



STATE OF NORTH CAROLINA

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

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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, 2001

BOARD OF DIRECTORS

STEVE MAZINGO, CHAIRMAN

ADMINISTRATIVE OFFICER

KEITH SYLVESTER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the 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) for the year ended June 30, 2001. 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 statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America 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 statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present 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. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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.

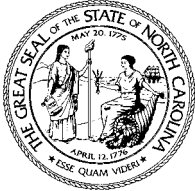
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of Federal and State Awards - Regulatory Basis.....	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT	19



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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 June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Lenoir/Greene Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements. 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 statements were 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 statements referred to above present fairly, in all material respects, the net assets of the Lenoir/Greene County Partnership for Children as of June 30, 2001, 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 October 19, 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 statements 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 statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements 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

October 19, 2001

Lenoir/Greene County Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2001****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards	\$ 2,428,596	\$ 80,381	\$ 568	\$ 2,509,545
Federal Awards		69,021		69,021
Private Contributions		6,554		6,554
Interest and Investment Earnings		16,358		16,358
Sales Tax Refunds		18,168		18,168
Other Receipts		51,432		51,432
Total Receipts	2,428,596	241,914	568	2,671,078
Expenditures:				
Programs:				
Child Care and Education Quality	1,021,381	97,951		1,119,332
Child Care and Education Affordability	151,028	60,000		211,028
Health and Safety	333,179			333,179
Family Support	533,800			533,800
Flood Relief		1,801		1,801
Needs Assessment	63,073			63,073
Support:				
Management and General	241,293	70,226		311,519
System Integration	62,863			62,863
Other:				
Refund of Prior Year Grant		7,085		7,085
Sales Tax Paid		14,325		14,325
Total Expenditures	2,406,617	251,388		2,658,005
Excess of Receipts Over Expenditures	21,979	(9,474)	568	13,073
Net Assets at Beginning of Year	2,644	42,172	742	45,558
Net Assets at End of Year	\$ 24,623	\$ 32,698	\$ 1,310	\$ 58,631
Net Assets Consisted of:				
Petty Cash	\$ 0	\$ 200	\$ 0	\$ 200
Cash on Deposit	26,343	35,402	1,310	63,055
Refunds Due From Contractors	11,446			11,446
	37,789	35,602	1,310	74,701
Less: Funds Held for Others	13,166	2,904		16,070
	\$ 24,623	\$ 32,698	\$ 1,310	\$ 58,631

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

Lenoir/Greene County Partnership for Children
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	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	1,021,381	154,979	10,908	20,285	50,021	11,791	273,282	491,400	8,715
Child Care and Education Affordability	151,028	42,297						108,731	
Health and Safety	333,179							333,179	
Family Support	533,800	26,675		4,640	10,511	155	15,288	476,531	
Needs Assessment	63,073	39,121		1,089	1,216	397	21,250		
	2,102,461	263,072	10,908	26,014	61,748	12,343	309,820	1,409,841	8,715
Support:									
Management and General	241,293	89,418	7,892	17,794	36,180	5,919	84,090		
System Integration	62,863	32,525		131	2,120		15,075	13,012	
	304,156	121,943	7,892	17,925	38,300	5,919	99,165	13,012	0
Total Smart Start Fund Expenditures	2,406,617	385,015	18,800	43,939	100,048	18,262	408,985	1,422,853	8,715
Other Funds:									
Programs:									
Child Care and Education Quality	97,951	69,021	4,109	1,502	1,398		18,858	2,733	330
Child Care and Education Affordability	60,000	42,488	561	4,649	5,759	6,353	159	31	
Flood Relief	1,801							1,801	
	159,752	111,509	4,670	6,151	7,157	6,353	19,017	4,565	330
Support:									
Management and General	70,226	56,594	37	1,925	8,127	430	3,113	0	0
Other:									
Refund of Prior Year Grant	7,085					7,085			
Sales Tax Paid	14,325			14,325					
	21,410	0	0	14,325	0	7,085	0	0	0
Total Other Funds Expenditures	251,388	168,103	4,707	22,401	15,284	13,868	22,130	4,565	330

LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

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 developmental 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 statements present 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 statements present 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, 2001.

- C. Basis of Accounting** - The accompanying financial statements were 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 STATEMENTS (CONTINUED)

- 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.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Lenoir/Greene Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Lenoir/Greene Partnership to a concentration of credit risk. At June 30, 2001, the Lenoir/Greene Partnership's bank deposits in excess of the FDIC insured limit was \$527,774.

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.

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 is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Lenoir/Greene Partnership was awarded and has received \$2,416,712 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$10,408 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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 1 accompanying the financial statements. In addition, Schedule 2 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 – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

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, or school readiness programs.

Child Care and Education Affordability - Used to account for service activities including a child care coordinator or Head Start wraparound.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Family Support - Used to account for service activities including parenting skills training, ongoing parent education, literacy projects, family literacy, transportation services, or information and resources.

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

Needs Assessment – Used to account for the service activities related to conducting and reviewing a needs and resources assessment of the various strategies for aiding parents and families in the education and development of young children. The results are to be used in future service plan development.

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.

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

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance) and supplies and materials were allocated based on utilization data.

Building – Allocated based on square footage occupied.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Total future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001 is \$12,000.

Total rental expenditure for all operating leases was \$16,795 for the year ended June 30, 2001.

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, 2001. 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, 2001, the Lenoir/Greene Partnership had a total payroll of \$440,198, all of which was covered under the plan. The Partnership contributed \$24,163 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 \$9,814 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Buddy Hubs Program	<u>\$ 1,310</u>

***Lenoir/Greene County Partnership for Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001***

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Aaron's Playground *	26,946			
Deep Run Child Care	53,635			
Evaluation Resources	13,012			
Farmer N' Dell	45,922			
Greene County Cooperative Extension	82,262	(1,110)		
Greene County Health Care, Incorporated	140,793			
Greene County Public Schools *	212,833			
Greene Lamp, Incorporated *	111,043	(2,312)		
Kinston Community Health Center, Incorporated	77,056	(2,693)		
Lenoir Community College *	42,750	(475)		
Lenoir County Cooperative Extension *	113,754			
Lenoir County Mental Health/Developmental Disability/Substance Abuse Services *	86,650	(1,476)		
Lenoir County Transportation	13,735			
Lenoir Memorial Hospital	15,459	(112)		
Little Peoples	31,905			
Nanny's	27,582			
Neuse Regional Library *	42,400	(597)		
Various Day Cares	210,973		3,310	
Wilson/Greene Mental Health/Developmental Disability/Substance Abuse Services *	77,751	(2,671)		
	1,426,461	(11,446)	3,310	0
Individuals:				
Family Child Care Upgrades	7,838	0	1,255	0
	1,434,299	(11,446)	4,565	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, 2001***

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	104,852
Lenoir/Greene Counties Departments of Social Services	* 935,110
	1,039,962
<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, 2001***

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
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				
Child Care Resource and Referral	93.575	5867	\$ 69,021	\$ 69,021
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 (Previous Years)		Various	38,454	
Early Childhood Initiatives Program (Prior Year)		1-90-2-09-001	(26,570)	313
Early Childhood Initiatives Program (Current Year)	*	1-01-2-09-001	2,416,712	2,406,304
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(3,619)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	24,000	24,000
Buddy Hubs Project		N/A	568	
Pass-through from the Greene County Division of Social				
Services				
Day Care Subsidy Program Administration		N/A	60,000	60,000
Total State Awards			<u>2,509,545</u>	<u>2,490,617</u>
Total Federal and State Awards			<u>\$ 2,578,566</u>	<u>\$ 2,559,638</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
For the Year Ended June 30, 2001

Schedule 4

	Furniture and Non-Computer Equipment	\$	145,849
	Computer Equipment/Printers		77,644
	Buildings		293,069
			<u> </u>
	Total Property and Equipment	\$	516,562
			<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 (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

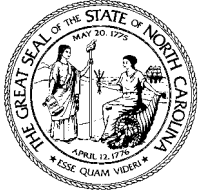
Match Provided at the Partnership Level:

Cash	\$ 40,968
In-Kind Goods and Services	11,839
	<u>\$ 52,807</u>

Match Provided at the Contractor Level:

Cash	\$ 1,645,720
In-Kind Goods and Services	134,988
	<u>\$ 1,780,708</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.



Ralph Campbell, Jr.
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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 statements of the Lenoir/Greene County Partnership for Children (Lenoir/Greene Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated October 19, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements are 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

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 statements and not to provide assurance on the

**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)**

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 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 statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

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 statements 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

October 19, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. POLICIES AND PROCEDURES

During our prior year audit, we reported that the Partnership's policies and procedures for financial accounting had not been formally adopted by the Board and did not sufficiently address weaknesses noted with competitive bidding, processing of payments, and contract management. Those deficiencies also contributed to material misstatements in the Partnership's financial presentations.

The finding is partially resolved. Material adjustments were not required in the current year audit to correct financial presentations. However, the Board has not completely developed, implemented, and approved financial policies and procedures necessary for the proper oversight of the Partnership's operations.

Recommendation: The Partnership should seek guidance from the North Carolina Partnership for Children, Inc. as to the establishment and adoption of policies and procedures that address fiscal accountability.

Partnership's Response: Due to the accounting position turnover, the revision and adoption of the fiscal policies and procedures was delayed. This process will be completed within the next sixty days.

2. CONTRACT/GRANT MANAGEMENT

During our prior year audit, we identified deficiencies in the Partnership's contract management system. Weaknesses identified included:

- Overpayments were made due to inadequate contract amendments
- Payments were processed prior to the finalization of the contract, without proper authorization, and without adequate documentation
- A grant was provided despite its failure to meet the flood relief program's established criteria.

The finding is partially resolved. We found no evidence of program payments made outside of established criteria. However, we continued to note problems with contract amendments, the establishment of formal contract agreements, and the processing of payments without proper authorization and/or adequate supporting documentation. Our review of the quality enhancement grants noted that quality improvement plans were not

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

developed for the various day care centers and insufficient evidence was available to support the receipt of goods ordered or the completion of construction work performed. In addition, monitoring activities were not consistently documented.

Recommendation: We recommend that the Partnership enhance its contract management and monitoring system to ensure that contract documents are finalized and any deviations from original contract terms are supported by amendments. Contract payments should be properly authorized and supported by adequate documentation. Evidence should be maintained to support contract monitoring activities and the accomplishment of the program objectives.

Partnership's Response: The Partnership had assigned one individual to contract and grants management in November 2001. Improvement has been demonstrated in this area. Any findings in this area should now be resolved with the individual gaining some experience. The procedure for quality enhancement grants has been revised. Additional staff has also been hired for this activity. This will allow the Partnership to develop more specific plans and gather the necessary documents.

3. COMPETITIVE BIDDING

We reported in the prior year the Partnership's noncompliance with the competitive bidding requirements.

This finding is unresolved. Our testwork identified instances where bidding documentation was not available to support either the selection criteria or the acceptance of a higher bid.

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

Partnership's Response: The Partnership will require the Executive Director and accountant to verify that all bids have the necessary documentation. In the event the Executive Director is the individual initiating the purchase via bids, the Board Treasurer shall insure all appropriate documentation is available prior to payment.

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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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April 5, 2002

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