL AND STATE REGULATIONS.

Teachers conducting swim lessons were paid cash bonuses of \$100 per two-week session for three sessions each summer during 2007 and 2008. In addition, some teachers were paid a bonus for good performance. None of these cash bonuses were reported on Federal Form W-2 Wage and Tax Statements. The teachers acknowledged getting paid cash bonuses; however, they did not know the amount. The owner acknowledged that teachers were paid cash bonuses so they would not have to pay individual income tax. The owner stated that, because the teachers were underpaid, paying them bonuses was a way of showing them appreciation.

In addition, swim lesson payments (\$70 per child) were paid directly to the Administrator/Lead Teacher. Sign-up sheets for the lessons were computer-generated forms for two sessions (24 children in one session and 34 children in the second) in 2008. The statement, "Please make checks payable to Farmer N Dell," appeared on the forms. However, "Farmer N Dell" was marked through with an ink pen and the Administrator/Lead Teacher's name was handwritten above it. The Administrator/Lead Teacher acknowledged receiving the payments, usually by check. She said she cashed the checks or deposited them into her personal bank account. The total amount she collected was approximately \$4,060 in 2008. The Administrator/Lead Teacher said that the owner was aware of this situation but this amount was not included as income on her W-2 for 2008.

The Daycare provided cash bonuses to teachers but did not report those payments to the Internal Revenue Service (IRS) or North Carolina Department of Revenue. By not properly reporting income and withholding taxes, the Daycare and its employees may incur an additional tax liability including penalties and interest. *IRS Publication 525: Bonuses and Awards* states, "Bonuses or awards you receive for outstanding work are included in your income and should be shown on your Form W-2." Failure to report these payments may constitute a violation of Federal and State tax laws.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

The Daycare should recompute earnings for its employees and issue them amended W-2s in accordance with Federal and State laws. Further, the Daycare should notify the appropriate Federal and State agencies about these irregularities. In addition, the Daycare should implement management controls to ensure compliance with all Federal and State regulations pertaining to employee compensation.

NOTE: This finding will be referred to the Internal Revenue Service and the North Carolina Department of Revenue.

6. THE DAYCARE OWNER, WHO ALSO SERVED AS THE PARTNERSHIP BOARD SECRETARY, CO-SIGNED PARTNERSHIP CHECKS MADE PAYABLE TO THE DAYCARE.

The Farmer “N” Dell (Daycare) owner was elected Secretary for the Partnership Board in 2004. A conflict of interest occurred when she co-signed Partnership checks made payable to the Daycare.

The Daycare owner signed 23 checks, totaling \$259,740, payable to the Daycare over a three-year period (12 checks in fiscal year 2004-05, eight checks in fiscal year 2005-06, and three checks in fiscal year 2006-07). The Partnership Executive Director said the Daycare Owner signed the checks because of her position as Board Secretary and her proximity to the Partnership.

According to the Partnership’s Executive Director, conflicts of interest were an inherent problem that existed on the Board. The Executive Director said the North Carolina Partnership for Children’s (NCPC) only specific restriction for local Board officers regarding conflicts of interest was that someone with a conflict could not serve as Board Chair if they or their relatives work directly with a Smart Start funded activity. NCPC officials added that other conflict of interest policies, contracts, and bylaws require that local Board members abstain from participating in decisions regarding disbursement of funds that may benefit the Board member directly or indirectly. In addition, the Board requires two signatures on all checks and all disbursements require three approvals. The Executive Director believed these controls lessened the risk of any improprieties.

NCPC’s Policies and Procedures manual states, “*An individual will NOT approve a (purchase order) if the check is payable to himself/herself.*” In our opinion, even though the checks were not directly payable to the owner of the Daycare, the Board member’s ownership of the Daycare violated the intent of the regulation.

RECOMMENDATION

NCPC and the Partnership should enhance the existing policies and procedures. Specifically, NCPC and the Partnership should prohibit board members from signing checks made payable to companies they own.

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AUDITOR'S NOTE

The Office of the State Auditor provided a confidential draft report to Farmer "N" Dell Nursery, Inc. (Daycare). The Daycare elected not to respond directly. Instead, we received a response from a law firm representing the Daycare (see page 25).

In the response, the law firm noted that the Daycare paid the teachers during July 2009 "to rectify the discrepancy between the amount required by the Lenoir-Greene Partnership for Children [sic] and the amount originally paid to two More at Four teachers." That statement gives the impression that the Daycare independently recognized an error and corrected it. However, those payments occurred only after the Partnership for Children of Lenoir and Greene Counties had identified the "discrepancy" in March 2009 and after the Office of the State Auditor investigation in June 2009 confirmed the intentional underpayments and attempts to conceal those underpayments through the creation of falsified documents.

The response also questions the recommendations for "restitution of monies that were actually spent on More at Four services." On multiple occasions, the report recommends that oversight agencies seek the repayment of funds for which the Daycare was ultimately ineligible to receive. While we did not question whether More at Four services were provided to children, the Daycare's non-compliance with various regulations rendered it ineligible to receive More at Four funding during specific periods or under certain conditions.

Finally, the law firm's response claims that "other conclusions and recommendations...appear to be based on facts that are not clear." Neither the law firm nor the Daycare provided any evidence to dispute any facts. Rather, the report provides substantial evidence that the Daycare's Owner and Administrator/Lead Teacher deliberately created false documents, did not possess proper licensure and credentials, altered attendance and fire drill records, and failed to report payments to Federal and State tax authorities. Further, the Daycare Owner and Administrator/Lead Teacher admitted falsifying documents (including payroll documents, tax statements, insurance and retirement invoices, and fire drill reports) and failing to report cash bonuses and other payments to the Internal Revenue Service and North Carolina Department of Revenue.

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RESPONSE FROM NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES



North Carolina Department of Health and Human Services
2001 Mail Service Center • Raleigh, North Carolina 27699-2001
Tel: 919-733-4534 • Fax: 919-715-4645

Beverly Eaves Perdue, Governor

Lanier M. Cansler, Secretary

April 6, 2010

Beth A. Wood, CPA, State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

Thank you for the opportunity to review the draft audit report for Farmer N' Dell in Lenoir County. In accordance with your request, we offer the following responses to the findings and recommendations that fall under the jurisdiction of the Department of Health and Human Services, Division of Child Development.

OSA Finding 1: The Daycare Owner and the Daycare Administrator/Lead Teacher Created and Submitted False Documents to Increase MORE AT Four and Smart Start Funding.

OSA Recommendation: The Division of Child Development should pursue all available remedies including revocation or denial of licensure to the Daycare.

DHHS Response: On November 23, 2009, a Revocation was issued to Farmer N Dell Nursery Inc. as the legal operator of the center. The basis of action for the revocation was the falsification of the fire drill reports as well as the falsified Level III Administration Credential Qualification letter. However, the revocation has been appealed to the Office of Administrative Hearings and is in the contested case process.

OSA Finding 2: A Daycare Employee Served as Lead Teacher and Administrator Without Proper Licensure and Credentials.

OSA Recommendation:

- The Division of Child Development should seek an administrative action of revocation of the Daycare's license.
- The Division of Child Development should verify that administrators possess the proper credentials to achieve daycare licensure.

DHHS Response: On November 23, 2009 a revocation was issued to Farmer N Dell Nursery Inc. as the legal operator of the center. The basis of action for the revocation was the falsification of the fire

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drill reports as well as the falsified Level III Administration Credential Qualification letter. However, the revocation has been appealed to the Office of Administrative Hearings and is in the contested case process.

The Division will enhance its monitoring efforts to include verification of staff credentials as part of the annual compliance reviews performed by the Division's licensing consultants. It should be noted that star ratings are based on a composite score; therefore it is possible that a center could receive four points in education (with a Level II Administration Credential) and still receive a five star-rated license.

OSA Finding 4: The Daycare Did Not Conduct Monthly Fire Drills in Violation of State Regulations and Falsified Fire Drill Reports.

OSA Recommendation:

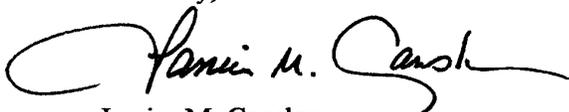
- The Division of Child Development licensing consultants should verify with local fire departments that monthly fire drills are conducted. If a daycare center contracts with a security company, records should be obtained to verify fire drills are properly conducted.
- The Division of Child Development should consider revocation of the Daycare's license for failure to conduct fire drills.
- Additionally, the Division of Child Development should consider assessing the appropriate civil penalties as permitted by Title 10A of the North Carolina Administrative Code, Chapter 09.2213.

DHHS Response: On November 23, 2009 a Revocation was issued to Farmer N Dell Nursery Inc. as the legal operator of the center. The basis of action for the revocation was the falsification of the fire drill reports as well as the falsified Level III Administration Credential Qualification letter. However, the revocation has been appealed to the Office of Administrative Hearings and is in the contested case process.

Based on resource availability, the Division will consider modifying its monitoring efforts regarding the daycare center's compliance with Title 10A of the North Carolina Administrative Code, Chapter 09.0302(d)(4) by obtaining independent verification that fire drills were conducted as part of the annual compliance reviews performed by the Division's licensing consultants. The Department will also review the findings with appropriate legal counsel for further legal action as permitted by Title 10A of the North Carolina Administrative Code, Chapter 09.2213.

Again, thank you for the opportunity to review and comment on the draft audit findings.

Sincerely,



Lanier M. Cansler



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

WWW.NCPUBLICSCHOOLS.ORG

April 14, 2010

Beth A. Wood, CPA
State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood,

I have reviewed your Investigative Report on the Partnership for Children of Lenoir and Greene Counties and Farmer "N" Dell Nursery, Inc., March 2010.

This office (formerly the Office of School Readiness) ended funding for the Farmer "N" Dell Nursery as soon as we became aware of the issues addressed in the report and, in accordance with your recommendations, will not provide funding to this child care center or its owner in the future. I am aware that the Division of Child Development is in the process of revoking Farmer "N" Dell Nursery's child care center license. Also in accordance with your recommendations, we will work with the Attorney General's Office to seek restitution of funds from this office paid to the center.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "John Pruette".

John Pruette

cc: William C. Harrison
June St. Clair Atkinson
Katie Cornetto

OFFICE OF EARLY LEARNING

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April 14, 2010

Ms. Beth A. Wood, CPA
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

Our responses to the investigative audit of Farmer "N" Dell Nursery, Inc. (Daycare) are below.

Finding One Recommendation:

The North Carolina Partnership for Children and the Lenoir/Greene Partnership should not enter into future contracts with the Daycare.

Response:

The North Carolina Partnership for Children, Inc. (NCPC) has never contracted with the Daycare and does not enter into contracts with local service providers.

Finding Six Recommendation:

NCPC and the Partnership should enhance the existing policies and procedures. Specifically, NCPC and the Partnership should prohibit board members from signing checks made payable to companies they own.

Response:

NCPC concurs with this recommendation and has already updated its policies and procedures.

We appreciate the opportunity to respond to these issues. Please contact Connie Holton at (919) 821-9510 or cholton@ncsmartstart.org if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Ashley O. Thrift". The signature is written in a cursive style with a large, prominent "A" and "T".

Ashley O. Thrift, Esq.
Board Chair

/dm

cc: Mr. David King, Director, Investigative Division
Mr. Steve Bass, Investigative Audit Supervisor
Stephanie Fanjul, NCPC President
Joyce Baffi, NCPC Vice President

The North Carolina Partnership for Children, Inc.

Ashley O. Thrift, Esq.
Chairman of the Board
office: 1100 Wake Forest Road
Raleigh, North Carolina 27604



voice: 919-821-9501 fax: 919-821-1021
e-mail: athrift@ncsmartstart.org
web: www.ncsmartstart.org

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RESPONSE FROM PARTNERSHIP FOR CHILDREN OF LENOIR AND GREENE COUNTIES



April 14, 2010

North Carolina Office of the State Auditor
Beth A. Wood, State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

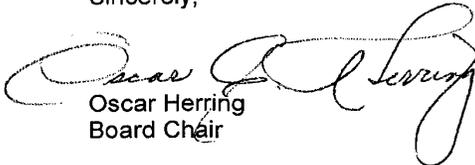
Dear Ms. Wood:

Thank you for the opportunity to respond to your confidential draft report on the investigation of allegations concerning Farmer N Dell Nursery, Inc. Attached is our response to your investigation.

We would like to express our appreciation of the promptness and professionalism with which your auditors conducted this investigation.

Please contact Keith Sylvester at (252) 939-1200 if you have any questions or require additional information.

Sincerely,



Oscar Herring
Board Chair

Enclosure

cc: David King, Director, Investigative Division
Steve Bass, Investigative Audit Supervisor
Kristal Suggs, Partnership Board Vice-Chair
Keith Sylvester, Partnership Executive Director



1465 Highway 258 North · Kinston, North Carolina 28504
Telephone (252) 939-1200 · Fax (252) 939-1313



Partnership for Children of Lenoir and Greene Counties
Response to the Investigative Draft Report March 2010
Completed by the Office of the State Auditor

April 14, 2010

Finding #1: The Daycare owner and the Daycare administrator/lead teacher created and submitted false documents to increase More at Four and Smart Start funding.

Recommendation to the Partnership for Children of Lenoir and Greene Counties: The Partnership for Children of Lenoir and Greene Counties should seek restitution from the Daycare for the overpayment of Smart Start funds pertaining to the More at Four program.

The North Carolina Partnership for Children and the Partnership for Children of Lenoir and Greene Counties should not enter into future contracts with the Daycare.

Response: The Partnership will work with the District Attorney and State Attorney General's offices in seeking restitution of the overpayment of Smart Start funds pertaining to the More at Four program in the amount of \$60,929 as stated in footnote 3. The Partnership concurs with this recommendation.

Finding #2: A Daycare employee served as lead teacher and administrator without proper license and credentials.

Recommendation to the Partnership for Children of Lenoir and Greene Counties: Further, the Partnership should conduct licensure and credential verification on all More at Four staff.

Response: The Partnership concurs with this recommendation.

Finding #3: The Daycare administrator altered attendance records to receive additional More at Four funds.

Recommendation to the Partnership for Children of Lenoir and Greene Counties: The Partnership should seek \$1,402 for repayment from the Daycare for the two student slots that were not actually filled. The Partnership should continue to monitor attendance records to ensure requirements for payment are met by performing periodic spot checks and parent verification. A procedure for verifying attendance with teachers should be included as part of the on-site monitoring visits.

Response: The Partnership will seek repayment from the Daycare for the two student slots that were not filled as stated in the response to finding #1 and will enhance its existing procedures to include teacher verification of attendance records. The Partnership concurs with this recommendation.

Audit Finding #6: The Daycare owner, who also served as the Partnership Board Secretary, co-signed Partnership checks made payable to the Daycare.

State Auditor Recommendation to the Partnership for Children of Lenoir and Greene Counties: NCPC and the Partnership should prohibit board members from signing checks made payable to companies they own.

Partnership for Children Response: Partnership policies and procedures from fiscal years 2004 to 2007 did not prohibit the Daycare owner from signing her own checks while serving as Board Secretary from October 2004 until September 2007. During this same period of time, the Daycare owner abstained from participating in decisions regarding disbursement of funds that may have benefited her directly or indirectly. In addition, the Partnership revised its existing policies and procedures in August 2009 to specify that "An individual who signs checks should not sign a check made out to himself/herself or to an entity that the individual is employed by or owns."

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ROSE | RAND | WALLACE

ATTORNEYS, P.A.

Steve Bass
Investigative Audit Supervisor for the State of North Carolina
Office of the State Auditor
Page Two
April 14, 2010

The report contains other conclusions and recommendations that appear to be based on facts that are not clear, or that have been applied unfairly to our client in order to justify allegations of criminal misconduct. Moreover, the report fails to note that our client was fully cooperative with the auditors. This is a facility that has provided excellent service to the children of Lenoir County for decades.

Please direct any inquiries regarding this matter to my attention.

With kind regards, I am

Very truly yours,
ROSE RAND WALLACE ATTORNEYS, P.A.



T. Slade Rand, Jr.

TSR/alp
cc: Allison P. Cooper
Farmer-N-Dell Nursery, Inc.

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