



STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF
FORSYTH EARLY CHILDHOOD PARTNERSHIP
WINSTON-SALEM, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

FORSYTH EARLY CHILDHOOD PARTNERSHIP

WINSTON-SALEM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DR. MICHAEL LISCHKE, CHAIRMAN

ADMINISTRATIVE OFFICER

DR. DEAN CLIFFORD, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Forsyth Early Childhood Partnership

This report presents the results of our financial statement audit of the Forsyth Early Childhood Partnership (Forsyth Partnership) for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Forsyth 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 Forsyth 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 Forsyth Partnership is one of these local partnerships. As such, the Forsyth Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - The following instance of noncompliance was detected:

Finding

Competitive Bidding

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

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Forsyth Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

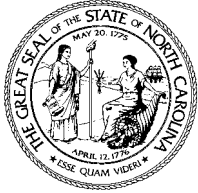
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Forsyth Early Childhood Partnership
Winston-Salem, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Forsyth Early Childhood Partnership (Forsyth Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures – Regulatory Basis for the year then ended. These financial statements are the responsibility of the Forsyth 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 statement is free of material misstatement. 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 Forsyth Early Childhood Partnership as of June 30, 2001, 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 April 19, 2002 on our consideration of the Forsyth 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 Forsyth Early Childhood Partnership 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

April 19, 2002

Forsyth Early Childhood Partnership**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2001****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$916,224)	\$ 7,394,216	\$ 12,000	\$ 0	\$ 7,406,216
Private Contributions		138,123	178,417	316,540
Interest and Investment Earnings		49,782		49,782
Sales Tax Refunds		19,572		19,572
Other Receipts	487,507	27,654		515,161
Total Receipts	7,881,723	247,131	178,417	8,307,271
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		69,095	(69,095)	
Expiration of Time Restrictions		218	(218)	
	7,881,723	316,444	109,104	8,307,271
Expenditures:				
Programs:				
Child Care and Education Quality	2,207,343	32,802		2,240,145
Child Care and Education Accessibility and Availability	106,799			106,799
Child Care and Education Affordability	2,902,698	8,364		2,911,062
Health and Safety	532,277	3,356		535,633
Family Support	1,693,035	128,277		1,821,312
Support:				
Management and General	491,815	92,239		584,054
Program Evaluation	74,217			74,217
Program Coordination	118,452			118,452
Other:				
Sales Tax Paid		11,143		11,143
Refund of Prior Year Grant		249		249
Total Expenditures	8,126,636	276,430		8,403,066
Excess of Receipts Over Expenditures	(244,913)	40,014	109,104	(95,795)
Net Assets at Beginning of Year	436,225	86,954	69,313	592,492
Net Assets at End of Year	\$ 191,312	\$ 126,968	\$ 178,417	\$ 496,697
Net Assets Consisted of:				
Petty Cash	\$ 0	\$ 200	\$ 0	\$ 200
Cash on Deposit	116,577	126,768	178,417	421,762
Refunds Due From Contractors	74,735			74,735
	\$ 191,312	\$ 126,968	\$ 178,417	\$ 496,697

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

***Forsyth Early Childhood Partnership
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001***

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	2,207,343	32,677	15,237	282	5,782	4,421	878	2,121,917	26,149
Child Care and Education Accessibility and Availability	106,799							106,799	
Child Care and Education Affordability	2,902,698	40,970	121,630	868	3,378	3,793	674	2,731,385	
Health and Safety	532,277							532,277	
Family Support	1,693,035	61,539	38,950	17,105	104,398	3,866	2,113	1,465,064	
	7,442,152	135,186	175,817	18,255	113,558	12,080	3,665	6,957,442	26,149
Support:									
Management and General	491,815	319,931	39,027	18,163	56,180	42,884	15,630		
Program Evaluation	74,217		70,133		1,218	2,866			
Program Coordination	118,452	85,891	1,453	7,718	5,056	11,395	6,939		
	684,484	405,822	110,613	25,881	62,454	57,145	22,569	0	0
Total Smart Start Fund Expenditures	8,126,636	541,008	286,430	44,136	176,012	69,225	26,234	6,957,442	26,149
Other Funds:									
Programs:									
Child Care and Education Quality	32,802		3,200					29,602	
Child Care and Education Affordability	8,364							8,364	
Health and Safety	3,356							3,356	
Family Support	128,277	21,889	18,877	6,917	47,178	650		32,766	
	172,799	21,889	22,077	6,917	47,178	650	0	74,088	0
Support:									
Management and General	92,239	28,886	27,442	0	16,738	12,708	6,465	0	0
Other:									
Sales Tax Paid	11,143			11,143					
Refund of Prior Year Grant	249					249			
	11,392	0	0	11,143	0	249	0	0	0
Total Other Funds Expenditures	276,430	50,775	49,519	18,060	63,916	13,607	6,465	74,088	0

FORSYTH EARLY CHILDHOOD PARTNERSHIP
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Forsyth Early Childhood Partnership (Forsyth Partnership) is a legally separate nonprofit organization incorporated on December 1, 1994. The Forsyth Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Forsyth 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 Forsyth Partnership's Board of Directors is responsible. In accordance with 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 Forsyth Partnership did not have any permanently restricted net assets at June 30, 2001.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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

D. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which 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.

E. 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

The Forsyth Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's short-term securities and is not insured by the FDIC. Consequently, the Forsyth Partnership bank deposits in excess of the FDIC insured limit totaled \$723,301 at June 30, 2001.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Forsyth Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC entered into contracts with and made payments to service providers selected by the Forsyth Partnership. The service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contract entered into by NCPC is presented on Schedule 2 accompanying the financial statements.

The Forsyth Partnership was awarded \$8,310,667 under a current year Smart Start contract with NCPC and has received \$8,310,440 of this amount. The unexpended balance of this contract is subject to reversion to the State. The

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Partnership has returned \$183,805 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Forsyth Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Forsyth 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.

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 program upgrade projects, early education enhancement programs, child care resource and referral, professional development, child care substitutes, salary supplements, provider training, child care provider support, special needs training for child care professionals, child care data analysis, workforce studies, and curriculum enhancement.

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

Child Care and Education Affordability - Used to account for service activities including kindergarten orientation programs, Head Start wraparound, scholarship programs, and supplements for quality.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Health and Safety - Used to account for service activities including immunization support, comprehensive dental services, outreach nurses, comprehensive health support, child abuse and neglect intervention, special needs – early intervention services, and nutrition programs.

Family Support - Used to account for service activities including family resource centers, parenting education, teen parent/child programs, parenting skills training, general family support, ongoing parent education, community leadership, special needs – family support, literacy projects, MotherRead, outreach materials, and information and resources.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 124,528
2003	132,690
2004	136,565
2005	140,556
2006	<u>144,373</u>
Total Minimum Lease Payments	\$ <u>678,712</u>

Total rental expenditure for all operating leases was \$55,299 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

The Forsyth Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Forsyth Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Forsyth Partnership contributed 6% of gross wages for the year ended June 30, 2001. The Forsyth Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2001, the Forsyth Partnership had a total payroll of \$486,396, of which \$402,231 was covered under the plan. The Partnership contributed \$24,134 for pension benefits during the year.

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Forsyth Partnership. The voluntary contributions by employees amounted to \$14,144 during the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

- A. Temporarily Restricted Net Assets** - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

Purpose	Amount
Organizational Development	\$ 10,000
Program Support	20,000
Community Educator Program	8,190
Parent Support/Nutrition Education	37,944
Health Services	50,000
Dental Health	2,644
Inclusion Program	15,839
Child Care Scholarships	5,000
Education Teacher Scholarships	5,000
Kindergarten Transition Coordinator	7,500
Faith Community Conference	2,500
Quality Improvement in Child Care Programs	13,800
	<u>\$ 178,417</u>

- B. Net Assets Released From Restrictions** - Net assets were released from restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes or the time period of restrictions expired as follows:

Purpose	Amount
Organizational Development	\$ 15,991
Great Beginnings Program	29,168
Community Educator Program	8,340
Emergency Care Program	11,564
Grandparents Project	3,882
Professional Development Project	368
	<u>\$ 69,313</u>

**Forsyth Early Childhood Partnership
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001**

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Association for the Benefit of Child Development	671,693	(365)	27,686	
Catholic Social Services	133,324	(1,625)		
CenterPoint Human Services *	35,677			
Creative Learning Center *	34,347			
East Winston Primary School	46,904			
Exchange/SCAN	126,035			
Family Services *	131,996			
First Start	207,178			
Forsyth County Department of Social Services	26,017			
Forsyth County Public Library *	94,031	(6,575)		
Forsyth Memorial Hospital	39,830		1,970	
Forsyth Technical Community College *	48,000	(78)		
Forsyth County Department of Public Health *	204,838	(36,394)	3,356	
Goodwill Industries	42,000	(1,476)		
Junior League of Winston Salem	21,112			
Medical Center Child Care *	34,950			
Moni's Child Care *	8,224			
Motheread/Fatheread of Forsyth County	40,069	(193)		
North Carolina Cooperative Extension *	50,706	(3,241)		
Northwest Child Development Council	914,173	(4,779)		
Phillips Homestyle Day Care *	5,000			
Saint Peter's World Outreach Center	71,500	(9)		
Shepherd's Center	13,500		3,110	
Special Children's School	135,383		20,160	
Step One	14,990	(60)		
The Children's Center *	67,126		1,500	
Various Day Care Providers	1,370,050			
Wake Forest University	67,688			
Wake Forest University School of Medicine *	80,000	(1,073)		
Winston-Salem Urban League	32,628			
Winston-Salem/Forsyth County Schools *	405,000	(18,775)		
Work/Family Resource Center *	360,373	(92)	7,941	
	5,534,342	(74,735)	65,723	0
Individuals:				
Child Care Expense Reimbursements	1,456,262		8,365	
Scholarships/Bonus Awards	41,573			
	1,497,835	0	8,365	0
	7,032,177	(74,735)	74,088	0

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

***Forsyth Early Childhood Partnership
 Schedule of State Level Service Provider Contracts
 For the Year Ended June 30, 2001***

Schedule 2

Organization Name		NCPC Contracts
National Society to Prevent Blindness - North Carolina Affiliate		22,367
<p>The information on this schedule provides a listing of service provider contracts entered into by the North Carolina Partnership for Children (NCPC) as described in Note 3 - Funding From Grant Awards.</p>		

***Forsyth Early Childhood Partnership
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2001***

Schedule 3

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Incorporated			
Early Childhood Initiatives Program (Prior Years)	*	Various	\$ (916,224) \$ 0
Early Childhood Initiatives Program (Current Year)	*	1-01-2-08-001	8,310,440 8,126,636
Multi-Partnership Accounting and Contracting Grant (Current Year)		N/A	12,000 12,000
Total State Awards		\$ 7,406,216	\$ 8,138,636
* Programs with compliance requirements that have a direct and material effect on the financial statement.			

***Forsyth Early Childhood Partnership
Schedule of Property and Equipment
For the Year Ended June 30, 2001***

Schedule 4

	Furniture and Non-Computer Equipment		\$	15,655
	Computer Equipment/Printers			64,112
	Leasehold Improvements			5,425
	Total Property and Equipment		\$	85,192
	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 purchased.			

***Forsyth Early Childhood Partnership
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001***

Schedule 5

Match Provided at the Partnership Level:

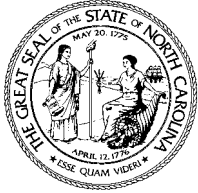
Cash	\$ 271,742
In-Kind Goods and Services	26,461
	\$ 298,203

Match Provided at the Contractor Level:

Cash	\$ 504,737
In-Kind Goods and Services	374,936
	\$ 879,673

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

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

Board of Directors
Forsyth Early Childhood Partnership
Winston-Salem, North Carolina

We have audited the financial statements of the Forsyth Early Childhood Partnership (Forsyth Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 19, 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 Forsyth 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

Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Forsyth 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

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

control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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, 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

April 19, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matter Related to Financial Reporting

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents noncompliance with laws, regulations, contracts, or grants.

COMPETITIVE BIDDING

We noted instances where documentation was not available to support compliance with the competitive bidding requirements for the purchase of goods and services.

Recommendation: We recommend that the Forsyth Partnership maintain documentation to support compliance with the legislatively mandated bid requirements.

Partnership's Response: Over the years, we have continuously worked to improve our bidding and contracting procedures, as well as responding to any suggestions from your staff. We sincerely believe that this finding reflects a misunderstanding or miscommunication of appropriate procedures, rather than any deliberate failure to comply with the law; further, we believe that the concern observed by the auditors did not jeopardize the effectiveness of our programs or the effective management of funds.

Let me clarify our response further. This finding is a result of lack of multi-year bidding with our direct service providers (agencies providing services external to the Partnership, but meeting goals and strategies specified in our strategic planning.) Our RFP process for such projects is perhaps the most carefully and completely developed process of any Partnership in the state. Each year, over 80 community volunteers on Allocations panels make recommendations for Smart Start funding, with each panel reviewing proposals from 3-4 agencies, making site visits to each, reviewing evaluation findings for each program, and carefully discussing the effectiveness and impact of each program, particularly in relationship to our Partnership's Strategic Plan, the statewide Performance Based Incentive standards, and research/best practices. Every other year, we advertise this process and proposals are received from any interested non-profit or governmental agencies in our area. While we anticipate working with these "partner agencies" for two years, these proposals describe the services to be offered during the first year, with an attached budget for that period of time. Then, on alternate years, we have used this same process, but open only to continuing programs, to review programmatic and fiscal effectiveness, as each agency resubmits an updated proposal, describing the outcomes of services offered during the first year, services to be offered during the second year and the necessary budget for the second year. Again, the review by community panels culminates in recommendations for continuing at current, reduced or increased funding or terminating funding. Our error was that we did not realize we had to require the submission of two-year budgets at the onset of the cycle, or else re-advertise, again opening our funding to new programs.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

This was an honest error. Our intention is *always* to use appropriate competitive bidding to secure both maximum program effectiveness and efficiency in the use of public dollars. By having the open process every two years, we thought we were complying with state requirements, while allowing sufficient time for a program to operate to adequately measure outcomes before re-opening the process to new agencies. We are particularly disappointed in the finding, precisely because we have worked so hard to make our process open, equitable, and thorough, eliminating all conflicts of interest during the review, engaging the larger community, and with our panels each year demonstrating the wisdom and courage to eliminate funding to programs when outcomes are not satisfactory and to expand funding to those programs with the greatest impact. Again, I am sure that no other local partnership in the state has a more effective review process for programs funded with Smart Start dollars.

However, with the clarification provided by your audit team, we will immediately take steps to ensure that, in the future, we either receive two-year proposals and budgets or we move to a totally open, advertised process each year. The Board of Directors will be asked to choose between these alternatives. As always, we are determined to respond fully to any recommendations from your team and will continue our efforts for continuous improvement in our organizational effectiveness and compliance.

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In accordance with G.S. § 147-64.5 and G.S. § 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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July 30, 2002

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