



# STATE OF NORTH CAROLINA

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

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**LEE COUNTY PARTNERSHIP FOR CHILDREN**

**SANFORD, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF DIRECTORS**

**TOM McSWAIN, BOARD CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**NANCY THOMAS, INTERIM EXECUTIVE DIRECTOR**



Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

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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, 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, 2004. 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)

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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 Weaknesses
2. Internal Control Deficiencies
3. Contract Management and Monitoring Deficiencies
4. Noncompliance with More at Four Contract

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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Leslie W. Merritt, Jr., CPA, CFP  
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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  
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**INDEPENDENT AUDITOR'S REPORT**

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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, 2004, 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, 2004, 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 December 14, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County Partnership for Children's basic financial statements. The information in Schedules 1, 3, 4, and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

December 14, 2004

**Lee County Partnership for Children**  
**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis**  
**For the Year Ended June 30, 2004**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$37,761)	\$ 749,010	\$ 258,603	\$ 0	\$ 1,007,613
Private Contributions		2,384	4,161	6,545
Sales Tax Refunds		2,496		2,496
Other Receipts		1,625		1,625
<b>Total Receipts</b>	<b>749,010</b>	<b>265,108</b>	<b>4,161</b>	<b>1,018,279</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		11,034	(11,034)	
	<b>749,010</b>	<b>276,142</b>	<b>(6,873)</b>	<b>1,018,279</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Affordability	41,650			41,650
Child Care and Education Quality	349,425	450		349,875
Family Support	156,201	10,014		166,215
More at Four	28,996	245,485		274,481
Support:				
Management and General	112,280	13,385		125,665
Program Coordination	54,306	871		55,177
Program Evaluation	34,795			34,795
Other:				
Refund of Prior Year Grant		4,153		4,153
Sales Tax Paid		1,470		1,470
<b>Total Expenditures</b>	<b>777,653</b>	<b>275,828</b>		<b>1,053,481</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(28,643)</b>	<b>314</b>	<b>(6,873)</b>	<b>(35,202)</b>
<b>Net Assets at Beginning of Year</b>	<b>37,661</b>	<b>2,132</b>	<b>70,546</b>	<b>110,339</b>
<b>Net Assets at End of Year</b>	<b>\$ 9,018</b>	<b>\$ 2,446</b>	<b>\$ 63,673</b>	<b>\$ 75,137</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 9,847	\$ 2,446	\$ 63,673	\$ 75,966
Less: Funds Held for Others	829			829
	<b>\$ 9,018</b>	<b>\$ 2,446</b>	<b>\$ 63,673</b>	<b>\$ 75,137</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, 2004**

**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 Affordability	\$ 41,650	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 41,650	\$ 0
Child Care and Education Quality	349,425	205,479	20,386	8,285	21,757	22,161	481	70,876	
Family Support	156,201	76,196	3,139	1,486	5,729	4,964		64,687	
More at Four	28,996							28,996	
	<u>576,272</u>	<u>281,675</u>	<u>23,525</u>	<u>9,771</u>	<u>27,486</u>	<u>27,125</u>	<u>481</u>	<u>206,209</u>	
<b>Support:</b>									
Management and General	112,280	79,528	6,739	2,367	10,502	13,144			
Program Coordination	54,306	48,405	371	727	3,278	1,525			
Program Evaluation	34,795	29,403	500	5	4,725	162			
	<u>201,381</u>	<u>157,336</u>	<u>7,610</u>	<u>3,099</u>	<u>18,505</u>	<u>14,831</u>			
<b>Total Smart Start Fund Expenditures</b>	<u>\$ 777,653</u>	<u>\$ 439,011</u>	<u>\$ 31,135</u>	<u>\$ 12,870</u>	<u>\$ 45,991</u>	<u>\$ 41,956</u>	<u>\$ 481</u>	<u>\$ 206,209</u>	<u>\$ 0</u>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 450	\$ 0	\$ 0	\$ 0	\$ 450	\$ 0	\$ 0	\$ 0	\$ 0
Family Support	10,014	8,183	7	1,297	525	2			
More at Four	245,485	6,978	8,488	1,039	946			228,034	
	<u>255,949</u>	<u>15,161</u>	<u>8,495</u>	<u>2,336</u>	<u>1,921</u>	<u>2</u>		<u>228,034</u>	
<b>Support:</b>									
Management and General	13,385	1,493	8,325	1,210	1,874	483			
Program Coordination	871			410		461			
	<u>14,256</u>	<u>1,493</u>	<u>8,325</u>	<u>1,620</u>	<u>1,874</u>	<u>944</u>			
<b>Other:</b>									
Refund of Prior Year Grant	4,153					4,153			
Sales Tax Paid	1,470			1,470					
	<u>5,623</u>			<u>1,470</u>		<u>4,153</u>			
<b>Total Other Funds Expenditures</b>	<u>\$ 275,828</u>	<u>\$ 16,654</u>	<u>\$ 16,820</u>	<u>\$ 5,426</u>	<u>\$ 3,795</u>	<u>\$ 5,099</u>	<u>\$ 0</u>	<u>\$ 228,034</u>	<u>\$ 0</u>

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, 2004**

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**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, 2004.

- 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)

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However, unexpended advances to contractors that revert back to the State of North Carolina 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 includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less.
- E. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Lee Partnership acts in an agency capacity. For the year ended, the Lee Partnership was holding amounts withheld from employee paychecks for distribution to other nonprofit agencies.
- F. Property and Equipment** – Under the modified cash basis of accounting, purchases of property and equipment are reported as expenditures in the year occurred. However, Lee Partnership is required by contract regulation to track and maintain property and equipment items as presented in Schedule 4 of this report. The Lee Partnership has a policy to track purchases of property and equipment items with an individual cost of \$500 or more and an estimated useful life greater than one year. Such items are valued at their original purchase price, which may be different from their valuation as of June 30, 2004. Donated items are recorded at estimated fair market value at the date of donation.
- 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, 2004, the Lee Partnership's bank deposits in excess of the FDIC insured limit was \$7,139.

### NOTE 3 - FUNDING FROM GRANT AWARDS

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Smart Start Program** - The Lee Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with The North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Lee Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Lee Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the 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 \$786,671 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Lee Partnership has returned \$9,303 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2004.

The Lee 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 \$268,860 and received \$246,703 under a current year cost-reimbursement contract. The Lee Partnership expects to receive continued funding through new More at Four contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**A. 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 Lee 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 Lee Partnership's Smart Start Allocation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Management and Administrative Services** - The Partnership for Children of Johnston County provided enhanced management and administrative services to the Lee Partnership for the period starting January 20, 2004, through June 30, 2004. Associated with these services, the following activities were recorded in the accompanying financial statement:

<u>Expenditures</u>	<u>Amount</u>
Management Services	\$ 4,938
Multi-County Accounting and Contracting Grant	6,437
	<hr/>
	\$ 11,375
	<hr/> <hr/>

### 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 Affordability** - Used to account for service activities associated with public pre-K classes.

**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.

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

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 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.

**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** – Direct allocation 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 indirectly allocated based on utilization data. The Lee Partnership allocated a total of \$67,205 in other costs.

Summarized below are the costs allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 7,359
Communications	11,254
Utilities	12,305
Fixed Charges and Other Expenses	<u>36,287</u>
Total Allocated Costs	<u>\$ 67,205</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 3,714
2006	1,129
2007	<u>153</u>
Total Minimum Lease Payments	<u>\$ 4,996</u>

Rental expense for all operating leases during the year was \$4,297.

### 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 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
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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 8 - RESTRICTIONS ON NET ASSETS

**A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2004, are available for the following purposes:

Purpose	Amount
Parents as Teachers – County of Lee	\$ 31,935
Reading is Fundamental	500
Parents as Teachers – United Way	30,685
Local Interagency Coordinating Council	553
	<u>\$ 63,673</u>

**B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2004, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Parents as Teachers – County of Lee	\$ 1,202
Parent as Teachers – Food Lion	1,022
Parents as Teachers – United Way	8,810
	<u>\$ 11,034</u>

### NOTE 9 - SUBSEQUENT EVENT

The operations and managerial oversight of the Lee Partnership were assumed by the Partnership for Children of Cumberland County effective August 1, 2004. The Lee Partnership operations were downsized and moved to a smaller location resulting in the disposal of assets totaling \$58,000. These assets were either donated to the Coalition to Improve the Quality of Life in Lee County, determined to be obsolete, or remained as part of the old building as leasehold improvements.

***Lee County Partnership for Children  
Schedule of Contract and Grant Expenditures - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Central Carolina Community College	* \$ 36,413	\$ 0	\$ 0	\$ 0
Child Care Network			130,106	
Coalition to Improve the Quality of Life in Lee County	* 32,445			
Lee County Board of Education	* 102,888		87,688	
Stepping Stones Learning Center			10,240	
Various Day Care Providers	34,463			
	<u>\$ 206,209</u>	<u>\$ 0</u>	<u>\$ 228,034</u>	<u>\$ 0</u>

\* These organizations are represented on the Partnership's Board as described in Note 4A - 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, 2004***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Child Care Services Association - WAGES	\$ 48,322
Lee County Department of Social Services	* 344,498
	<u>\$ 392,820</u>

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

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.

**Lee County Partnership for Children  
Schedule of State Awards - Modified Cash Basis  
For the Year Ended June 30, 2004**

**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)	N/A	\$ (37,346)	\$ (270)
Early Childhood Initiatives Program (Current Year)	N/A *	786,671	777,932
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(100)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	12,000
Capacity Building Grant (Prior Year)	N/A	(315)	(9)
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	#209003601 *	246,703	245,485
<b>Total State Awards</b>		<b>\$ 1,007,613</b>	<b>\$ 1,035,138</b>

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

***Lee County Partnership for Children  
Schedule of Property and Equipment - Modified Cash Basis  
For the Year Ended June 30, 2004***

***Schedule 4***

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Furniture and Noncomputer Equipment	\$	31,544
Computer Equipment/Printers		39,476
Leasehold Improvements		<u>4,336</u>
Total Property and Equipment	\$	<u><u>75,356</u></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, 2004**

**Schedule 5**

***Match Provided at the Partnership Level:***

Cash	\$	2,217
In-Kind Goods and Services		<u>6,411</u>
	\$	<u><u>8,628</u></u>

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

Cash	\$	90,558
In-Kind Goods and Services		<u>19,484</u>
	\$	<u><u>110,042</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2003-284, Section 10.38(c). The North Carolina Partnership for Children, Inc. and all local partnerships are required to match the total amount budgeted for the Smart Start Program in each fiscal year. The match is comprised of both cash and in-kind amounts. Only in-kind contributions that are verifiable, quantifiable, and related to the Smart Start Program can be applied to the in-kind match requirement, including volunteer services. The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles. This schedule identifies those amounts allowable for this partnership in meeting the statewide match requirement.



Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

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

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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, 2004, and have issued our report thereon dated December 14, 2004. 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Lee Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are reported, with responses, in the Audit Findings and Recommendations section of this report:

**Finding**

1. Control Environment Weaknesses
2. Internal Control Deficiencies
3. Contract Management and Monitoring Deficiencies

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

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A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is reported, with responses, in the Audit Findings and Recommendations section of this report.

**Finding**

4. Noncompliance with More at Four Contract

This report is intended solely for the information and use of the audit committee, management of the Lee 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

December 14, 2004

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements. Finding one was reported in the prior year.

#### 1. CONTROL ENVIRONMENT WEAKNESSES

For the past five years, we have reported numerous audit issues for the Lee Partnership related to deficiencies in its control environment, financial presentations, authorizing and processing transactions, contract management and monitoring, and competitive bidding. The results of the 2004 fiscal year audit do not indicate that significant improvements have been made in the operations of the Partnership.

*This issue is unresolved.* The failure of management to place appropriate emphasis on this issue has resulted in the Partnership being placed in the Performance Improvement Plan by its funding source, The North Carolina Partnership for Children, Inc. The Performance Improvement Plan is an aggressive approach by the funding source to implement systems of financial and programmatic accountability and structure to improve the capacity of the local partnership to operate independently. The Lee Partnership has received comprehensive technical assistance and training to make it more capable of providing the oversight and management necessary to bring accountability to its operations. Additional managerial oversight is now being provided by the Partnership for Children of Cumberland County, which includes directing the day-to-day operations of the Lee Partnership. However, the Board of Directors for the Lee Partnership continues to have involvement in the management decisions for the Partnership.

The control environment sets the tone of an organization, influencing the control consciousness of its personnel. It is the foundation for all other components of internal control, providing discipline and structure within the system of operations for the organization.

*Recommendation:* We recommend that the Lee Partnership continue to seek assistance from The North Carolina Partnership for Children, Inc., in strengthening its managerial oversight capacity and implementation of adequate control policies and procedures that will promote the effective and efficient operations of the Partnership.

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

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### 2. INTERNAL CONTROL DEFICIENCIES

In our review of the internal control processes of the Lee Partnership, we noted the following deficiencies:

- During our audit fieldwork, we discovered checks totaling \$838 processed with a June 30, 2004, date, that were held and not mailed to the appropriate vendors. This represents a breakdown in the Partnership's disbursement procedures. From an accounting perspective, these held funds were considered cash on hand at June 30th, and have been accounted for as such in the financial statements;
- The Partnership's recordkeeping system was decentralized and inconsistently maintained. As a result, documentation was not always available to support the recording of receipts, the processing of journal entries or bank reconciliations, or the adherence to travel regulations in processing reimbursements to employees. In addition, all wire transfer receipts were not recorded in the monthly cash receipts log, which impaired the Partnership's ability to verify the completeness of the accounting records by reconciling the receipts to the bank statement.

The deficiencies noted result from the Partnership's failure to implement adequate policies and procedures. An internal control system is a process affected by an organization's board of directors, management, and other personnel. The internal control system should be designed to provide reasonable assurance regarding the achievement of objectives related to reliability of financial reporting, effectiveness and efficiency of operations, compliance with laws and regulations, and safeguarding of assets. Policies and procedures help ensure that necessary actions are taken to address risks to achieve the Partnership's objectives.

*Recommendation:* We recommend that the Lee Partnership, with the assistance of The North Carolina Partnership for Children, Inc., continue with the development and implementation of effective policies and procedures that promote fiscal integrity and accountability.

### 3. CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

We identified deficiencies in the contract management and monitoring system of the Lee Partnership that included the following:

- Payments totaling \$26,037 were made to a More at Four provider prior to the contract being signed;
- Processing deficiencies related to contract and grant activities including payments where the supporting documentation was incomplete and/or not properly authorized or based on copies rather than original source documentation. We noted one provider overpayment in the amount of \$341 due to these processing deficiencies;

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

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- Instances were noted where the Partnership did not have adequate documentation to support fiscal and programmatic monitoring activities. The Partnership's policies and procedures, as well as the contracts with the service providers, note the Partnership's responsibilities for performing programmatic and fiscal monitoring.

The achievement of the Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of subcontractor performance.

*Recommendation:* We recommend that the Lee Partnership further refine and implement its contract management and monitoring policies and procedures. Those procedures should address having contracts signed by the mutual parties at the inception of the contract prior to the disbursements of funds, processing payments in accordance with accounting policies, and performing documented monitoring activities in accordance with established policies.

#### 4. NONCOMPLIANCE WITH MORE AT FOUR CONTRACT

The Lee Partnership failed to provide documentation to support that they met the match requirement as specified in its contract with the Office of the Governor More at Four Pre-Kindergarten Program. The contract states that the Partnership's local contribution shall consist of cash and/or in-kind contributions and the established match threshold was \$135,000. The match amount allowed was \$29,000, resulting in the Partnership's failure to meet the established threshold.

*Recommendation:* The Lee Partnership should take appropriate steps to ensure that documentation is maintained to support that match requirements are met and amounts reported meet the guidelines established by the Office of the Governor More at Four Pre-Kindergarten Program.

(This response applies to all four findings noted above.)

*Partnership's Response:* The Lee County Partnership for Children (LCPFC) experienced significant changes and challenges beginning in February of 2004 with leadership, staffing and office relocation. The Executive Director resigned, and unfortunately, after an extensive search process that ended in June of 2004, the position had not been filled. During this time, the LCPFC board approved a plan to outsource most of the direct services that had been administered within the Partnership previously. For this reason, plans to downsize the office were implemented and the location of the Partnership office was changed. Due to the planned changes in the administration of these direct services and the management contract with PFC, several staff left employment during June, July and August of 2004, including the Finance Director. All of these events impacted the LCPFC's ability to locate and/or provide significant documentation related to the findings listed above. Therefore, these findings are accepted as stated.

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

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LCPFC strives to adhere to all rules and regulations in the operation and the implementation of Smart Start and More at Four programs in accordance with North Carolina General Statutes and in the spirit as intended by the Legislature. The issues identified by the auditors in these findings were not intentional and certainly not in any manner a flagrant disregard of law, regulations or policies. Suggestions and guidance will be accepted from the Smart Start audit team in efforts to further improve operations of the LCPFC and will be appreciated. All associated with LCPFC are committed to doing the right things for children in the right way.

## DISTRIBUTION OF AUDIT REPORT

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In accordance with North Carolina 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
	The North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director
	The North Carolina Partnership for Children, Inc.

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Mr. James D. Johnson	Director, Fiscal Research Division
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June 28, 2005

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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

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