



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

### PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.

DALLAS, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF  
PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.**

**DALLAS, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**ROBERT TULL, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**SHERRY BROWNING, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Partnership For Children Of Lincoln/Gaston Counties, Inc.

This report presents the results of our financial statement audit of the Partnership For Children Of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Lincoln/Gaston Partnership is one of these local partnerships. As such, the Lincoln/Gaston Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 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** – To 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)

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2. **Objective** – To present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - The following instances of noncompliance were detected:

**Finding**

2. Competitive Bidding
4. Questioned Costs – Playground Activity
5. Questioned Costs – Journey to the Stars Activity

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.

3. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lincoln/Gaston 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 Management and Monitoring
3. Policies and Procedures
4. Questioned Cost – Playground Activity
5. Questioned Costs – Journey to the Stars Activity

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**

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Board of Directors  
Partnership For Children Of Lincoln/Gaston Counties, Inc.  
Dallas, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Partnership For Children Of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston 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 Lincoln/Gaston 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 Partnership For Children Of Lincoln/Gaston Counties, Inc. 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 May 22, 2003 on our consideration of the Lincoln/Gaston Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Partnership For Children Of Lincoln/Gaston Counties, Inc. 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

May 22, 2003

**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**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		
<b>Receipts:</b>				
State Awards (less refunds of \$101,749)	\$ 2,749,579	\$ 24,000	\$ 0	\$ 2,773,579
Private Contributions		24,187	842	25,029
Interest and Investment Earnings		6,693		6,693
Sales Tax Refunds		50,654		50,654
<b>Total Receipts</b>	<b>2,749,579</b>	<b>105,534</b>	<b>842</b>	<b>2,855,955</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	1,836,583	7,728		1,844,311
Child Care and Education Accessibility and Availability	143,966			143,966
Health and Safety	114,978	5,555		120,533
Family Support	195,246	24,158		219,404
Support:				
Management and General	388,091	24,112		412,203
Program Coordination	159,083			159,083
Other:				
Sales Tax Paid		21,125		21,125
Refund of Prior Year Grant		2,079		2,079
<b>Total Expenditures</b>	<b>2,837,947</b>	<b>84,757</b>		<b>2,922,704</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(88,368)</b>	<b>20,777</b>	<b>842</b>	<b>(66,749)</b>
<b>Net Assets at Beginning of Year</b>	<b>98,589</b>	<b>(33,325)</b>	<b>9,963</b>	<b>75,227</b>
<b>Net Assets at End of Year</b>	<b>\$ 10,221</b>	<b>\$ (12,548)</b>	<b>\$ 10,805</b>	<b>\$ 8,478</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 3,324	\$ (13,913)	\$ 10,805	\$ 216
Refunds Due From Contractors	6,897	1,365		8,262
	<b>\$ 10,221</b>	<b>\$ (12,548)</b>	<b>\$ 10,805</b>	<b>\$ 8,478</b>

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



**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 1,836,583	5,010	215,672	9,283	11,172	3,715	1,018	1,590,713	
Child Care and Education Accessibility and Availability	\$ 143,966							143,966	
Health and Safety	\$ 114,978							114,978	
Family Support	\$ 195,246							195,246	
	<b>\$ 2,290,773</b>	<b>\$ 5,010</b>	<b>\$ 215,672</b>	<b>\$ 9,283</b>	<b>\$ 11,172</b>	<b>\$ 3,715</b>	<b>\$ 1,018</b>	<b>\$ 2,044,903</b>	<b>\$ 0</b>
<b>Support:</b>									
Management and General	\$ 388,091	302,310	14,610	10,514	36,390	20,934	3,333		
Program Coordination	\$ 159,083	92,689	8,916	21,543	21,508	9,478	1,070	3,879	
	<b>\$ 547,174</b>	<b>\$ 394,999</b>	<b>\$ 23,526</b>	<b>\$ 32,057</b>	<b>\$ 57,898</b>	<b>\$ 30,412</b>	<b>\$ 4,403</b>	<b>\$ 3,879</b>	<b>\$ 0</b>
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 2,837,947</b>	<b>\$ 400,009</b>	<b>\$ 239,198</b>	<b>\$ 41,340</b>	<b>\$ 69,070</b>	<b>\$ 34,127</b>	<b>\$ 5,421</b>	<b>\$ 2,048,782</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 7,728							7,728	
Health and Safety	\$ 5,555							5,555	
Family Support	\$ 24,158							24,158	
	<b>\$ 37,441</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 37,441</b>	<b>\$ 0</b>
<b>Support:</b>									
Management and General	\$ 24,112	\$ 0	\$ 21,340	\$ 218	\$ 760	\$ 1,669	\$ 0	\$ 0	\$ 125
<b>Other:</b>									
Sales Tax Paid	\$ 21,125			21,125					
Refund of Prior Year Grant	\$ 2,079					2,079			
	<b>\$ 23,204</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 21,125</b>	<b>\$ 0</b>	<b>\$ 2,079</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Total Other Funds Expenditures</b>	<b>\$ 84,757</b>	<b>\$ 0</b>	<b>\$ 21,340</b>	<b>\$ 21,343</b>	<b>\$ 760</b>	<b>\$ 3,748</b>	<b>\$ 0</b>	<b>\$ 37,441</b>	<b>\$ 125</b>

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

**PARTNERSHIP FOR CHILDREN OF LINCOLN/GASTON COUNTIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Partnership for Children of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) is a legally separate nonprofit organization incorporated on May 3, 1996. The Lincoln/Gaston Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lincoln/Gaston 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 Lincoln/Gaston 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 Lincoln/Gaston 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)

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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. 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 Lincoln/Gaston 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 Lincoln/Gaston Partnership to a concentration of credit risk. At June 30, 2002, the Lincoln/Gaston Partnership's bank deposits in excess of the FDIC insured limit was \$66,588.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Lincoln/Gaston 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 Lincoln/Gaston Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Lincoln/Gaston 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 Lincoln/Gaston Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS are presented on Schedule 2 accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Lincoln/Gaston Partnership was awarded \$2,851,714 under current year Smart Start contracts with NCPC and has received \$2,851,328 of this amount. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$9,973 of these contracts 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 Lincoln/Gaston Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lincoln/Gaston 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, quality enhancement grants for maintenance, child care resource and referral, and professional development.

**Child Care and Education Accessibility and Availability** - Used to account for service activities including inclusion support and increase child care availability.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Health and Safety** - Used to account for service activities including dental treatment and child care health consultants/outreach nurses.

**Family Support** - Used to account for service activities including family resource centers, parenting education and skills training, teen parent/child programs, and general family support.

### **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 record keeping, budgeting, and related purposes.

**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, property insurance, and maintenance) and communication costs (telephone) were allocated based on estimates of utilization.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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	\$ 1,020
2004	1,020
2005	1,020
2006	1,020
2007	<u>255</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 4,335</u></b>

Rental expense for all operating leases during the year was \$35,605.

### NOTE 7 - PENSION PLAN

**IRC Section 401(k) Plan**— The Lincoln/Gaston Partnership has an IRC Section 401(k) Plan. The cost of administering the Plan is shared by the Partnership and the participants. The administrative costs paid by the Partnership for the 2002 fiscal year was \$3,000. Administrative costs are paid by the participants from the participants' individual accounts. Employees may make voluntary contributions to the Plan. The Partnership makes a matching contribution up to 2% of the employees' contribution. In addition, the Partnership makes an employer base contribution of 4% of eligible employees' gross salary. This employer-based contribution occurs regardless to the amount of elective deferrals made by the employees. For the year ended June 30, 2002, the Lincoln/Gaston Partnership contributed \$17,455, including both the employer base and match contribution. The voluntary contributions by employees amounted to \$9,501.

### NOTE 8 - COMMITMENTS AND CONTINGENCIES

**Commitments on Contracts** - The Lincoln/Gaston Partnership had outstanding commitments of \$45,174 on cost-reimbursement contracts and service and maintenance agreements that had not been paid at June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 9 - RESTRICTIONS ON NET ASSETS

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

<u>Purpose</u>	<u>Amount</u>
Welcome Baby Project	\$ 9,500
Lincoln and Gaston Counties Child Care	413
Child Care Quality Assessment Pilot Project	50
Sunrise Community Family Resource Center	<u>842</u>
	<u>\$ 10,805</u>

**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**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
Alliance for Children & Youth	*	104,280	(845)	
Carolina Kid's Club, Inc.	*	11,058		
Cline Learning Center		27,457		
Community Empowerment Center		20,233		
Expressions in Learning		11,450		
First Baptist Children's Ministries		13,980		
Friendship Baptist Church Child Development Center		31,592		
Gaston College Child Care		11,843		
Gaston County Cooperative Extension	*	43,300	(232)	
Gaston Family Health Services, Inc.	*	68,551	(57)	5,555
Kinder Care Learning Center		10,286		
Lincoln County DSS	*	937,286	(1,542)	
Lincoln County Health Department	*	50,706	(4,221)	
Mini-Academy at Denver		19,640		
Ms. Ern's Child Care Center	*	11,250		
Pathways, Inc.	*	90,028		
The Kid's Place		14,033		
Tiny Tot Child Development Center		24,307		
Community In Schools			24,158	
Child Care Services Association			7,885	(1,365)
Various Day Cares - Quality Enhancement		165,861	93	
Various Day Cares - Bonuses		135,153		
Various Day Cares - Program Coordination		3,879		
		<b>\$ 1,806,173</b>	<b>\$ (6,897)</b>	<b>\$ 37,691</b>
				<b>\$ (1,365)</b>
<b>Individuals:</b>				
Various Individuals - Bonuses		76,465		
Various Individuals - Enrichment Program		48,201		
Various Individuals - IPDP		124,840		1,115
		<b>\$ 249,506</b>	<b>\$ 0</b>	<b>\$ 1,115</b>
				<b>\$ 0</b>
		<b>\$ 2,055,679</b>	<b>\$ (6,897)</b>	<b>\$ 38,806</b>
				<b>\$ (1,365)</b>
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				



**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**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	287,085		\$ 287,085
Lincoln/Gaston Counties Departments of Social Services	1,315,303		\$ 1,315,303
	<b>\$ 1,602,388</b>	<b>\$ 0</b>	<b>\$ 1,602,388</b>
* 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			

**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**Schedule of State Awards - Regulatory Basis**  
**For the Year Ended June 30, 2002** **Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
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	\$ (101,749)	\$ 0
Early Childhood Initiatives Program (Current Year)	* 1-12-5-1-001	2,811,863	2,798,482
Early Childhood Initiatives Program (Encumbrance)	* 1-12-5-16-001E	39,465	39,465
Multi-County Accounting and Contracting Grant	N/A	24,000	23,993
<b>Total State Awards</b>		<b>\$ 2,773,579</b>	<b>\$ 2,861,940</b>

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

**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**Schedule of Property and Equipment**  
**For the Year Ended June 30, 2002**

*Schedule 4*

Furniture and Non-Computer Equipment	\$ 43,916
Computer Equipment/Printers	28,625
Total Property and Equipment	<u>\$ 72,541</u>
<p>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 of purchase.</p>	

**Partnership for Children of Lincoln/Gaston Counties, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2002**

**Schedule 5**

*Match Provided at the Partnership Level:*

Cash	\$ 33,538
In-Kind Goods and Services	66,198
	<u>\$ 99,736</u>

*Match Provided at the Contractor Level:*

Cash	\$ 540,434
In-Kind Goods and Services	93,552
	<u>\$ 633,986</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.  
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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**

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Board of Directors  
Partnership For Children Of Lincoln/Gaston Counties, Inc.  
Dallas, North Carolina

We have audited the financial statements of the Partnership For Children Of Lincoln/Gaston Counties, Inc. (Lincoln/Gaston Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 22, 2003. 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 Lincoln/Gaston 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Finding**

2. Competitive Bidding
4. Questioned Costs – Playground Activity
5. Questioned Costs – Journey to the Stars Activity

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln/Gaston 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

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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 Lincoln/Gaston 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 Management and Monitoring
3. Policies and Procedures
4. Questioned Costs – Playground Activity
5. Questioned Costs – Journey to the Stars Activity

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

May 22, 2003

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

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

#### 1. CONTRACT MANAGEMENT AND MONITORING

We identified weaknesses in the Lincoln/Gaston Partnership's contract management and monitoring activities. Issues noted during our testwork included:

- The Partnership did not have approved contract management and monitoring procedures for the fiscal year.
- Payments were made to direct service providers before contracts were signed. In addition, we identified payments that were processed without grant applications/agreements, payments of \$39,482 outside of established contract periods, and overpayments to recipients based on approved grant awards.
- Funds were not allocated in accordance with established funding specifications. Documentation was not available to support changes to established program criteria.
- Documentation to support eligibility of payments was insufficient, unavailable, or obtained after payments were made by the Partnership.

*Recommendation:* We recommend that the Lincoln/Gaston Partnership develop written contract management and monitoring policies and procedures. Written agreements and amendments should support all grant activities and payments should be in accordance with established terms. Documentation should be maintained to support changes to program criteria, verification of recipient eligibility, and programmatic results.

*Partnership's Response:*

- The Board of Directors of the Partnership for Children of Lincoln and Gaston Counties began the difficult process of reworking its monitoring policy in June 2001 and it was approved by the Board on June 21, 2002. The Partnership will review this policy with the North Carolina Partnership for Children (NCPC) to determine if it meets the standards of the State Auditor's office for contract management and monitoring.
- In some instances, checks to service providers were requested from the Multi-site Accounting Center (MAC) before contracts were signed in an effort to have checks ready for service providers at their contract signing. The checks were



## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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requested but not distributed until the contracts were signed. To correct this, the Partnership will not request checks until contracts are signed and all eligibility documents are on file.

At the end of the previous fiscal year (2000-01), the Partnership had backorders from vendors for child care materials of \$39,482. NCPC and the NC Division of Child Development (DCD) approved an encumbrance that enabled the Partnership to pay for these items in fiscal year 2001-02. The Partnership now understands it should have issued new contracts to the child care providers that received the materials because they received the backordered materials in a new fiscal year.

- The Partnership operated with the understanding that it had the flexibility to adapt activity proposals while adhering to the specifications that were in the contract with NCPC. The Partnership used practices that best achieved the goals of activities for the eligible participants, and, as a result of these changes, the State Auditor has found that the Partnership did not operate consistently with all language in the original full activity proposals. All payments were made only to eligible recipients and consistent with a system of payment. In the future, the Partnership will adhere to full activity proposals unless there is documentation to support changes made in conjunction with NCPC. Documentation will be maintained to verify compliance with activity proposals.

### 2. COMPETITIVE BIDDING

We noted that the Lincoln/Gaston Partnership did not have adequate documentation to support its compliance with the competitive bidding requirements as specified in the general statutes.

*Recommendation:* We recommend that the Lincoln/Gaston Partnership implement procedures to ensure documentation is maintained to support the competitive bidding process.

*Partnership's Response:* The Partnership has followed recommendations of auditors and has bid for technical assistance contractors for fiscal year 2003-04 without specifying a maximum price. All items and services purchased by the Partnership have been reviewed for bidding thresholds and, where needed, here been bid out. In the case of child care provider materials, the Partnership has been offered the state contract price by three vendors and the Partnership will depend on the bidding process of the State of North Carolina to provide the best price by using those vendors. The Partnership will continue its fair and well-documented process of bidding out for activity service providers and will document compliance with bidding rules in other areas.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### 3. POLICIES AND PROCEDURES

We found that the Lincoln/Gaston Partnership's financial accounting policies and procedures did not sufficiently address the organization's needs. Inadequacies of the policies and procedures contributed to the following deficiencies:

- Errors were noted with the authorizing and processing functions of the Partnership. Documented approvals were not found for payment of contractual services. In addition, we identified payments for services prior to contracts being signed. Evidence to support contractual requirements and services rendered was incomplete or unavailable. Documentation was not consistently maintained to support the journal entry process.
- The cash receipting process was not well defined or consistently performed.
- The Partnership's fixed asset inventory was not current and properly documented.

Written policies and procedures provide the direction to ensure accounting data is accurate and reliable, assets are safeguarded, and that operational efficiencies and adherence to managerial policies are promoted and documented.

*Recommendation:* We recommend that the Lincoln/Gaston Partnership obtain guidance from the North Carolina Partnership in updating and implementing effective accounting policies and procedures.

*Partnership's Response:*

- It is the practice of the Partnership for the Executive Director to sign all purchase orders or Recurring Invoice/Payment Requests (RIPR's), to initial or sign all invoices or bills, and then later to sign the checks for all purchases and recurring expenditures. The auditors have identified several invoices that did not have the Executive Director signature; however, the purchase orders or RIPR's and the checks for these expenses were signed by the Executive Director. This was an honest mistake and signatures were missing on less than 0.1% of expenditures. The staff will improve vigilance to assure that all necessary signatures are obtained.

As stated previously, checks will not be requested until contracts are signed and eligibility documentation is in place. (The practice of "holding checks" until criteria are met will not be used.) Documentation to support requirements of the full activity proposal will be collected in a timely manner and maintained. The Partnership will abide by original activity proposals unless formally amended by the funding source and will maintain documentation to demonstrate compliance.

- All journal entries have an explanation written beside them and have a separate document showing the changes made, the reason, the preparer of the entry, and an approval signature. The usual reason for journal entries is to correct an item that

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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has been coded to the wrong account. At the recommendation of the auditors, the Partnership will copy the documentation (such as documents that are filed with the original purchase order) and attach them to the journal entry documents to further justify the journal entries.

- The Partnership for Children of Lincoln and Gaston Counties will continue to record all cash receipts on a cash receipts log and deposit them promptly, but will follow the recommendation of the auditors to add more separation of duties by using four different people to carry out the functions of: 1. receiving cash/checks and logging in, 2. deposit slip creation, 3. receipt acknowledgement and deposit approval, and 4. making of the deposit. It is understood that the same person will always carry out a particular step. Designated substitutes will be named so that the process can be carried when the regular employee responsible for a step is absent from the office. After the MAC site reconciles the cash receipts log to the bank statement, the Executive Director will give final approval of the bank reconciliation and reconcile it to the cash log. It should be noted that the majority of funds (approximately 95%) are deposited by the source electronically.
- The Partnership will continue to perform an annual inventory of assets and will expand that inventory to state the location of items. There were no items missing; however, there were some unrecorded changes to locations, serial numbers and tagging due to repairs and reconfiguring of computer equipment by repair persons. Additional attention will be given to locations, serial numbers, and tagging.

The Partnership for Children of Lincoln and Gaston Counties will review its written accounting policies and procedures with the North Carolina Partnership for Children and make changes as needed.

#### 4. QUESTIONED COSTS - PLAYGROUND ACTIVITY

The Lincoln/Gaston Partnership contracted with a Direct Service Provider (DSP) for a playground project totaling \$550,000 that was to be completed during the 2001 fiscal year. All funds were disbursed by the Partnership to the DSP by June 30, 2001. Our review of the Partnership's records determined that all playground activities were not completed by the June 30, 2001 deadline. We identified payments totaling \$212,774 by the DSP that were disbursed in the 2002 fiscal year. Legislation enacted for the 2002 fiscal year prohibits local partnerships from using State funds for playground equipment expenditures.

The DSP represented to the Partnership that all funds for the playground activity were disbursed by June 30, 2001. Upon review of the DSP's audit report, it was noted that cash was on hand specifically for the completion of this activity. Further review of the

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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DSP's cancelled checks and bank statements indicated that while checks may have been written by June 30, 2001, they were held and payments continued until April 2002 for the completion of the playground project.

It appears that the Partnership failed to adequately monitor the status of the playground activity. In addition, it failed to follow proper encumbrance procedures in obtaining approval to extend the completion phase of this particular activity. We were unable to determine if actual contractual obligations existed at June 30, 2001 to support the continuance of the activity. As such, these payments do not appear to be made within the grant period for which the funds were approved for disbursement and these costs are considered questioned.

*Recommendation:* We recommend that the Lincoln/Gaston Partnership enhance its grant monitoring procedures to ensure that activities are completed within the defined contract period or appropriate steps are taken to authorize project changes. In addition, the Partnership should consult with the North Carolina Partnership for Children, Inc. to resolve the issue of questioned costs.

*Partnership's Response:* All funds spend to remove hazards and improve the safety of young children on learning oriented playgrounds were spent consistent with goals of the projects and all playgrounds paid for by the Partnership for Children of Lincoln & Gaston Counties were installed and approved by a certified playground consultant at eligible sites. It was the Partnership's goal to fully comply with the law and complete all playgrounds by the end of the fiscal year. The Direct Service Provider (DSP) agreed to complete playgrounds by June 30, 2001 and reported them complete. However, the contractor responsible for monitoring did not report that playgrounds were incomplete. After the close of the fiscal year, the Partnership monitored services that were to be completed in the last two months of the year and identified playgrounds that were not completed. The Partnership then exerted great effort to assure that playgrounds that had been paid for were completed. Currently, the Partnership has no contracts with the DSP responsible for this activity and does not have a playground activity. In addition, the Partnership no longer contracts with the organization responsible for monitoring and evaluation of Partnership activities in the fiscal year when this questioned cost occurred. The Partnership understands its responsibility to ensure that activities are completed in the fiscal year for which they are contracted and to follow any legislative restrictions. Per the recommendation of the State Auditors, the Partnership will consult with NCPC to resolve this issue.

### 5. QUESTIONED COST - JOURNEY TO THE STARS ACTIVITY

The Lincoln/Gaston Partnership funded a Direct Service Provider \$803,167 to administer the Journey to the Stars activity during the fiscal year. Payments were made to various participating daycares based upon enrollment numbers of subsidized and non-subsidized children. The approved project criteria stated that the first monthly payments were to be

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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based upon an average enrollment from the previous three months and that all subsequent payments were to be based upon actual enrollment figures. Monthly attendance forms were to be submitted to substantiate attendance of children.

We determined that monthly attendance forms were not submitted as per the criteria. Payments were made upon estimates or the average of the initial payment. The Partnership does not have actual enrollment documentation to substantiate the payments for the months of August 2001 through June 2002. During the audit process, recalculations from limited documentation available determined that overpayments resulted from the Partnership's payment methodology and the error rate was approximately 10 percent. The total amount of overpayments could not be determined; however, that amount, based on the 10 percent error rate, would be a maximum of \$80,317 and would be considered questioned costs.

*Recommendation:* We recommend that the Lincoln/Gaston Partnership enhance its grant procedures to ensure payments are in accordance with established criteria and adequate documentation is obtained to support payments. In addition, the Partnership should consult with the North Carolina Partnership for Children, Inc. to resolve the issue of questioned costs.

*Partnership's Response:* The Journey to the Stars activity was operated consistent with its purposes and it funded only eligible child care providers to help sustain quality in the highest quality child care programs in Lincoln and Gaston Counties. The contract with NCPC contains only a brief description of the activity. The program was changed from its original detailed activity proposal (not found in the contract) because the changes better enabled the local Partnership to achieve the goals of the activity and because the local partnership believed it had the authority to do so. The Partnership operated the program consistent with Partnership guidelines. All payments were made only to participants deemed eligible in the original proposal. Following the on-site visit of the auditors in May 2003, the Partnership immediately changed its methods for this activity to be consistent with auditor interpretations of the original detailed activity proposal. The Partnership will continue to operate consistent with the approved proposal while collecting and maintaining documentation. Per the recommendation of the State Auditors, the Partnership will consult with NCPC to resolve this issue.

## DISTRIBUTION OF AUDIT REPORT

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In accordance with General Statutes 147-64.5 and 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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors
	North Carolina Partnership for Children, Inc.
	Executive Director
	North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

### LEGISLATIVE BRANCH

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Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

September 2, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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