



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN
KINSTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

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, 2002

BOARD OF DIRECTORS

OSSIE KEARNEY, BOARD CHAIR

ADMINISTRATIVE OFFICER

KEITH SYLVESTER, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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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, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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

2. 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 Statements.

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

Finding

1. Contract/Grant Management
3. Control Environment

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.

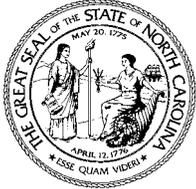
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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 June 30, 2002, 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 Statements are free of material misstatements. 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, 2002, 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 September 23, 2002 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

September 23, 2002

Lenoir/Greene County Partnership for Children
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$16,353)	\$ 1,450,220	\$ 64,305	\$ 1,150	\$ 1,515,675
Federal Awards		64,541		64,541
Private Contributions		11,373		11,373
Special Fund Raising Events		2,790		2,790
Interest and Investment Earnings		5,884		5,884
Sales Tax Refunds		12,332		12,332
Other Receipts		51,350		51,350
Total Receipts	1,450,220	212,575	1,150	1,663,945
Expenditures:				
Programs:				
Child Care and Education Quality	458,395	96,225		554,620
Child Care and Education Affordability	173,188	60,000		233,188
Health and Safety	188,976			188,976
Family Support	361,025			361,025
Support:				
Management and General	226,700	69,313		296,013
System Integration	48,412			48,412
Other:				
Sales Tax Paid		6,130		6,130
Refund of Prior Year Grant		304		304
Total Expenditures	1,456,696	231,972		1,688,668
Excess of Receipts Over Expenditures	(6,476)	(19,397)	1,150	(24,723)
Net Assets at Beginning of Year	24,622	32,698	1,310	58,630
Net Assets at End of Year	\$ 18,146	\$ 13,301	\$ 2,460	\$ 33,907
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 24,386	\$ 14,242	\$ 2,460	\$ 41,088
Refunds Due From Contractors	3,297			3,297
	27,683	14,242	2,460	44,385
Less: Funds Held for Others	9,537	941		10,478
	\$ 18,146	\$ 13,301	\$ 2,460	\$ 33,907
The accompanying notes to the financial statements are an integral part of this statement.				

*Lenoir/Greene County Partnership for Children
 Schedule of Functional Expenditures - Regulatory Basis
 For the Year Ended June 30, 2002*

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 458,395	167,131	8,063	25,681	45,837	7,927	853	188,211	14,692
Child Care and Education Affordability	\$ 173,188	68,926	30	5,681	233	2,000		96,318	
Health and Safety	\$ 188,976							188,976	
Family Support	\$ 361,025							361,025	
	\$ 1,181,584	\$ 236,057	\$ 8,093	\$ 31,362	\$ 46,070	\$ 9,927	\$ 853	\$ 834,530	\$ 14,692
Support:									
Management and General	\$ 226,700	151,800	7,879	14,167	43,438	9,416			
System Integration	\$ 48,412	39,926		358	7,961	167			
	\$ 275,112	\$ 191,726	\$ 7,879	\$ 14,525	\$ 51,399	\$ 9,583	\$ 0	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,456,696	\$ 427,783	\$ 15,972	\$ 45,887	\$ 97,469	\$ 19,510	\$ 853	\$ 834,530	\$ 14,692
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 96,225	65,714	5,255	358				24,883	15
Child Care and Education Affordability	\$ 60,000	40,957	3,685		10,184	4,264	910		
	\$ 156,225	\$ 106,671	\$ 8,940	\$ 358	\$ 10,184	\$ 4,264	\$ 910	\$ 24,883	\$ 15
Support:									
Management and General	\$ 69,313	\$ 53,356	\$ 2,066	\$ 1,611	\$ 11,031	\$ 1,249	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 6,130			6,130					
Refund of Prior Year Grant	\$ 304					304			
	\$ 6,434	\$ 0	\$ 0	\$ 6,130	\$ 0	\$ 304	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 231,972	\$ 160,027	\$ 11,006	\$ 8,099	\$ 21,215	\$ 5,817	\$ 910	\$ 24,883	\$ 15

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

LENOIR/GREENE COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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. Pursuant to the provisions of 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, 2002.

- 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)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of petty cash and cash on deposit with private bank accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that 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.
- F. 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.
- G. 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 a 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, 2002, the Lenoir/Greene Partnership's bank deposits in excess of the FDIC insured limit was \$60,032.

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, NCPC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and 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 Statements. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial Statements.

The Lenoir/Greene Partnership was awarded and has received \$1,466,573 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 \$16,144 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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 for upgrades, child care resource and referral, child care substitutes, or curriculum enhancements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (DCD) or public pre-K classes.

Health and Safety - Used to account for service activities including comprehensive dental services or comprehensive health services.

Family Support - Used to account for service activities including ongoing parenting education, intensive home visiting, family literacy, transportation services, or orientation to kindergarten.

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 communication costs (telephone and printing) were allocated based on utilization data. The Lenoir/Greene Partnership allocated a total of \$170,492 in other costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Summarized below are the cost allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Advertising and Printing	\$ 10,599
Communications	35,186
Contracted Services	26,977
Employee Training	3,628
Fixed Charges and Other Expenses	25,023
Meeting Expenses	9,057
Repair and Maintenance	25,985
Travel	25,236
Utilities	8,801
Total Allocated Costs	<u><u>\$ 170,492</u></u>

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 4,560
2004	1,440
2005	540
2006	540
Total Minimum Lease Payments	<u><u>\$ 7,080</u></u>

Rental expense for all operating leases during the year was \$13,853.

NOTE 7 - PENSION PLAN

A. Retirement Plans - 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, 2002. The Lenoir/Greene Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

For the year ended June 30, 2002, the Lenoir/Greene Partnership had a total payroll of \$465,154, all of which was covered under the plan. The Partnership contributed \$26,213 for pension benefits during the year.

- B. Deferred Compensation and Supplemental Retirement Income Plans**
- IRC Section 403(b) Plan-** 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. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Lenoir/Greene Partnership. The voluntary contributions by employees amounted to \$8,125 during the year ended June 30, 2002.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments on Contracts - The Lenoir/Greene Partnership had outstanding commitments of \$104,571 on cost-reimbursement contracts that had not been paid at June 30, 2002.

NOTE 9 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Buddy Hubs Program	\$ 2,460

*Lenoir/Greene County Partnership for Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002*

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Aaron's Playground	28,533			
Deep Run Child Care	23,261			
Greene County Cooperative Extension	67,700			
Greene County Health Care, Incorporated	153,416			
Greene County Public Schools	186,252			
Kinston Community Health Center, Incorporated	85,489			
Lenoir Community College			20,145	
Lenoir County Cooperative Extension	110,075			
Lenoir County Public Schools	35,538			
Lenoir County Transportation Department	7,850			
Little Peoples	28,481			
Neuse Regional Library	39,400	(398)		
Various Day Care Providers	71,832	(2,899)	4,738	
	\$ 837,827	\$ (3,297)	\$ 24,883	\$ 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, 2002***

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Child Care Services Association - WAGES Program	115,792		\$ 115,792
Lenoir/Greene Counties Departments of Social Services *	929,127		\$ 929,127
National Society to Prevent Blindness - North Carolina Affiliate		38,043	\$ 38,043
	\$ 1,044,919	\$ 38,043	\$ 1,082,962
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations			
The information on this schedule provides a listing of service provider contracts entered into by either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards			

Lenoir/Greene County Partnership for Children
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2002

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	6002	\$ 64,541	\$ 65,714
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	(5,544)	8,085
Early Childhood Initiatives Program (Prior Year)		1-01-2-09-001	(10,809)	184
Early Childhood Initiatives Program (Current Year)	*	1-12-2-09-001	1,466,573	1,448,427
Multi-County Accounting and Contracting Grant		N/A	24,000	24,000
Buddy Hubs Project		N/A	1,150	
Pass-through from the Greene County Division of Social Services				
Day Care Subsidy Program Administration		N/A	40,305	60,000
Total State Awards			<u>1,515,675</u>	<u>1,540,696</u>
Total Federal and State Awards			<u>\$ 1,580,216</u>	<u>\$ 1,606,410</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

***Lenoir/Greene County Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 13,365
In-Kind Goods and Services	12,393
	<u>\$ 25,758</u>

Match Provided at the Contractor Level:

Cash	\$ 197,376
In-Kind Goods and Services	101,536
	<u>\$ 298,912</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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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 STATEMENTS 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, 2002, and have issued our report thereon dated September 23, 2002. 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

2. 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 internal control over financial reporting. However, we noted certain matters involving the

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

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. Contract/Grant Management
3. Control Environment

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, 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

September 23, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. CONTRACT/GRANT MANAGEMENT

During prior year audits, we identified deficiencies in the Lenoir/Greene Partnership's contract management system. Those deficiencies included the processing of contract payments without formal contract documents, proper authorization, and/or adequate supporting documentation. In addition, we have noted inconsistencies in the documentation of the Partnership's monitoring functions.

This finding is unresolved. We continued to note deficiencies in the Partnership's contracting processes including:

- We identified one activity for \$20,144 that was processed without a contract agreement. In addition, we noted that agreements used to process other grant activities totaling \$168,687 were deficient in that the documents did not identify a grant period, grant amount, and were authorized by non-management personnel.
- The methodology used to calculate the disbursements made for the quality enhancement bonus program was not well defined and consistently applied resulting in inaccurate payments.
- Limited documentation was maintained by the Partnership to support monitoring activities and compliance with established criteria for in-house grant activities.

Recommendation: We recommend that the Lenoir/Greene Partnership take immediate actions to address the deficiencies noted with its contracting activities. Formal documents should support all contractual arrangements, be designed to identify necessary contract terms, and authorized at appropriate levels of management. Adequate documentation should be maintained to support contract payment and monitoring activities. The Partnership should work with its oversight entity, the North Carolina Partnership for Children, Inc., in implementing the changes to its contract management and monitoring systems.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Partnership's Response:

- The \$20,144 expense was to fund an educational endowment at the Lenoir Community College (LCC). We accepted the funding authorization agreement used by LCC to process the payment. Program income was the funding source used for the endowment.
- The \$168,687 contracts were lacking a beginning and ending date, which has been corrected. The Program Director signed the contracts, a practice used for the past three years. This practice has been changed.
- The methodology used to calculate the \$168,687 contracts disbursements was corrected before the end of last fiscal year (May). Fiscal staff of the North Carolina Partnership for Children (NCPC) assisted with the development of the revised methodology.
- The evaluation coordinator did not monitor the quality enhancement grants to individual provider level. Monitoring of these grants was the responsibility of the quality enhancement staff working with the providers. The Evaluation Coordinator will be responsible for monitoring all Partnership grants and maintaining adequate documentation.

Partnership staff attended NCPC Contract and Grant Management training in October 2002. The information obtained at this training is being utilized to develop policies and procedures to correct the above deficiencies. We are now in a better position to determine when a transaction requires a contract, with appropriate documentation and monitoring requirements.

2. COMPETITIVE BIDDING

We reported in previous years that the Lenoir/Greene Partnership was not in compliance with the competitive bidding requirements.

This finding is unresolved. We continue to note instances where bidding documentation was not available or inadequate to support the selection or acceptance criteria.

Recommendation: We recommend that the Partnership document its compliance with the legislatively mandated bid requirements.

Partnership's Response:

- Contracts for building maintenance and computer/technology services did not have the proper documentation of the required three verbal quotes. Also, the bidding documentation for purchases involving quality enhancement equipment for participating facilities lacked proper detail. Staff is now compiling a list of all

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

possible equipment and supply purchases. We will then obtain written bids from appropriate vendors on each item. All vendors' quotes will be maintained on file to support the purchase. We have followed the established bidding guidelines. However, the issue related to this finding is that we did not have adequate documentation to support the process. In the future all invoices and purchase orders presented for payment will be processed only with the proper documentation. This documentation will be kept in the same file for audit review.

3. CONTROL ENVIRONMENT

We previously reported a control environment deficiency related to the development, approval, and implementation of financial policies and procedures for the operations of the Lenoir/Greene Partnership.

This finding is unresolved. We noted during the current audit period that the financial policies and procedures need further refinement and implementation. Audit issues result from deficiencies noted with or the lack of adherence to policies by Partnership management and staff. Also, the Board has not effectively addressed the resolution of prior audit deficiencies.

The control environment sets the tone of an organization, influencing the control consciousness of its people. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control.

Recommendation: We recommend that the Lenoir/Greene Partnership place immediate emphasis on addressing the above issues. The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations. Comprehensive policies and procedures are essential to provide direction to the staff and ensure an adequate system of internal control is established. In addition, the Board should address prior audit deficiencies that continue to be reported. This demonstrates its accountability for the Partnership's actions and its intentions to provide necessary oversight for the Partnership's operations.

Partnership's Response: The board and partnership staff is committed to resolving the Partnership control environment deficiencies. As a result the board and staff is taking the following actions:

- At the July 2002, Board meeting an accounting policy and procedure manual was presented. However, due to a lack of quorum, this action was not official.
- The Partnership will follow these on an interim basis.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- The Lenoir/Greene Partnership for Children is working with the North Carolina Partnership for Children through its Partnership Improvement Plan. On-site technical assistance will be available for further development and refining of existing policies. NCPC will be conducting two trainings in December 2002, Contracts Management and Grants Management/Contract and Activity Monitoring. Appropriate Partnership staff will participate in this training.
- The Partnership is currently conducting a review of administrative and service staff responsibilities, revising responsibilities to insure compliance with all requirements.
- The Board of Directors will also conduct a review of its responsibilities and implement changes necessary to insure proper oversight of the Partnership operations.

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December 23, 2002

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