

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN
KINSTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2000

BOARD OF DIRECTORS

JIMMY SUMMERVILLE, CHAIRMAN

ADMINISTRATIVE OFFICER

KEITH SYLVESTER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Lenoir/Greene County Partnership for Children

This report presents the results of our financial statement audit of the Lenoir/Greene County Partnership for Children (Lenoir/Greene Partnership) as of and for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Lenoir/Greene Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statement. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Lenoir/Greene Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Lenoir/Greene Partnership is one of these local partnerships. As such, the Lenoir/Greene Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statement. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the financial statement.

Results – The accompanying financial statement presents fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. These matters are described in the Independent Auditor's Report.

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

AUDITOR'S TRANSMITTAL (CONCLUDED)

Results - The following instance of noncompliance was detected:

Finding

3. Competitive Bidding

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

- 3. Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lenoir/Greene Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiencies were detected in internal control over financial reporting:

Finding

1. Policies and Procedures
2. Contract/Grant Management

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lenoir/Greene County Partnership for Children
Kinston, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Lenoir/Greene County Partnership for Children (Lenoir/Greene Partnership) as of and for the year ended June 30, 2000. This financial statement is the responsibility of the Lenoir/Greene Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statement was prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the net assets of the Lenoir/Greene County Partnership for Children as of June 30, 2000, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2001 on our consideration of the Lenoir/Greene Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statement of the Lenoir/Greene County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

June 13, 2001

Lenoir/Greene County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2000

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$99,695)	\$ 1,630,105	\$ 19,069	\$ 0	\$ 1,649,174
Federal Awards		70,852		70,852
Private Contributions	4,942	8,793	742	14,477
Special Fund Raising Events		4,364		4,364
Interest and Investment Earnings		10,267		10,267
Sales Tax Refunds		6,631		6,631
Other Receipts	3,209	11,189		14,398
Total Receipts	1,638,256	131,165	742	1,770,163
Expenditures:				
Programs:				
Child Care and Education Quality	550,884	73,029		623,913
Child Care and Education Affordability	81,567			81,567
Health and Safety	144,155	2,990		147,145
Family Support	599,978			599,978
Flood Relief	37,747	25,228		62,975
Needs Assessment	23,069			23,069
Support:				
Management and General	191,889	50,529		242,418
Program Evaluation	4,374			4,374
System Integration	37,027	8,200		45,227
Other:				
Sales Tax Paid		16,176		16,176
Total Expenditures	1,670,690	176,152		1,846,842
Excess of Receipts Over Expenditures	(32,434)	(44,987)	742	(76,679)
Net Assets at Beginning of Year	44,897	77,342		122,239
Restatement (Note 9)	(9,818)	9,818		
Net Assets at Beginning of Year after Restatement	35,079	87,160		122,239
Net Assets at End of Year	\$ 2,645	\$ 42,173	\$ 742	\$ 45,560
Net Assets Consisted of:				
Cash on Deposit	\$ (24,309)	\$ 43,142	\$ 742	\$ 19,575
Refunds Due From Contractors	38,229			38,229
	13,920	43,142	742	57,804
Less: Funds Held for Others	11,275	969		12,244
	\$ 2,645	\$ 42,173	\$ 742	\$ 45,560

The accompanying notes to the financial statement are an integral part of this statement.

LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Lenoir/Greene County Partnership for Children (Lenoir/Greene Partnership) is a legally separate nonprofit organization incorporated on October 21, 1994. The Lenoir/Greene Partnership was established to develop and provide, through public and private means, early childhood education and development services for children and families. The Lenoir/Greene Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** - The accompanying financial statement presents all funds for which the Lenoir/Greene Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations," the accompanying financial statement presents information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of receipts, expenditures, and net assets as net assets released from restrictions.

The Lenoir/Greene Partnership did not have any permanently restricted net assets at June 30, 2000.

- C. Basis of Accounting** - The accompanying financial statement was prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned, and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.
- E. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Lenoir/Greene Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.

NOTE 2 - DEPOSITS

All funds of the Lenoir/Greene Partnership are deposited in a board-designated bank which potentially subjects the Lenoir/Greene Partnership to a concentration of credit risk. The Lenoir/Greene Partnership had the following balances in established accounts at June 30, 2000:

	<u>Book Balance</u>	<u>Bank Balance</u>
Money Market Checking Account	\$ (2,155)	\$ 539,137
Short-Term Certificate of Deposit	<u>21,730</u>	<u>21,723</u>
Total Deposits	<u>\$ 19,575</u>	<u>\$ 560,860</u>

The Lenoir/Greene Partnership's deposits are with a commercial bank and insured by the FDIC up to \$100,000. The Lenoir/Greene Partnership's bank deposits in excess of the FDIC insured limit totaled \$460,860 at June 30, 2000.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Lenoir/Greene Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Lenoir/Greene Partnership and represents a concentration of credit risk as to the generation of revenue.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Associated with these contracts, the Lenoir/Greene Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Lenoir/Greene Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by DHHS are presented on Schedule 3 accompanying the financial statement.

The Lenoir/Greene Partnership was awarded \$1,745,793 under a current year Smart Start contract with NCPC and has received \$1,712,869 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$26,570 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2000. As allowed by program regulation, the unexpended balance of the current year contract is available for carry-forward to the subsequent year based on approved service plans by NCPC.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Lenoir/Greene Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lenoir/Greene Partnership that board members not be involved with decisions regarding organizations they represent. During the year the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 2 accompanying the financial statement. In addition, Schedule 3 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of receipts, expenditures, and net assets. Also, Schedule 1, accompanying the financial statement, provides detail of the functional costs by their natural classification. Following are the functional categories presented in the accompanying financial statement and the services associated with those functions:

A. Program Functions

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, program upgrade projects, child care resource and referral, child care substitutes, salary supplements, resources and materials, or school readiness programs.

Child Care and Education Affordability - Used to account for service activities associated with Head Start wraparound.

Health and Safety - Used to account for service activities including health clinic, dental treatment, comprehensive dental services, or special needs – early intervention services.

Family Support - Used to account for service activities including family resource center, mobile family resource center, parenting skills training, ongoing parent education, literacy projects, family literacy, transportation services, or outreach plan to assess services.

Flood Relief - Used to account for service activities related to alleviating the damage caused by Hurricane Floyd associated with replacement of damaged supplies.

Needs Assessment - Used to account for service activities to explore innovative approaches and strategies for aiding parents and families in the education and development of young children.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

System Integration – Expenditures incurred for information management across several agencies/organizations bridging numerous service areas.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Total rental expenditure for all operating leases was \$2,811 for the year ended June 30, 2000.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 7 - PENSION PLAN

The Lenoir/Greene Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Lenoir/Greene Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Lenoir/Greene Partnership contributed 6% of gross wages for the year ended June 30, 2000. The Lenoir/Greene Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2000, the Lenoir/Greene Partnership had a total payroll of \$277,527, all of which was covered under the plan. The Partnership contributed \$6,933 for pension benefits during the year.

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Lenoir/Greene Partnership. The voluntary contributions by employees amounted to \$4,275 during the year ended June 30, 2000.

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2000 are available for the following purposes:

Purpose	Amount
Buddy Hubs Program	\$ 742

NOTE 9 - PRIOR PERIOD RESTATEMENT

Our review of the Partnership's beginning net asset balances identified an activity that was improperly classified to the unrestricted - smart start column. We prepared an adjustment of \$9,818 to correct the beginning net asset balance presentations for the unrestricted - smart start and unrestricted - other columns for the accompanying financial statement.

Lenoir/Greene County Partnership for Children
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2000

Schedule I

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	550,884	114,101	5,870	11,933	40,532	8,817	69,317	293,691	6,623
Child Care and Education Affordability	81,567							81,567	
Health and Safety	144,155							144,125	30
Family Support	599,978							599,978	
Flood Relief	37,747							37,747	
Needs Assessment	23,069	8,719		1,649	870		11,831		
	1,437,400	122,820	5,870	13,582	41,402	8,817	81,148	1,157,108	6,653
Support:									
Management and General	191,889	116,442	16,820	7,827	9,935	6,230	34,635		
Program Evaluation	4,374							4,374	
System Integration	37,027	27,875		77	700			8,375	
	233,290	144,317	16,820	7,904	10,635	6,230	34,635	12,749	0
Total Smart Start Fund Expenditures	1,670,690	267,137	22,690	21,496	52,037	15,047	115,783	1,169,957	6,653
Other Funds:									
Programs:									
Child Care and Education Quality	73,029	65,732	410	1,415	5,548	250		(326)	
Health and Safety	2,990							2,990	
Flood Relief	25,228							25,228	
	101,247	65,732	410	1,415	5,548	250	0	27,892	0
Support:									
Management and General	50,529	6,798		2,740	1,612	1,494	37,885		
System Integration	8,200		8,200						
	58,729	6,798	8,200	2,740	1,612	1,494	37,885	0	0
Other:									
Sales Tax Paid	16,176	0	0	16,176	0	0	0	0	0
Total Other Funds Expenditures	176,152	72,530	8,610	20,331	7,160	1,744	37,885	27,892	0

***Lenoir/Greene County Partnership for Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2000***

Schedule 2

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Evaluation Resources	12,749			
Greene County Cooperative Extension *	81,281	(319)		
Greene County Health Care *	104,864	(5,362)	2,990	
Greene County Public Schools	187,335	(145)		
Greene Lamp, Inc. *	81,567			
Kinston Community Health Center	57,920	(822)		
Lenoir Community College *	70,600	(6,730)		
Lenoir County Cooperative Extension	113,754			
Lenoir County Mental Health/Developmental Disability/Substance Abuse Services *	100,733	(13,705)		
Lenoir County Summer Enrichment	37,752			
Lenoir County Transportation *	11,725	(10)		
Lenoir Memorial Hospital *	21,128	(1,085)		
Needs and Resources	4,500			
Neuse Regional Library *	44,500	(6,756)		
Wilson/Greene Mental Health/Developmental Disability/Substance Abuse Services *	62,236	(3,295)		
	992,644	(38,229)	2,990	0
Individuals:				
Child Care Resource and Referral	990			
Flood Relief Grants	37,747		25,228	
Program Upgrade Projects	8,649			
Quality Enhancement Grants	159,648		(326)	
Quality Service Incentive Grants	435			
Salary Supplement Program	7,973			
	215,442	0	24,902	0
	1,208,086	(38,229)	27,892	0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Lenoir/Greene County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2000***

Schedule 3

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Lenoir/Greene Counties Departments of Social Services - Services Support	97,060		97,060
Lenoir/Greene Counties Departments of Social Services - Subsidized Care	715,915		715,915
	812,975	0	812,975
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.</p> <p>The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.</p>			

***Lenoir/Greene County Partnership for Children
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2000***

Schedule 4

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of				
Health and Human Services - Division of Child Development				
	93.575	5748	<u>\$ 70,852</u>	<u>\$ 69,021</u>
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for				
Children, Inc.				
Early Childhood Initiatives Program (Prior Year)		1-89-2-09-001	(82,764)	4,007
Early Childhood Initiatives Program (Current Year)		* 1-90-2-09-001	1,712,869	1,666,683
Contracting and Accounting Grant		N/A	(16,931)	
Multi-County Accounting and Contracting Grant		N/A	<u>36,000</u>	<u>36,000</u>
Total State Awards			<u>1,649,174</u>	<u>1,706,690</u>
Total Federal and State Awards			<u>\$ 1,720,026</u>	<u>\$ 1,775,711</u>

* Programs with compliance requirements that have a direct and material effect on the financial statement.

***Lenoir/Greene County Partnership for Children
Schedule of Property and Equipment
June 30, 2000***

Schedule 5

Furniture and Non-Computer Equipment	\$ 55,022
Computer Equipment/Printers	<u>138,084</u>
Total Property and Equipment	<u><u>\$ 193,106</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year purchased.

***Lenoir/Greene County Partnership for Children
Schedule of Qualifying Match
For the Year Ended June 30, 2000***

Schedule 6

Match Provided at the Partnership Level:

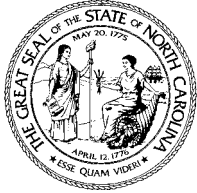
Cash	\$	6,019
In-Kind Goods and Services		<u>37,686</u>
	\$	<u><u>43,705</u></u>

Note: The cash amount reported has been recorded in the financial statements of the partnership. The in-kind donation amount presented above represents non-cash contributions received from non-state sources that meet the criteria for recognition per SFAS No. 116.

***Match Provided at the Contractor Level:
(Unaudited)***

In-Kind Goods and Services	\$	<u><u>13,219</u></u>
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Note: The above amounts represent expenses, paid by cash or in-kind contributions, incurred by other participating non-State entities contracting with the local partnership. These amounts have been corroborated as to being reported to the local partnership and certified by the contractor. The amounts reported have been reviewed to determine they are verifiable and allowable per legislative requirements. However, we have not verified the amounts reported to the contractors' underlying records.



Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lenoir/Greene County Partnership for Children
Kinston, North Carolina

We have audited the financial statement of the Lenoir/Greene County Partnership for Children (Lenoir/Greene Partnership) as of and for the year ended June 30, 2000, and have issued our report thereon dated June 13, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lenoir/Greene Partnership's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Audit Findings and Recommendations section as follows:

3. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lenoir/Greene Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

reporting that, in our judgment, could adversely affect the Lenoir/Greene Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying Audit Findings and Recommendations section as follows:

1. Policies and Procedures
2. Contract/Grant Management

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

June 13, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Findings and Recommendations from Current Audit - The following presents findings and recommendations, determined during the current audit, which represent significant deficiencies in internal control. Also presented is a finding and recommendation regarding noncompliance with either laws, regulations, contracts, or grants.

1. POLICIES AND PROCEDURES

During our audit, we found that the Lenoir/Greene Partnership's policies and procedures for financial accounting had not been formally adopted by the Board and did not sufficiently address the organization's needs. Improvements are needed in the areas of competitive bidding, processing of payments, and contract management.

Policies and procedures provide direction to staff to ensure that assets are safeguarded, that accounting data is accurate and reliable, and that operations are efficient and carried out in accordance with management's intentions. In this regard, we noted material misstatements that resulted in numerous audit adjustments to the financial presentation.

Recommendation: The Board should place appropriate emphasis on establishing policies and procedures as guidance for the Partnership staff to ensure fiscal accountability.

Partnership's Response: The Partnership had been following NCPC recommended policies and procedures in most cases. The Board of Directors had never formally adopted these policies.

Partnership staff is working with the Board Audit/Finance Committee to develop policies and procedures for financial accounting. These policies and procedures will provide more structure and guidance to the administration of the Partnership. It is anticipated this process will be completed by 11/30/01.

2. CONTRACT/GRANT MANAGEMENT

The Lenoir/Greene Partnership did not have an adequate contract management system in place. Weaknesses identified included:

- Contract amendments were not properly prepared for direct service providers (DSPs) resulting in instances of overpayments.
- The Partnership issued checks totaling \$193,400 supported by financial status reports that had no documented partnership approval. In addition, the Partnership made payments totaling \$25,195 prior to contracts being finalized.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- Our review of the Partnership's processing of contract payments noted payments supported by fax documents, prepayment of Quality Enhancement items, and the payment of a flood relief grant that was not consistent with the program's established criteria.

The achievement of the Lenoir/Greene Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

Recommendation: We recommend that the Partnership enhance its contract management system to ensure that contract documents are finalized and any deviations from the contractual terms are supported by contract amendments. Contract payments should be made in accordance with established criteria and supported by proper authorization, adequate supporting documentation, and the timely receipt of goods and/or services.

Partnership's Response: In FY 2000/2001 the Partnership identified problems within this area. The assignment of Contract/Grant Management responsibilities to one individual was implemented. The staff of the Partnership is working with the Audit/Finance Committee in reviewing, amending and developing policies and procedures to provide more structure to this process. It is anticipated this process will be completed by 11/30/01.

3. COMPETITIVE BIDDING

Sufficient supporting documentation was not available to support the Lenoir/Greene Partnership's compliance with the competitive bidding requirements.

Recommendation: We recommend that the Partnership comply with the legislatively mandated bid requirements.

Partnership's Response: It is the intent of the Partnership to comply with the legislatively mandated bid requirements. In the future, the Partnership will have available all supporting documentation to show compliance with this requirement.

Partnership staff and the Audit/Finance Committee are also reviewing competitive bidding policies and procedures. The purpose of this review is to insure there are clear procedures in place to comply with the legislative mandates. It is anticipated this process will be completed by 11/30/01.

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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