



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, 2002

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, 2002

BOARD OF DIRECTORS

CEDRIC K. JONES, BOARD CHAIR

ADMINISTRATIVE OFFICER

CAROLYN M. PAYLOR, 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, 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, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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 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 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 General Statute 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** – To 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** – To present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

3. **Objective** – To 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 statements.

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

Finding

Contracts 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.
State Auditor

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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, 2002, 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 statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Franklin-Granville-Vance Partnership for Children, Inc. as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2003 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.



Ralph Campbell, Jr.
State Auditor

April 22, 2003

Franklin-Granville-Vance Partnership for Children, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit A

	Unrestricted Funds		
	Smart Start Fund	Other Funds	Total Funds
Receipts:			
State Awards (less refunds of \$35,851)	\$ 1,224,845	\$ 36,000	\$ 1,260,845
Federal Awards		36,797	36,797
Private Contributions		12,337	12,337
Interest and Investment Earnings		3,796	3,796
Sales Tax Refunds		3,644	3,644
Other Receipts		25,879	25,879
Total Receipts	1,224,845	118,453	1,343,298
Expenditures:			
Programs:			
Child Care and Education Quality	352,769	4,766	357,535
Child Care and Education Affordability	24,352		24,352
Health and Safety	154,957		154,957
Family Support	298,566	46,201	344,767
Support:			
Management and General	230,845	79,127	309,972
Program Coordination	139,940		139,940
Other:			
Sales Tax Paid		6,004	6,004
Refund of Prior Year Grant		6,562	6,562
Total Expenditures	1,201,429	142,660	1,344,089
Excess of Receipts Over Expenditures	23,416	(24,207)	(791)
Net Assets at Beginning of Year	35,710	28,454	64,164
Net Assets at End of Year	\$ 59,126	\$ 4,247	\$ 63,373
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 47,651	\$ 28	\$ 47,679
Refunds Due From Contractors	11,475	4,219	15,694
	\$ 59,126	\$ 4,247	\$ 63,373

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

Franklin-Granville-Vance Partnership for Children, Inc.
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expenditures
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 352,769	224,090	4,338	6,284	31,114	28,435	1,598	56,319	591
Child Care and Education Affordability	\$ 24,352			2,681				21,671	
Health and Safety	\$ 154,957							154,957	
Family Support	\$ 298,566	21,059	1,178	1,592	7,038	1,429	496	265,774	
	\$ 830,644	\$ 245,149	\$ 5,516	\$ 10,557	\$ 38,152	\$ 29,864	\$ 2,094	\$ 498,721	\$ 591
Support:									
Management and General	\$ 230,845	171,691	10,884	6,927	18,509	22,503	331		
Program Coordination	\$ 139,940	122,031	660	581	8,000	8,046	622		
	\$ 370,785	\$ 293,722	\$ 11,544	\$ 7,508	\$ 26,509	\$ 30,549	\$ 953	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,201,429	\$ 538,871	\$ 17,060	\$ 18,065	\$ 64,661	\$ 60,413	\$ 3,047	\$ 498,721	\$ 591
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 4,766							4,766	
Family Support	\$ 46,201	32,868	373	2,849	5,545	531	2,165	1,870	
	\$ 50,967	\$ 32,868	\$ 373	\$ 2,849	\$ 5,545	\$ 531	\$ 2,165	\$ 6,636	\$ 0
Support:									
Management and General	\$ 79,127	\$ 57,157	\$ 1,352	\$ 2,615	\$ 16,642	\$ 0	\$ 1,361	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 6,004			6,004					
Refund of Prior Year Grant	\$ 6,562					6,562			
	\$ 12,566	\$ 0	\$ 0	\$ 6,004	\$ 0	\$ 6,562	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 142,660	\$ 90,025	\$ 1,725	\$ 11,468	\$ 22,187	\$ 7,093	\$ 3,526	\$ 6,636	\$ 0

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

FRANKLIN-GRANVILLE-VANCE PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Franklin-Granville-Vance Partnership did not have any temporarily or permanently restricted net assets at June 30, 2002.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.

F. 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 a 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, 2002, the Franklin-Granville-Vance Partnership's bank deposits in excess of the FDIC insured limit was \$105,385.

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, NCPC and 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 statements. However, a summary of the service provider contracts entered into by NCPC and/or DHHS are presented on Schedule 2 accompanying the financial statements.

The Franklin-Granville-Vance Partnership was awarded and has received \$1,309,431 under a current year Smart Start contract with NCPC and has received \$1,260,696 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$55,485 of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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. In addition, Schedule 2 identifies contracts entered into by NCPC and/or DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, or provider training.

Child Care and Education Affordability - Used to account for service activities including pre-K classes or transportation to child care.

Health and Safety - Used to account for service activities including child care health consultants/outreach nurses or special needs – early intervention services.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Family Support - Used to account for service activities including parenting education and skills training, teen parent/child programs, ongoing parenting education, general family support, family literacy, transportation services, community outreach, needs and resources assessments, or orientation to kindergarten.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each function.

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

Summarized below are the cost allocated by expenditure classification:

<u>Allocation of Joint Costs</u>	<u>Amount</u>
Contracted Services	\$ 6,777
Supplies and Materials	3,224
Other Operating Expenses	21,227
Fixed Charges and Other Expenses	<u>46,024</u>
Total Allocated Costs	<u><u>\$ 77,252</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 28,940
2004	2,317
2005	<u>1,148</u>
Total Minimum Lease Payments	<u>\$ 32,405</u>

Rental expense for all operating leases during the year was \$47,907.

NOTE 7 - PENSION PLAN

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans 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. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Franklin-Granville-Vance Partnership. The voluntary contributions by employees amounted to \$51,158 during the year ended June 30, 2002.

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Child Care Services Association - WAGES Program	19		4,766	
Family Support Network of Vance-Granville-Franklin-Warren Counties	9,005			
Franklin County Health Department	* 56,917	(2,269)		
Franklin County Schools	* 12,189			
Granville County Schools	* 233,245	(856)		
Granville-Vance District Health Department	97,606	(6,302)		
Vance County Schools	* 43,666	(2,048)	6,089	(4,219)
Various Day Care Providers	49,821			
	\$ 502,468	\$ (11,475)	\$ 10,855	\$ (4,219)
Individuals:				
Scholarships/Bonus Awards	\$ 7,728	\$ 0	\$ 0	\$ 0
	\$ 510,196	\$ (11,475)	\$ 10,855	\$ (4,219)

* 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, 2002

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Child Care Services Association - WAGES Program	97,409		\$ 97,409
Franklin-Granville-Vance Counties Departments of Social Services *	803,826		\$ 803,826
North Carolina Cooperative Extension Service - In Home Breast Feeding *		100,088	\$ 100,088
	\$ 901,235	\$ 100,088	\$ 1,001,323

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

The information on this schedule provides a listing of service provider contracts entered into by either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards.

Franklin-Granville-Vance Partnership for Children, Inc.				
Schedule of Federal and State Awards - Regulatory Basis				
For the Year Ended June 30, 2002				
				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 Public Health Medical Assistance Program	93.778	01114-02	\$ 29,740	\$ 36,190
US Department of Transportation Pass-through from the North Carolina Department of Transportation State and Community Highway Safety	20.600	OP-02-05-03	7,057	8,141
Total Federal Awards			36,797	44,331
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 (Previous Years)		Various	(35,851)	(3,783)
Early Childhood Initiatives Program (Current Year)		* 1-12-5-11-001	1,260,696	1,205,212
Multi-County Accounting and Contracting Grant		N/A	36,000	36,000
Total State Awards			1,260,845	1,237,429
Total Federal and State Awards			\$ 1,297,642	\$ 1,281,760

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

Franklin-Granville-Vance Partnership for Children, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002

Schedule 5

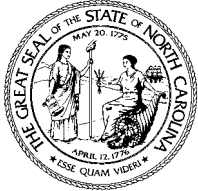
Match Provided at the Partnership Level:

Cash	\$	12,337
In-Kind Goods and Services		9,459
	\$	<u>21,796</u>

Match Provided at the Contractor Level:

Cash	\$	182,106
In-Kind Goods and Services		56,231
	\$	<u>238,337</u>

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



Ralph Campbell, Jr.
State Auditor

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

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, 2002, and have issued our report thereon dated April 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 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

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

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 is described in the Audit Findings and Recommendations section of this report:

Finding

Contracts 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, 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 22, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following finding and recommendation was identified during the current and prior audit and represents a significant deficiency in internal control.

CONTRACTS MANAGEMENT

Our prior year audit identified weaknesses with the Partnership's contracts management system including the Partnership's failure to document:

- contract amendments with local service providers;
- contract terms for quality improvement activities; and
- proper receipt of quality improvement items.

This finding is partially resolved. The Partnership improved its documentation of contract amendments and the receipt of quality improvement items. Only minor discrepancies were noted in these areas. However, we continued to identify deficiencies in the documentation of contract terms for the quality improvement grant activities. In addition, we identified disbursements under the quality improvement initiatives that do not appear to meet either legislative criteria or guidelines established by the North Carolina Partnership for Children, Inc. (NCPC). Session Law 2001-424, Section 21.75(f) states that child care facilities that previously received quality improvement grants must increase their licensure before receiving additional funding. Our testwork identified payments totaling \$13,290 that failed to meet this requirement. NCPC guidelines established minimum subsidy requirements that were required to be met in each county. Our testwork identified payments totaling \$3,343 that failed to comply with these requirements. Total identified questioned costs were \$16,633.

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. Contract monitoring should ensure compliance with legislative and NCPC requirements for contract and grant activities. The Franklin-Granville-Vance Partnership should work with the North Carolina Partnership for Children, Inc. to resolve questioned cost issues.

Partnership's Response:

Contract Management: The Partnership will continue to enhance and strengthen its contract management system by having the contracts coordinator, and all other staff that monitor contracts, closely review all service providers' files to assure proper documentation. The contracts coordinator will continue to utilize a log/checklist for each Direct Service Provider to track preparation and execution of the necessary documentation for contract amendments and revisions.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Quality Improvement Program: The Quality Improvement Program has recently developed their policies and procedures, which has been Board approved, that will ensure compliance with legislative and NCPC requirements. Child Care providers participating in the Quality Improvement Program are instructed to not open packages until the staff can verify the accuracy of items received. Packing slips are examined and returned to the accounting office to be matched with the pertinent invoice.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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June 11, 2003

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