



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.

BURGAW, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF  
PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.**

**BURGAW, NORTH CAROLINA**

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

**BOARD OF DIRECTORS**

**DENNIS KINZER, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**SANDRA MILLER, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

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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, Pender County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Pender County Partnership for Children, Inc. (Pender Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of General Statutes.

The accounts and operations of the Pender 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 Pender 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 Pender Partnership is one of these local partnerships. As such, the Pender 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)

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

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

**Finding**

2. Competitive Bidding
3. Prohibited Disbursements
4. Noncompliance with Contract Provisions

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** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Pender 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. Control Environment
3. Prohibited Disbursements
4. Noncompliance with Contract Provisions
5. Authorizing and Processing Transactions
6. Questionable Actions by the Former Executive Director

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.

In addition, a separate report has been issued by the Office of State Auditor related to an investigation of the activities of the Partnership's former Executive Director.

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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2 S. Salisbury Street  
20601 Mail Service Center  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Pender County Partnership for Children, Inc.  
Burgaw, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Pender County Partnership for Children, Inc. (Pender 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 Pender 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 Pender County Partnership for Children, 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 September 4, 2002 on our consideration of the Pender 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)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Pender County Partnership for Children, 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

September 4, 2002

**Pender County Partnership for Children, 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 \$17,267)	\$ 678,823	\$ 12,000	\$ 0	\$ 690,823
Interest and Investment Earnings		274		274
Sales Tax Refunds		12,702		12,702
Other Receipts		40		40
<b>Total Receipts</b>	<b>678,823</b>	<b>25,016</b>		<b>703,839</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		9,354	(9,354)	
	678,823	34,370	(9,354)	703,839
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	173,063	30,674		203,737
Child Care and Education Affordability	154,915			154,915
Health and Safety	135,328			135,328
Support:				
Management and General	149,089	13,379		162,468
Program Evaluation	45,988	948		46,936
Other:				
Sales Tax Paid		2,576		2,576
Refund of Prior Year Grant		9,354		9,354
<b>Total Expenditures</b>	<b>658,383</b>	<b>56,931</b>		<b>715,314</b>
<b>Excess of Receipts Over Expenditures</b>	<b>20,440</b>	<b>(22,561)</b>	<b>(9,354)</b>	<b>(11,475)</b>
<b>Net Assets at Beginning of Year</b>	<b>18,082</b>	<b>(9,936)</b>	<b>9,354</b>	<b>17,500</b>
<b>Net Assets at End of Year</b>	<b>\$ 38,522</b>	<b>\$ (32,497)</b>	<b>\$ 0</b>	<b>\$ 6,025</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 38,437	\$ (32,497)	\$	\$ 5,940
Refunds Due From Contractors	85			85
	<b>\$ 38,522</b>	<b>\$ (32,497)</b>	<b>\$ 0</b>	<b>\$ 6,025</b>

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

*Pender County Partnership for Children, 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	\$ 173,063	27,718	243	12,197	9,355	1,738	7,317	114,495	
Child Care and Education Affordability	\$ 154,915							154,915	
Health and Safety	\$ 135,328							135,328	
	\$ 463,306	\$ 27,718	\$ 243	\$ 12,197	\$ 9,355	\$ 1,738	\$ 7,317	\$ 404,738	\$ 0
<b>Support:</b>									
Management and General	\$ 149,089	101,943	3,718	4,321	23,404	14,013	1,690		
Program Evaluation	\$ 45,988	30,110	1,944	2,434	4,457	3,945	3,098		
	\$ 195,077	\$ 132,053	\$ 5,662	\$ 6,755	\$ 27,861	\$ 17,958	\$ 4,788	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 658,383</b>	<b>\$ 159,771</b>	<b>\$ 5,905</b>	<b>\$ 18,952</b>	<b>\$ 37,216</b>	<b>\$ 19,696</b>	<b>\$ 12,105</b>	<b>\$ 404,738</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 30,674	\$ 23,204	\$ 704	\$ 1,005	\$ 3,702	\$ 2,059	\$ 0	\$ 0	\$ 0
<b>Support:</b>									
Management and General	\$ 13,379	4,960	7,365	747	52	255			
Program Evaluation	\$ 948	948							
	\$ 14,327	\$ 5,908	\$ 7,365	\$ 747	\$ 52	\$ 255	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,576			2,576					
Refund of Prior Year Grant	\$ 9,354					9,354			
	\$ 11,930	\$ 0	\$ 0	\$ 2,576	\$ 0	\$ 9,354	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 56,931</b>	<b>\$ 29,112</b>	<b>\$ 8,069</b>	<b>\$ 4,328</b>	<b>\$ 3,754</b>	<b>\$ 11,668</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

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

**PENDER COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Pender County Partnership for Children, Inc. (Pender Partnership) is a legally separate nonprofit organization incorporated on December 17, 1998. The Pender Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Pender 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 Pender 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.

The Pender Partnership did not have any temporarily or 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.

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

**E. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of cash on deposit with private bank accounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**F. 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.

**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 Pender 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 Pender Partnership to a concentration of credit risk.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Pender 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 Pender 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 is presented on Schedule 2 accompanying the financial statements.

The Pender Partnership was awarded and has received \$696,090 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 \$26,609 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 4 - RELATED PARTY TRANSACTIONS

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Pender Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Pender 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.
- B. Other Related Parties** - The Pender Partnership entered into transactions for contracted services with a private business associated with a relative of an employee of the Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Cleaning Services	\$ 3,300
Lawn Maintenance	<u>690</u>
	<u>\$ 3,990</u>

### 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, or curriculum enhancements.

**Child Care and Education Affordability** - Used to account for service activities associated with public pre-K classes.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**C. Allocation of Joint Costs**

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Allocated based on estimated time spent by employee time reports.

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

**NOTE 6 - RESTRICTIONS ON NET ASSETS**

**Net Assets Released From Donor Restrictions** – Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Food Lion – Dental Program	\$ 9,354

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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### **NOTE 7 - COMPLIANCE AND ACCOUNTABILITY**

The deficit net assets balance in the Unrestricted Other Funds at June 30, 2002 resulted, in a large part, from the Pender Partnership incurring costs that were deemed to be unallowable by the North Carolina Partnership for Children, Inc. (NCPC). The unallowable expenditures, originally recorded in the Unrestricted Smart Start Fund, were reclassified to the Unrestricted Other Funds column because NCPC required the Pender Partnership to repay the unallowable cost with private contributions and grants. The Pender Partnership continues to work with NCPC towards the resolution of these costs.

*Pender County Partnership for Children, 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
Pender County Health Department	*	104,928		
Pender County Public Library	*	82,020		
Pender County Public Schools	*	155,000	(85)	
Pender Memorial Hospital		30,000		
Various Daycare Providers		32,875		
		<b>\$ 404,823</b>	<b>\$ (85)</b>	<b>\$ 0 \$ 0</b>

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

***Pender County Partnership for Children, 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	6,749		\$ 6,749
Pender County Department of Social Services	246,028		\$ 246,028
	<b>\$ 252,777</b>	<b>\$ 0</b>	<b>\$ 252,777</b>
<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 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</p>			

***Pender County Partnership for Children, 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)	#1-01-5-23-001	\$ (17,267)	\$ (1,045)
Early Childhood Initiatives Program (Current Year)	* #1-12-5-23-001	696,090	659,428
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 690,823</b>	<b>\$ 670,383</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

***Pender County Partnership for Children, Inc.***  
***Schedule of Property and Equipment***  
***For the Year Ended June 30, 2002***

***Schedule 4***

Furniture and Non-Computer Equipment		\$	37,079
Computer Equipment/Printers			22,458
Leasehold Improvements			42,533
Motor Vehicles			2,825
Total Property and Equipment		\$	<u>104,895</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>			

***Pender County Partnership for Children, Inc.  
 Schedule of Qualifying Match (Non-GAAP)  
 For the Year Ended June 30, 2002***

***Schedule 5***

***Match Provided at the Contractor Level:***

Cash	\$ 76,472
In-Kind Goods and Services	38,427
	<u>\$ 114,899</u>

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



Ralph Campbell, Jr.  
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**

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Board of Directors  
Pender County Partnership for Children, Inc.  
Burgaw, North Carolina

We have audited the financial statements of the Pender County Partnership for Children, Inc. (Pender Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated September 4, 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 Pender 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
3. Prohibited Disbursements
4. Noncompliance with Contract Provisions

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pender Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the

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

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internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Pender 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. Control Environment
3. Prohibited Disbursements
4. Noncompliance with Contract Provisions
5. Authorizing and Processing Transactions
6. Questionable Actions by the Former Executive Director

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 4, 2002

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **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 audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

#### 1. CONTROL ENVIRONMENT

We previously reported deficiencies in the Pender Partnership's control environment. 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. Previously reported control environment deficiencies include the Board's failure to meet established quorum requirements, inadequate policies and procedures for the operations of the Partnership, and inadequate segregation of duties for cash receipting functions.

*This finding is unresolved.* During the course of the audit, it became evident that many Board members were unaware of the actions of the former Executive Director or of the management concerns expressed by the Partnership's state level funding organization, the North Carolina Partnership for Children, Inc. The Pender Partnership Board consisted of 24 members during the year under audit; however, generally eight to ten members were in attendance at monthly meetings. Although that equates to 33% representation, it is apparent that many of the mandated representatives were not attending and providing necessary oversight for the Partnership.

The policies and procedures, both financial and personnel, are not adequate for the operations of the Pender Partnership. Discussions with Partnership staff indicated that they were unaware of the existence of the accounting policy manual. This contributed directly to a lack of adherence to policies by Partnership management and staff resulting in many of the issues that follow.

Segregation of duties issues continued throughout the year as the former Executive Director performed incompatible functions such as preparing and approving journal entries, requesting and authorizing purchase orders, and processing selected receipt and disbursement transactions solely.

The Board has not effectively addressed the resolution of prior audit deficiencies.

*Recommendation:* We recommend that the Pender 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

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

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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. Segregation of incompatible functions is generally addressed in the development of financial and personnel procedures. By addressing prior audit deficiencies, the Board 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 is committed to resolving the Partnership control environment deficiencies. As a result the Board has undertaken the following actions:

- The Partnership is participating in the NCPC Performance Improvement Plan, which provides intensive training and technical assistance.
- Ensuring the Board is well informed and receives pertinent information to make informed choices.
- Established a Board Development/Nomination Committee. This committee's focus is to recruit new members and to encourage current members to participate in Board meetings in order to strengthen oversight of the Partnership.
- Established a Financial Committee. This committee's focus is to develop new accounting policies and procedures conducive to the Partnership's needs. NCPC is offering guidance for developing financial policies and procedures. The new policies and procedures will ensure that applicable laws and regulations are being followed and provides for adequate segregation of duties.
- Established a Personnel Committee. The committee's focus is to develop new personnel policies and procedures conducive to the Partnership needs.

### 2. COMPETITIVE BIDDING

During the previous audit, we noted that the Pender Partnership did not have adequate documentation to support its compliance with competitive bidding requirements as specified in the general statutes.

*This finding is unresolved.* We continued to note instances where the Pender Partnership either failed to bid or documentation to support the bidding process was not available.

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

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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*Partnership's Response:* The Partnership has placed immediate emphasis on addressing this issue. The Partnership staff has received training on this issue. The Partnership now follows the general statutes for competitive bidding and now has appropriate documentation to substantiate compliance with all competitive bidding requirements.

*Other 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.

### 3. PROHIBITED DISBURSEMENTS

The Pender Partnership disbursed state funds during the year for both playground equipment and capital expenditures. We noted costs totaling \$1,741 for playground related activities including landscaping, fencing, and the construction of a sandbox. We also noted where the Pender Partnership incurred costs totaling \$6,453 related to capital expenditures including the expansion of a room, renovations to a break room, and construction of a closet.

Legislation enacted for the 2002 fiscal year prohibits local partnerships from using state funds for the purchase of playground equipment. Legislation also prohibits the use of state funds for capital expenditures. The Pender Partnership made disbursements totaling \$8,194 for transactions prohibited by the general statutes.

*Recommendation:* The costs incurred by the Pender Partnership for playground equipment and capital expenditures are unallowable and should be refunded to its state level funding agency, the North Carolina Partnership for Children, Inc. In addition, the Pender Partnership should establish proper operating procedures to prevent future occurrences of noncompliance with finance-related laws, regulations, and contracts.

*Partnership's Response:* The Partnership will immediately develop and implement new policies and procedures that will ensure applicable laws and regulations are being followed. The Partnership will refund any unallowable expenditures to NCPC and will work with NCPC to determine a resolution for purchases outside the scope of Smart Start program.

### 4. NONCOMPLIANCE WITH CONTRACT PROVISIONS

Our review of activities by the Pender Partnership identified instances of noncompliance with its contract provisions with the North Carolina Partnership for Children, Inc. (NCPC).

- The Pender Partnership overspent its administrative budget by \$20,689. In addition, the Pender Partnership funded Child Care Resource & Referral (\$4,980) and Quality Enhancement (\$25,694) activities for a total of \$30,674 that were not a part of the

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

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strategic plan approved by the NCPC. The Smart Start contract states that funds provided by NCPC shall be used by the local partnership only for the purposes and activities specified in the contract. The Smart Start contract also states that activities will be performed in accordance with the approved budget.

- In reviewing the Pender Partnership's insurance coverage, we noted that the Partnership's worker's compensation insurance had been terminated by the carrier for non-timely payment. We also identified that insurance coverage for business property was inadequate as the limits were not at a level to protect against loss due to fire, theft, etc. The Smart Start contract states that local partnerships accept the obligation to furnish worker's compensation, fidelity insurance, liability insurance, and other insurance as may be required to protect the local partnership, NCPC, and the State of North Carolina.
- The Pender Partnership disbursed funds for activities that were outside the scope of the Smart Start Initiative. We identified purchases totaling \$2,067 for kindergarten and Headstart educational materials, activities that were not approved by the North Carolina Partnership for Children, Inc.
- We also noted that the Pender Partnership had not filed required reports with NCPC related to its CP&L grant funds. NCPC granted an extension for the final reporting of expenditures until June 30, 2002; however, no final report has been filed as of the date of the audit.

Each of the above items represents a failure by the Pender Partnership to comply with contract terms with its state level funding agency, the North Carolina Partnership for Children, Inc. The Child Care Resource & Referral activity was never an approved activity for the Pender Partnership. As such, costs totaling \$4,980 for this activity are unallowable. Costs totaling \$20,689 related to the over expenditure of administrative funds are considered to be questioned costs. NCPC subsequently approved the Quality Enhancement activity; however, the disbursement of funds occurred prior to this approval. Therefore, costs totaling \$25,694 are also considered to be questioned costs. In addition, purchases totaling \$2,067 for items outside the scope of the Smart Start program are considered to be unallowable.

*Recommendation:* The Pender Partnership should take appropriate action to address each of the above issues of noncompliance. The Partnership should consult with NCPC to resolve questioned costs related to the over expenditure of administrative funds and the expenditure of funds on non-approved activities. Adequate insurance coverage should be obtained immediately. A final report should be submitted for the CP&L grant. The Pender Partnership should establish internal procedures to ensure that all contract requirements are properly identified and adhered to by the Partnership.

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

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*Partnership's Response:* The Partnership will immediately develop and implement new policies and procedures that will ensure adherence to all contract requirements.

The Partnership has worked with NCPC to resolve the over expenditure of administrative funds. The Partnership is currently working with NCPC to resolve questioned costs of non-approved activities.

The Partnership will develop policies and procedures to ensure all required insurance is current and at an adequate level to provide the necessary protection. The Partnership has submitted the final report for the CP&L grant.

### 5. AUTHORIZING AND PROCESSING TRANSACTIONS

During the audit, we identified procedural weaknesses with the Pender Partnership's authorizing and processing of transactions. Issues noted:

- Inadequate approvals by both the former Executive Director and members of the Board were identified. We noted transactions where the former Executive Director was involved in preparing and approving invoices for payment. Evidence was not consistently available to support Board authorization for time or travel costs of the former Executive Director. Approvals for bank reconciliations, journal entries, and other accounting transactions were not consistently documented.
- Documentation to support accounting transactions was either inadequate or missing. We identified payments made without adequate supporting documentation, payments on faxes, missing timesheets, and missing journal entries (including contracts and maintenance agreement). Other instances were noted where the supporting documentation did not show the relationship between the costs incurred and the activity that was to be performed resulting in questioned costs totaling \$6,998.
- Deficiencies were noted in the processing of transactions. Errors were noted with account classifications resulting in audit adjustments. Costs were allocated across various program activities without an approved cost allocation plan. Processing procedures such as cancellation of invoices paid and verification of mathematical accuracy were not documented.
- Cash management issues were noted with both receipt and disbursement functions. We identified instances where funds were deposited two years after their receipt. In addition, we noted a refund for worker's compensation insurance that was maintained in the desk of the former Executive Director and not deposited until after June 30, 2002. Our review of disbursements noted that bills were consistently paid late, many times incurring financial penalties or the threat of service termination.

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

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*Recommendation:* As noted in Finding #1, financial policies and procedures provide direction to the staff for fiscal accountability. The implementation of effective policies and procedures, along with Board oversight, should address the authorization and processing requirements for financial accountability and the necessary documentation standards related to those processes.

*Partnership's Response:* The Partnership will immediately develop and implement new policies and procedures that provide for fiscal accountability for all accounting transactions. The Partnership has also undertaken the following actions:

- Developed new procedures to ensure that approved documents and approval for all accounting transactions are in place.
- Procedures are in place to ensure that the Board Chair now authorizes all time sheets and travel cost of Interim Executive Director.
- Ensure that appropriate documentation and approval is available for all accounting transactions.
- Ensured that adequate services contracts are in place for fiscal year 2002-2003.
- In process of developing a cost allocation plan and following approved cost allocation policies.

The Board is committed to ensuring that current accounting policies and procedures are being followed and that comprehensive policies and procedures are developed that meet the Partnership's needs and provide for fiscal accountability of Smart Start funds.

### 6. QUESTIONABLE ACTIONS BY THE FORMER EXECUTIVE DIRECTOR

The results of our test work identified questionable management decisions and disbursements by the former Executive Director. These issues have been referred to the Office of the State Auditor's Fraud, Waste and Abuse Section for further investigation. A separate report has been issued covering the results of that investigation.

Except for \$20,689, which represents questioned costs relating to the Pender Partnership overspending its fiscal year 2002 administrative budget, unallowable (\$15,241) and questioned (\$32,692) costs reported herein are included in the investigative 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.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

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Director, Fiscal Research Division

March 6, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
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Facsimile: 919/807-7647