

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

FRANKLIN-GRANVILLE-VANCE PARTNERSHIP FOR CHILDREN, INC.

HENDERSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

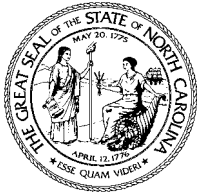
FINANCIAL STATEMENT AUDIT REPORT OF
FRANKLIN-GRANVILLE-VANCE PARTNERSHIP FOR CHILDREN, INC.
HENDERSON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

CEDRIC JONES, CHAIRMAN

ADMINISTRATIVE OFFICER

CAROLYN M. PAYLOR, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Franklin-Granville-Vance Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Franklin-Granville-Vance Partnership for Children, Inc. (Franklin-Granville-Vance 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 Franklin-Granville-Vance 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 Franklin-Granville-Vance 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 Franklin-Granville-Vance Partnership is one of these local partnerships. As such, the Franklin-Granville-Vance 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

2. 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 Franklin-Granville-Vance Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

1. Contract Management

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.

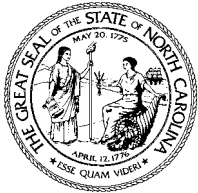
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Franklin-Granville-Vance Partnership for Children, Inc.
Henderson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Franklin-Granville-Vance Partnership for Children, Inc. (Franklin-Granville-Vance 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 Franklin-Granville-Vance 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 Franklin-Granville-Vance Partnership for Children, Inc. 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 March 22, 2002 on our consideration of the Franklin-Granville-Vance 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 Franklin-Granville-Vance Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

March 22, 2002

Franklin-Granville-Vance Partnership for Children, Inc.**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2001****Exhibit A**

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$111,107)	\$ 1,314,098	\$ 4,757	\$ 1,318,855
Federal Awards		12,497	12,497
Private Contributions		8,294	8,294
Interest and Investment Earnings		12,422	12,422
Sales Tax Refunds		7,577	7,577
Other Receipts		25,007	25,007
Total Receipts	1,314,098	70,554	1,384,652
Expenditures:			
Programs:			
Child Care and Education Quality	355,856	13,870	369,726
Child Care and Education Affordability	128,593		128,593
Health and Safety	88,637		88,637
Family Support	401,330		401,330
Support:			
Management and General	255,719	73,422	329,141
Program Coordination	134,680		134,680
Other:			
Sales Tax Paid		5,717	5,717
Total Expenditures	1,364,815	93,009	1,457,824
Excess of Receipts Over Expenditures	(50,717)	(22,455)	(73,172)
Net Assets at Beginning of Year	86,427	50,909	137,336
Net Assets at End of Year	\$ 35,710	\$ 28,454	\$ 64,164
Net Assets Consisted of:			
Cash on Deposit	\$ 27,547	\$ 28,454	\$ 56,001
Refunds Due From Contractors	8,163		8,163
	\$ 35,710	\$ 28,454	\$ 64,164
The accompanying notes to the financial statement are an integral part of this statement.			

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule 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	355,856	201,042	4,319	5,585	31,650	31,750	1,677	79,833	0
Child Care and Education Affordability	128,593							128,593	
Health and Safety	88,637							88,637	
Family Support	401,330							401,330	
	974,416	201,042	4,319	5,585	31,650	31,750	1,677	698,393	0
Support:									
Management and General	255,719	150,098	34,840	8,680	30,936	30,960	305	0	(100)
Program Coordination	134,680	124,656	1,598	3,090	5,191	145	0	0	0
	390,399	274,754	36,438	11,770	36,127	31,105	305	0	(100)
Total Smart Start Fund Expenditures	1,364,815	475,796	40,757	17,355	67,777	62,855	1,982	698,393	(100)
Other Funds:									
Programs:									
Child Care and Education Quality	13,870	0	0	379	9	2,076	0	11,406	0
Support:									
Management and General	73,422	58,358		8,029	2,506		4,529		
Other:									
Sales Tax Paid	5,717			5,717					
Total Other Funds Expenditures	93,009	58,358	0	14,125	2,515	2,076	4,529	11,406	0

FRANKLIN-GRANVILLE-VANCE PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Franklin-Granville-Vance Partnership for Children, Inc. (Franklin-Granville-Vance Partnership) is a legally separate nonprofit organization incorporated on March 21, 1997. The Franklin-Granville-Vance Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Franklin-Granville-Vance 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 Franklin-Granville-Vance 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.

The Franklin-Granville-Vance Partnership did not have any temporarily or 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.

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.

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.

- 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

All funds of the Franklin-Granville-Vance Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Franklin-Granville-Vance Partnership to a concentration of credit risk. At June 30, 2001, the Franklin-Granville-Vance Partnership's bank deposits in excess of the FDIC insured limit was \$190,176.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

The Franklin-Granville-Vance Partnership was awarded \$1,466,294 under a current year Smart Start contract with NCPC and has received \$1,393,962 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$35,124 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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 Franklin-Granville-Vance Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Franklin-Granville-Vance 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 child care resource and referral, professional development, provider training, or environmental assessments.

Child Care and Education Affordability - Used to account for service activities associated with kindergarten orientation programs.

Health and Safety - Used to account for service activities including comprehensive dental services or outreach nurses.

Family Support - Used to account for service activities including parenting skills training, special needs – family support, or family literacy.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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.

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, communication costs (telephone and printing), and depreciation expenditures were allocated based on utilization data. The Partnership allocated a total of \$109,985 in other costs.

Summarized below are the cost allocated by expenditure classification:

<u>Other Cost Category</u>	<u>Amount</u>
Contracted Services	\$ 12,911
Supplies and Materials	10,932
Communications	14,896
Utilities	6,969
Repair and Maintenance	2,388
Fixed Charges and Other Expenses	<u>61,889</u>
Total Allocated Costs	<u>\$ 109,985</u>

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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	\$ 47,429
2003	27,656
2004	1,217
2005	<u>1,217</u>
Total Minimum Lease Payments	\$ <u>77,519</u>

Total rental expenditure for all operating leases was \$49,724 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

Simplified Employee Pension Plan - The Franklin-Granville-Vance Partnership had a Simplified Employee Pension (SEP) plan covering all full-time employees for the period July 1 to December 31, 2000. Each full-time employee of the Franklin-Granville-Vance Partnership, as a condition of employment, was provided an Individual Retirement Account through an outside insurance company. The Franklin-Granville-Vance Partnership contributed 20% of gross wages for the above time period. The Franklin-Granville-Vance Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Partnership contributed \$1,450 for pension benefits during the year.

IRC Sections 403(b) and 403(b)(7) Plans - For the period January 1 to June 30, 2001, all permanent employees who were at least half-time could participate in a tax sheltered annuity plan created under Internal Revenue Code Sections 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 these plans are the responsibility of the plans. No costs are incurred by the Franklin-Granville-Vance Partnership. The voluntary contributions by employees amounted to \$24,868 during the period January 1 to June 30, 2001.

Franklin-Granville-Vance Partnership for Children, Inc.
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
Franklin County Health Department	*	46,697			
Franklin County Schools	*	166,578	(5,083)		
Family Support Network of Vance-Granville-Franklin-Warren Counties		23,738	(413)		
Granville County Schools	*	240,035	(1,843)		
Granville-Vance District Health Department		42,764	(824)		
Miracles & Magic, Incorporated		21,384			
Vance County Schools	*	106,912			
Various Day Care Providers		51,293		11,406	
		699,401	(8,163)	11,406	0
Individuals:					
Scholarships/ Bonus Awards		7,155			
		706,556	(8,163)	11,406	0

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

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association - WAGES Program		79,235
Franklin-Granville-Vance Counties Departments of Social Services	*	1,107,714
		1,186,949
* 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 Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.		

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
US Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Pass-through from the County of Vance Cooperative Extension				
Vance County 4-H After-School Licensing Project	93.575	N/A	\$ 12,497	\$ 11,794
State Awards:				
North Carolina Department of Health and Human Services				
Division of Child Development				
Pass-through from the North Carolina Partnership for Children, Inc.				
Early Childhood Initiatives Program (Prior Year)		1-90-5-11-001	(79,864)	(646)
Early Childhood Initiatives Program (Current Year)	*	1-01-5-11-001	1,393,962	1,365,461
Multi-County Accounting and Contracting Grant (Prior Year)		N/A	(31,243)	
Multi-County Accounting and Contracting Grant (Current Year)		N/A	36,000	36,000
Total State Awards			<u>1,318,855</u>	<u>1,400,815</u>
Total Federal and State Awards			<u>\$ 1,331,352</u>	<u>\$ 1,412,609</u>
* Programs with compliance requirements that have a direct and material effect on the financial statement.				

Franklin-Granville-Vance Partnership for Children, Inc.				
Schedule of Property and Equipment				
For the Year Ended June 30, 2001				Schedule 4
Furniture and Non-Computer Equipment		\$	9,283	
Computer Equipment/Printers			45,450	
Total Property and Equipment		\$	54,733	
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.				

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

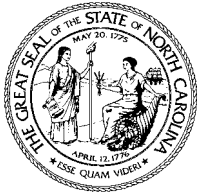
Match Provided at the Partnership Level:

Cash	\$	8,294
In-Kind Goods and Services		23,786
	\$	32,080

Match Provided at the Contractor Level:

Cash	\$	286,124
In-Kind Goods and Services		9,924
	\$	296,048

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



Ralph Campbell, Jr.
State Auditor

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

Board of Directors
Franklin-Granville-Vance Partnership for Children, Inc.
Henderson, North Carolina

We have audited the financial statements of the Franklin-Granville-Vance Partnership for Children, Inc. (Franklin-Granville-Vance Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 22, 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 Franklin-Granville-Vance 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 Franklin-Granville-Vance 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

**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)**

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 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 Franklin-Granville-Vance 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 are described in the Audit Findings and Recommendations section of this report:

Finding

1. Contract Management

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be 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, 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

March 22, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. CONTRACTS MANAGEMENT

Our review of contracts management for the Franklin-Granville-Vance Partnership identified the following issues:

- The Partnership failed to adequately document its contract amendments with local service providers.
- Contract terms were incomplete for quality improvements activities.
- Documentation was not maintained by the Partnership to support the proper receipt of quality improvement items.

Recommendation: We recommend that the Franklin-Granville-Vance Partnership enhance its contract management system to ensure that formal contract documents are executed to support the Partnership's contractual intentions. Documentation should be maintained to support the results of contractual activities and that expected outcomes are achieved.

Partnership's Response: The Contracts Coordinator has been instructed to review all service provider files for the current fiscal year, and determine that executed contract amendments are in place. Any contract amendment documents missing will result in execution of amendment request forms to be signed by the Direct Service Provider, FGV Executive Director and Board Chair. The Contracts Coordinator will prepare a log/checklist for each Direct Service Provider to track preparation and execution of the necessary documentation for contract amendments and revisions.

Quality Improvement activities have become an in-house program for the current fiscal year. The Quality Improvements Coordinator has executed contracts with each center or home, insuring that all pertinent data has been completed on the contract. The homes and centers have been instructed not to open any shipments until our Quality Improvements staff can verify the accuracy of items received versus orders placed. Packing slips are examined and returned to the accounting office to be matched with the pertinent invoice.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. 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 Franklin-Granville-Vance Partnership comply with the legislatively mandated bid requirements.

Partnership's Response: FGV Partnership has placed advertisements in the local papers advertising all programs to be offered for the ensuing contract year. Interested providers must submit a letter of intent along with a detailed budget narrative and activity description. Also, letters have been mailed out to various local organizations to inform them of the programs offered and encouraging interested parties to respond.

We are requesting three written quotes for all goods and services greater than \$1,500 but less than \$15,000. With regard to the Quality Improvements program, the Coordinator will choose a select number of vendors based on cost, discounts and shipping charges. Then requests for quotation of individual items will be submitted in order to achieve the lowest possible prices.

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July 8, 2002

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