

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DR. CHARLES HUGGINS, CHAIRMAN

ADMINISTRATIVE OFFICER

HEATHER MURRELL, 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, Lee County Partnership for Children

This report presents the results of our financial statement audit of the Lee County Partnership for Children (Lee 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 Lee 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 Lee 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 Lee Partnership is one of these local partnerships. As such, the Lee 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 - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lee 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. Financial Presentations
2. Authorizing and Processing of Transactions
3. Control Environment
4. Contract Management and Monitoring

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.

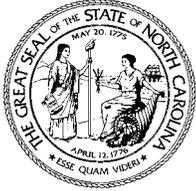
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lee County Partnership for Children
Sanford, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Lee County Partnership for Children (Lee 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 Lee 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 Lee 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 November 2, 2001 on our consideration of the Lee 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Government Auditing Standards and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Lee 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

November 2, 2001

Lee 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 (less refunds of \$96,913)	\$ 1,047,505	\$ 12,000	\$ 0	\$ 1,059,505
Local Awards			21,500	21,500
Private Contributions		88	11,636	11,724
Interest and Investment Earnings		627		627
Sales Tax Refunds	3,714	452		4,166
Other Receipts		9,943		9,943
Total Receipts	1,051,219	23,110	33,136	1,107,465
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		14,069	(14,069)	
	1,051,219	37,179	19,067	1,107,465
Expenditures:				
Programs:				
Child Care and Education Quality	426,611			426,611
Child Care and Education Accessibility and Availability	131,169			131,169
Health and Safety	79,478			79,478
Family Support	170,782	11,244		182,026
Support:				
Management and General	169,063	12,548		181,611
Program Evaluation	38,315			38,315
Program Coordination	39,043			39,043
Other:				
Sales Tax Paid		2,679		2,679
Total Expenditures	1,054,461	26,471		1,080,932
Excess of Receipts Over Expenditures	(3,242)	10,708	19,067	26,533
Net Assets at Beginning of Year	95,933	(1,933)	48,800	142,800
Net Assets at End of Year	\$ 92,691	\$ 8,775	\$ 67,867	\$ 169,333
Net Assets Consisted of:				
Cash on Deposit	\$ 92,691	\$ 8,775	\$ 67,867	\$ 169,333

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

**Lee County Partnership for Children
 Schedule 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	426,611	98,638	5,845	32,976	25,798	16,225	3,245	243,884	
Child Care and Education Accessibility and Availability	131,169	502	32,550	2,730	387			95,000	
Health and Safety	79,478							79,478	
Family Support	170,782	129,545	935	9,306	10,910	3,992	950	15,144	
	808,040	228,685	39,330	45,012	37,095	20,217	4,195	433,506	0
Support:									
Management and General	169,063	105,731	10,615	21,545	14,318	7,594	9,260		
Program Evaluation	38,315	21,368	380	7,515	3,329	3,688	2,035		
Program Coordination	39,043	31,292	703	502	4,213	2,253	80		
	246,421	158,391	11,698	29,562	21,860	13,535	11,375	0	0
Total Smart Start Fund Expenditures	1,054,461	387,076	51,028	74,574	58,955	33,752	15,570	433,506	0
Other Funds:									
Programs:									
Family Support	11,244	0	592	3,651	4,635	2,366	0	0	0
Support:									
Management and General	12,548	0	12,000	65	483	0	0	0	0
Other:									
Sales Tax Paid	2,679	0	0	2,679	0	0	0	0	0
Total Other Funds Expenditures	26,471	0	12,592	6,395	5,118	2,366	0	0	0

LEE COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Lee County Partnership for Children (Lee Partnership) is a legally separate nonprofit organization incorporated on January 8, 1997. The Lee Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lee 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 Lee 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 Lee 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. 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 Lee 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 Lee Partnership to a concentration of credit risk. At June 30, 2001, the Lee Partnership's bank deposits in excess of the FDIC insured limit was \$168,978.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Lee 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 Lee Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Lee 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 Lee 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.

The Lee Partnership was awarded and has received \$1,139,483 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 \$83,907 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Lee Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lee 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 and child care resource and referral.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increasing child care spaces.

Health and Safety - Used to account for service activities including immunization support and comprehensive screenings.

Family Support - Used to account for service activities including parenting skills training, family literacy, and school readiness programs.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Program Coordination – Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

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 and utilities) and communication costs (telephone and postage) were allocated based on utilization data.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 3,102
2003	3,102
2004	3,102
2005	3,102
2006	517
Total Minimum Lease Payments	<u><u>\$ 12,925</u></u>

Total rental expenditure for all operating leases was \$20,652 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Child Care Resource and Referral - Individual	\$ 110
Local Interagency Coordinating Council - Minigrant	500
Parents as Teachers - County of Lee	39,180
Parents as Teachers - Food Lion	2,053
Parents as Teachers - Individual	1,192
Parents as Teachers - United Way	<u>24,832</u>
	<u>\$ 67,867</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Parents as Teachers - County of Lee	\$ 12,668
Parents as Teachers - Individual	84
Parents as Teachers - United Way	<u>1,317</u>
	<u>\$ 14,069</u>

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

Schedule I

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Lee County Board of Education	110,144			
Lee County Public Health Department	79,478			
United Cerebral Palsy of North Carolina, Inc.	243,884			
	433,506	0	0	0

*These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

**Lee 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	41,250
Lee County Department of Social Services	793,653
	834,903
<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>	

Lee County Partnership for Children
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001

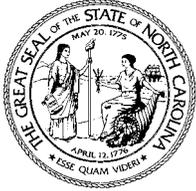
Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
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)	Various	\$ 4,935	\$ 0
Early Childhood Initiatives Program (Prior Year)	1-90-4-90-001	(96,913)	
Early Childhood Initiatives Program (Current Year)	* 1-01-4-09-001	1,139,483	1,054,461
Multi-Partnership Accounting and Contracting Grant	N/A	12,000	12,000
Total State Awards		\$ 1,059,505	\$ 1,066,461

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

<i>Lee County Partnership for Children</i>				
<i>Schedule of Property and Equipment</i>				
<i>For the Year Ended June 30, 2001</i>				<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$	37,917	
	Computer Equipment/Printers		33,279	
	Leasehold Improvements		4,336	
	Total Property and Equipment	\$	75,532	
	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.			

<i>Lee County Partnership for Children</i>			
<i>Schedule of Qualifying Match (Non-GAAP)</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 5</i>
<i>Match Provided at the Partnership Level:</i>			
Cash		\$	33,224
In-Kind Goods and Services			10,799
		\$	<u>44,023</u>
<i>Match Provided at the Contractor Level:</i>			
Cash		\$	349,584
In-Kind Goods and Services			59,267
		\$	<u>408,851</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.		



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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
Lee County Partnership for Children
Sanford, North Carolina

We have audited the financial statements of the Lee County Partnership for Children (Lee Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 2, 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 Lee 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee 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 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,

**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)**

in our judgment, could adversely affect the Lee 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:

1. Financial Presentations
2. Authorizing and Processing of Transactions
3. Control Environment
4. Contract Management and Monitoring

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 following reportable conditions to be material weaknesses:

1. Financial Presentations
3. Control Environment
4. Contract Management and Monitoring

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

November 2, 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.

1. FINANCIAL PRESENTATIONS

The prior year audit reported that the Lee Partnership's financial presentations were materially misclassified between unrestricted and restricted fund types, prior year audit adjustments were not posted, and bank deposits were not recorded until after year-end.

This finding is partially resolved. The Partnership made improvements by recording bank deposits in the correct fiscal year. However, we continued to note misclassifications within the unrestricted and restricted fund types during the current year. In addition, the prior year audit adjustments were not entered in the Partnership's accounting records resulting in incorrect beginning balances.

Recommendation: We recommend that the Lee Partnership establish and implement procedures for the review and oversight of its financial presentations. The procedures should include verification that funds are properly classified and audit adjustments are posted in the accounting records.

Partnership's Response: The Lee County Partnership for Children (LCPFC) is working with the Chatham County Partnership for Children, Multi-partnership Accounting and Contract contractor (MAC), in order to correct misclassified funds. All audit adjustments will be posted, no later than February, at the MAC site. The Executive Director and Fiscal Coordinator will verify that all audit adjustments are accurately posted. In addition, all funds that are received by LCPFC, according to the Financial Policies and Procedures manual, will be review by the Executive Director and Fiscal Coordinator and properly classified.

2. AUTHORIZING AND PROCESSING OF TRANSACTIONS

The prior year audit reported that the Lee Partnership did not have adequate documentation to support payments and journal entries.

This finding is partially resolved. Improvements were noted in the Partnership's supporting documentation; however, other deficiencies were noted in the processing of transactions including:

- Purchase orders were used as accounting code sheets. As such, we noted payments made prior to the documented approval date.
- Supporting documentation was not consistently canceled.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

- Instances were noted where the Partnership processed checks prior to the receipt of the goods. As a result, we noted prepayments in the amount of \$20,900.

Recommendation: We recommend that the Lee Partnership make improvements in its authorizing and processing of transactions. The purchase order system should be used for its designed purpose including the prior authorization for the purchase of goods and services. Supporting documentation, particularly vendor invoices, should be properly canceled. In addition, payment should not occur until goods and services are received.

Partnership's Response: The Lee County Partnership for Children revised and implemented a Financial Policies and Procedures manual during the 2001-02 fiscal period. These policies and procedures are reflective of the current financial operations. In order to ensure adherence to the manual, the Partnership has instituted the following:

- Increased custodial responsibility of purchase orders.
- Enhanced internal documentation processes.
- Defined protocols for: Competitive Bidding, Purchasing, Petty Cash, etc. Moreover, to ensure the uniform application of financial operations, the entire Partnership staff has been trained on the aforementioned issues. Staff training will continue on an ongoing basis throughout the year. The implementation of the manual, coupled with strengthened systems and uniform training, limits the recurrence of future findings.

3. CONTROL ENVIRONMENT

The prior year audit reported that the Lee Partnership had not implemented adequate policies and procedures for the operations of the Partnership.

This finding is unresolved. As noted by the Partnership's response in the prior year report, the Board did not fully address policy improvements until the 2002 fiscal year. Our current year review also noted that minutes to support the activities of the Board were not readily available for review. In addition, the Partnership has failed to properly address previously reported audit issues as the above findings have been reported annually since the 1998 fiscal year.

Recommendation: We recommend that the Partnership review its policies and procedures to ensure that they provide operational guidance as well as address identified deficiencies. In accordance with public records guidelines, all Board minutes should be on-site for review. In addition, immediate attention should be given to addressing all past and current audit recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Partnership's Response: The revised Financial Policies and Procedures manual adopted by the Board, during the 2001-02 fiscal year, represent significant policy improvements and are reflective of the current financial operations, thus, resolving the applicable finding.

Other Current Year Findings and Recommendations - The following finding and recommendation was identified during the current audit and represents a significant deficiency in internal control.

4. CONTRACT MANAGEMENT AND MONITORING

The Lee Partnership lacked an adequate contract management and monitoring system. The following conditions were noted:

- Defined policies and procedures for contract management and monitoring have not been established and adopted by the Board.
- A service provider was paid in advance for an activity contrary to the terms of the contract and prior to actual expenditures being incurred.
- Documentation was not available for our review to support financial monitoring activities.

Recommendation: We recommend that the Partnership develop and implement contract management and monitoring policies and procedures. Such procedures should address the development of an adequate contract management system and proper documentation of the Partnership's monitoring activities.

Partnership's Response: The Lee County Partnership for Children contract monitoring consists of two elements. First, programmatic evaluation is employed to determine the efficacy of services funded by Smart Start. Essentially, this process required direct service providers to develop outcome measures, evaluation plans, data collection processes, and compliance with reporting program status. Moreover, the Partnership conducts on-site programmatic monitoring and data analysis to determine the benefit of the activity. The Partnership considers this key element a strength that has assisted the governing Board in strategically maximizing programmatic results. Second, the Partnership has provided guidance for financial contract management in the revised Financial Policies and Procedures manual. This manual was adopted by the Board during the 2001-02 fiscal year and reflects significant policy and procedure improvements. Among such changes include provisions for contract management; however, the Partnership will review the approved policy to strengthen the monitoring practices.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The Partnership recognized the importance of both elements and is committed to continuing the effective programmatic evaluation process and strengthening the financial contract management. Furthermore, the Partnership recognizes that negating the programmatic evaluation from the financial contract management would be remiss.

Auditor's Comments: The audit recommendation emphasizes the importance of an adequate contract management and monitoring system that encompasses both programmatic and financial components, both of equal importance, that are essential for accountability within the program.

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February 15, 2002

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