



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF LEE COUNTY PARTNERSHIP FOR CHILDREN

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**LEE COUNTY PARTNERSHIP FOR CHILDREN**

**SANFORD, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**BOARD OF DIRECTORS**

**PHILIP DUSENBURY, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**DR. STEPHEN GILL, 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>

---

**AUDITOR'S TRANSMITTAL**

---

The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Lee County Partnership for Children

This report presents the results of our financial statement audit of the Lee County Partnership for Children (Lee Partnership) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the Lee Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Lee Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by 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 Lee Partnership is one of these local partnerships. As such, the Lee Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of 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.

**Results** – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

---

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Lee Partnership's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - The following conditions represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

### **Finding**

1. Control Environment
2. Competitive Bidding

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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



Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
FINANCIAL STATEMENTS	
EXHIBITS	
A    Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B    Statement of Functional Expenditures – Modified Cash Basis .....	4
Notes to the Financial Statements .....	5
SUPPLEMENTARY SCHEDULES	
1    Schedule of Contract and Grant Expenditures – Modified Cash Basis .....	12
2    Schedule of State Level Service Provider Contracts.....	13
3    Schedule of Federal and State Awards – Modified Cash Basis.....	14
4    Schedule of Property and Equipment – Modified Cash Basis.....	15
5    Schedule of Qualifying Match (Non-GAAP).....	16
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i> .....	17
AUDIT FINDINGS AND RECOMMENDATIONS.....	19
DISTRIBUTION OF AUDIT REPORT .....	21



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>

---

**INDEPENDENT AUDITOR'S REPORT**

---

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Lee County Partnership for Children (Lee Partnership) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the Lee Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Lee County Partnership for Children as of June 30, 2003, and the results of its operations arising from modified cash basis transactions for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003 on our consideration of the Lee Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Lee County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

This report is intended solely for the information and use of the management of the Partnership, the North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

November 21, 2003

**Lee County Partnership for Children**

**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**

**For the Year Ended June 30, 2003**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$40,153)	\$ 809,537	\$ 49,792	\$ 0	\$ 859,329
Federal Awards		447	53	500
Private Contributions		75	9,193	9,268
Sales Tax Refunds		3,808		3,808
Other Receipts		3,057		3,057
<b>Total Receipts</b>	<b>809,537</b>	<b>57,179</b>	<b>9,246</b>	<b>875,962</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		7,258	(7,258)	
	<b>809,537</b>	<b>64,437</b>	<b>1,988</b>	<b>875,962</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	212,776	3,251		216,027
Child Care and Education Affordability	158,900			158,900
Family Support	229,494	7,267		236,761
More at Four		37,492		37,492
Support:				
Management and General	132,722	11,737		144,459
Program Evaluation	27,062			27,062
Program Coordination	51,148			51,148
Other:				
Sales Tax Paid		2,424		2,424
<b>Total Expenditures</b>	<b>812,102</b>	<b>62,171</b>		<b>874,273</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(2,565)</b>	<b>2,266</b>	<b>1,988</b>	<b>1,689</b>
<b>Net Assets at Beginning of Year</b>	<b>40,226</b>	<b>(134)</b>	<b>68,558</b>	<b>108,650</b>
<b>Net Assets at End of Year</b>	<b>\$ 37,661</b>	<b>\$ 2,132</b>	<b>\$ 70,546</b>	<b>\$ 110,339</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 37,336	\$ 2,132	\$ 70,546	\$ 110,014
Refunds Due From Contractors	325			325
	<b>\$ 37,661</b>	<b>\$ 2,132</b>	<b>\$ 70,546</b>	<b>\$ 110,339</b>

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



*Lee County Partnership for Children  
Statement of Functional Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2003*

*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	\$ 212,776	111,258	29,107	7,049	25,109	14,163		26,090	
Child Care and Education Affordability	\$ 158,900							158,900	
Family Support	\$ 229,494	146,678	1,963	4,551	11,074	8,706	5,861	50,661	
	\$ 601,170	\$ 257,936	\$ 31,070	\$ 11,600	\$ 36,183	\$ 22,869	\$ 5,861	\$ 235,651	\$ 0
<b>Support:</b>									
Management and General	\$ 132,722	103,945	9,568	1,359	11,394	6,326	130		
Program Evaluation	\$ 27,062	9,790	8,736	817	3,845	3,874			
Program Coordination	\$ 51,148	40,872	795	201	4,309	4,012	959		
	\$ 210,932	\$ 154,607	\$ 19,099	\$ 2,377	\$ 19,548	\$ 14,212	\$ 1,089	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 812,102</b>	<b>\$ 412,543</b>	<b>\$ 50,169</b>	<b>\$ 13,977</b>	<b>\$ 55,731</b>	<b>\$ 37,081</b>	<b>\$ 6,950</b>	<b>\$ 235,651</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 3,251				557			2,614	80
Family Support	\$ 7,267	4,397	475	1,495	431		469		
More at Four	\$ 37,492							37,492	
	\$ 48,010	\$ 4,397	\$ 475	\$ 1,495	\$ 988	\$ 0	\$ 469	\$ 40,106	\$ 80
<b>Support:</b>									
Management and General	\$ 11,737	\$ 0	\$ 11,405	\$ 1	\$ 331	\$ 0	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,424	\$ 0	\$ 0	\$ 2,424	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 62,171</b>	<b>\$ 4,397</b>	<b>\$ 11,880</b>	<b>\$ 3,920</b>	<b>\$ 1,319</b>	<b>\$ 0</b>	<b>\$ 469</b>	<b>\$ 40,106</b>	<b>\$ 80</b>

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

**LEE COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Lee County Partnership for Children (Lee Partnership) is a legally separate nonprofit organization incorporated on January 8, 1997. The Lee Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Lee Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** – The accompanying financial statements present all funds for which the Lee Partnership’s Board of Directors is responsible. 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 Lee Partnership did not have any permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash and cash on deposit with a private bank account.
- 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. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 8.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Lee Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS

All funds of the Lee 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 Lee Partnership to a concentration of credit risk. At June 30, 2003, the Lee Partnership's bank deposits in excess of the FDIC insured limit was \$130,392.

### NOTE 3 - FUNDING FROM GRANT AWARDS

**Smart Start Program** - The Lee Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Lee Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Lee Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Lee Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Lee Partnership was awarded and has received \$832,610 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 \$32,499 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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

**More at Four** – The Lee Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Lee Partnership was awarded \$165,000 and has received \$37,492 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Lee Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Lee Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### 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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash 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, and child care substitutes.

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

**Family Support** - Used to account for service activities including ongoing parenting education, general family support, and family literacy projects.

**More at Four** – Used to account for development and implementation of More at Four prekindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality prekindergarten services in order to enhance kindergarten readiness.

#### 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

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

**Other Costs** - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data. The Partnership allocated a total of \$64,935 in other costs.

Summarized below are the costs allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 7,204
Supplies and Materials	1,737
Communications	11,276
Utilities	10,881
Repair and Maintenance	634
Fixed Charges and Other Expenses	<u>33,203</u>
Total Allocated Costs	<u>\$ 64,935</u>

### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 3,714
2005	3,714
2006	1,129
2007	<u>153</u>
Total Minimum Lease Payments	<u>\$ 8,710</u>

Rental expense for all operating leases during the year was \$3,837.

### NOTE 7 - RISK MANAGEMENT

The Lee Partnership is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employees; employees health and life; and natural disasters. The Lee Partnership manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Directors and Officers	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Lee Partnership. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

### NOTE 8 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Lee Partnership’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$14,896. No funds or reservation of net assets has been made for this commitment.

### NOTE 9 - RESTRICTIONS ON NET ASSETS

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Local Interagency Coordinating Council	\$ 53
Parents as Teachers - County of Lee	33,136
Parents as Teachers - Food Lion	1,022
Parents as Teachers - United Way	<u>36,335</u>
	<u>\$ 70,546</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Child Care Resource and Referral - Individual	\$ 110
Local Interagency Coordinating Council	80
Parents as Teachers - County of Lee	296
Parents as Teachers - Individuals	1,192
Parents as Teachers - Reading is Fundamental	500
Parents as Teachers - United Way	<u>5,080</u>
	<u>\$ 7,258</u>



*Lee County Partnership for Children  
 Schedule of Contract and Grant Expenditures - Modified Cash Basis  
 For the Year Ended June 30, 2003*

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Central Carolina Community College *	17,080	(314)		
Child Care Network, Inc.			32,592	
Coalition to Improve the Quality of Life in Lee County *	18,422	(11)		
Lee County Board of Education *	191,150			
United Cerebral Palsy *			4,900	
Various Daycare Providers	9,324		2,614	
	<b>\$ 235,976</b>	<b>\$ (325)</b>	<b>\$ 40,106</b>	<b>\$ 0</b>

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

***Lee County Partnership for Children  
Schedule of State Level Service Provider Contracts  
For the Year Ended June 30, 2003***

***Schedule 2***

<b>Organization Name</b>	<b>Total Contracts</b>
Child Care Services Association - Wages Program	\$ 42,954
Lee County Department of Social Services	* 410,000
	<b>\$ 452,954</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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>	

***Lee County Partnership for Children  
Schedule of Federal and State Awards - Modified Cash Basis  
For the Year Ended June 30, 2003***

***Schedule 3***

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
<b>Federal Awards:</b>				
United States Department of Education				
Pass-through from the North Carolina Department of Health and Human Services - Division of Public Health				
Pass-through from the Local Interagency Coordinating Council				
Early Intervention Training and Technical Assistance System	84.181A	N/A	\$ 500	\$ 447
<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	(25,910)	164
Early Childhood Initiatives Program (Encumbrances)		N/A	(288)	
Early Childhood Initiatives Program (Current Year)	*	N/A	832,610	795,172
Multi-County Accounting and Contracting Grant		N/A	12,000	11,900
Capacity Building Grant (Prior Year)		1-12-5-1-002	(13,955)	
Capacity Building Grant (Current Year)		N/A	17,080	16,766
North Carolina Arts Council				
Pass-through from the Lee County Arts Council				
Grassroots Arts Program		N/A	300	300
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program		2090003379	37,492	37,492
<b>Total State Awards</b>			<b>859,329</b>	<b>861,794</b>
<b>Total Federal and State Awards</b>			<b>\$ 859,829</b>	<b>\$ 862,241</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

***Lee County Partnership for Children***

***Schedule of Property and Equipment - Modified Cash Basis***

***For the Year Ended June 30, 2003***

***Schedule 4***

	Furniture and Noncomputer Equipment	\$	31,544
	Computer Equipment/Printers		39,476
	Leasehold Improvements		4,336
	Total Property and Equipment	\$	<u>75,356</u>
	Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.		

**Lee County Partnership for Children  
 Schedule of Qualifying Match (Non-GAAP)  
 For the Year Ended June 30, 2003**

**Schedule 5**

<b>Match Provided at the Partnership Level:</b>			
Cash		\$	9,268
In-Kind Goods and Services			7,175
			<u>16,443</u>
		\$	<u>16,443</u>
<b>Match Provided at the Contractor Level:</b>			
Cash		\$	130,189
			<u>130,189</u>
<p>Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.</p>			



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>

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

---

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

We have audited the financial statements of the Lee County Partnership for Children (Lee Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 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 Lee Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Finding**

2. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention

**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)**

---

relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Lee Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

**Finding**

1. Control Environment

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the management of the Partnership, the North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

November 21, 2003

## **AUDIT FINDINGS AND RECOMMENDATIONS**

---

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

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control and noncompliance with laws, regulations, contracts, or grants. Both findings were reported in the prior year.

#### 1. CONTROL ENVIRONMENT

Prior audits have reported inadequacies with the Lee Partnership's policies and procedures and the resulting effect on the operations of the Partnership. This issue has been reported for the past five years.

*This finding is unresolved.* The results of the audit revealed that the Partnership continued throughout the year to review and revise its operational procedures which resulted in inconsistent application and/or implementation of those policies. Further refinement is necessary for the authorizing and processing procedures related to the bank reconciliation, cash receipting, journal entry preparation, petty cash, and disbursement authorization functions. Additional policies should be developed to address the disposal of assets and voided checks.

Written policies and procedures, along with actual operating practices, are key components of an effective internal control system. Policies and procedures promote operational efficiency and effectiveness, protect Partnership staff, ensure adherence to prescribed managerial policies, and ensure compliance with applicable policies and regulations.

*Recommendation:* We recommend that the Lee Partnership place immediate emphasis on the resolution of this matter and seek appropriate guidance from The North Carolina Partnership for Children, Inc. in the establishment of policies and procedures that are supportive of a sound internal control system. The Partnership Board responsibilities include the development, authorization, and proper implementation of these policies and procedures.

*Partnership's Response:* As you described in your letter, the Lee County Partnership for Children was inconsistent in revising and implementing policies and procedures that were recommended in previous audits due to turnover of the Executive Director and Finance Director's positions and the ongoing technical assistance from The North Carolina Partnership for Children, Inc. that resulted in multiple revisions of policies and procedures between January 2003 and June 2003. As the audit indicated, we need further refinement in the bank reconciliation, cash receipting, the preparation of journal entries, the reconciliation of petty cash and the authorization of disbursements. Further, we agree that we need to immediately develop policy addressing disposal of assets and the



## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

---

handling of voided checks. We have recently contracted with the Johnston County Partnership for Children to provide oversight and technical assistance through the end of the current fiscal year to address these concerns. We also expect to continue to work with the fiscal management of NCPC and will have a monitoring visit from them in May 2004 to assure that we have corrected all concerns.

### 2. COMPETITIVE BIDDING

We reported in the prior year audit that adequate documentation was not available to support the Lee Partnership's compliance with legislatively mandated competitive bidding requirements.

*This finding is unresolved.* We continued to note instances where adequate documentation was not available to support bidding as required per the legislation.

*Recommendation:* We recommend that the Lee Partnership enhance its documentation to support compliance with the competitive bidding guidelines established by The North Carolina Partnership for Children, Inc. and the *North Carolina General Statutes*.

*Partnership's Response:* As part of the above oversight and technical assistance we will assure that thorough documentation is maintained and that our policies are complete, implemented and followed. We will develop and use a checklist to document the criteria for evaluating competitive bids and the justification of selecting the final bid.

## DISTRIBUTION OF AUDIT REPORT

---

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.

### EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
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
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Patrick J. Ballantine	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative Rex L. Baker
Senator Walter H. Dalton	Representative Bobby H. Barbee, Sr.
Senator Charlie S. Dannelly	Representative Harold J. Brubaker
Senator James Forrester	Representative Debbie A. Clary
Senator Linda Garrou	Representative E. Nelson Cole
Senator Wilbur P. Gulley	Representative James W. Crawford, Jr.
Senator Fletcher L. Hartsell, Jr.	Representative William T. Culpepper, III
Senator David W. Hoyle	Representative W. Pete Cunningham
Senator Ellie Kinnaird	Representative W. Robert Grady
Senator Jeanne H. Lucas	Representative Joe Hackney
Senator Stephen M. Metcalf	Representative Julia C. Howard
Senator Anthony E. Rand	Representative Joe L. Kiser
Senator Eric M. Reeves	Representative Edd Nye
Senator Robert A. Rucho	Representative William C. Owens, Jr.
Senator R. C. Soles, Jr.	Representative Wilma M. Sherrill
Senator Scott Thomas	Representative Thomas E. Wright

### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
----------------------	------------------------------------

February 24, 2004

## ORDERING INFORMATION

---

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  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647