

**FINANCIAL STATEMENT AUDIT REPORT OF
THE HALIFAX-WARREN SMART START
PARTNERSHIP FOR CHILDREN, INC.
HALIFAX, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001**

**PERFORMED UNDER CONTRACT WITH THE
NORTH CAROLINA OFFICE OF STATE AUDITOR
RALPH CAMPBELL, JR.**

FINANCIAL STATEMENT AUDIT REPORT OF
THE HALIFAX-WARREN SMART START PARTNERSHIP FOR
CHILDREN, INC.

HALIFAX, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

GINNY ORVEDAHL, CHAIRPERSON

ADMINISTRATIVE OFFICER

MAGDA BALIGH, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, The Halifax-Warren Smart Start Partnership for Children, Inc.

This report presents the results of the financial statement audit of The Halifax-Warren Smart Start Partnership for Children, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of The Halifax-Warren Smart Start Partnership for Children, Inc. 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 partnerships. The Halifax-Warren Smart Start Partnership for Children, Inc. is one of these local partnerships. As such, The Halifax-Warren Smart Start Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all 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.

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

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5-9
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts	11
3 Schedule of Federal and State Awards - Regulatory Basis.....	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP)	14
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15
OTHER OBSERVATIONS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT	18

INDEPENDENT AUDITORS' REPORT

Board of Directors

The Halifax-Warren Smart Start Partnership for Children, Inc.
Halifax, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren 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 Halifax-Warren 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of The Halifax-Warren Smart Start 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.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2002 on our consideration of the Halifax-Warren 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of The Halifax-Warren Smart Start 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.

June 6, 2002

Crisp Hughes Evans LLP

Halifax-Warren Smart Start 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 \$150,367)	\$ 1,893,860	\$ 24,000	\$ 1,917,860
Federal Awards	-	65,319	65,319
Private Contributions	-	99,482	99,482
Special Fund Raising Events	-	2,786	2,786
Sales Tax Refunds	-	3,236	3,236
Other Receipts	1,743	26,771	28,514
Total Receipts	1,895,603	221,594	2,117,197
Expenditures:			
Programs:			
Child Care and Education Quality	573,087	116,254	689,341
Child Care and Education Accessibility and Availability	224,566	-	224,566
Child Care and Education Affordability	605,354	-	605,354
Health and Safety	137,641	-	137,641
Family Support	213,725	34,902	248,627
Support:			
Management and General	191,801	43,070	234,871
Program Evaluation	45,042	-	45,042
Sales Tax Paid	-	21,458	21,458
Refund of Prior Year Grant	-	253	253
Total Expenditures	1,991,216	215,937	2,207,153
Excess of Receipts Over (Under) Expenditures	(95,613)	5,657	(89,956)
Net Assets at Beginning of Year	157,475	(21,347)	136,128
Net Assets at End of Year	\$ 61,862	\$ (15,890)	\$ 46,172
Net Assets Consisted of:			
Cash on Deposit	\$ 54,439	\$ (15,890)	\$ 38,749
Refunds Due From Contractors	7,043	-	7,043
Funds Due from Employees	380	-	380
	\$ 61,862	\$ (15,890)	\$ 46,172

The accompanying notes are an integral part of these statements.

Halifax-Warren Smart Start Partnership for Children, Inc.
Statement of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 573,087	\$101,009	\$ 65	\$ 15,172	\$ 70,292	\$ 2,879	\$ 731	\$ 372,383	\$ 10,556
Child Care and Education Accessibility and Availability	224,566	159,158	44,625	4,815	10,206	5,409	355	-	-
Child Care and Education Affordability	605,354	-	-	-	-	-	-	605,354	-
Health and Safety	137,641	-	-	-	-	-	-	137,641	-
Family Support	213,725	47,694	-	-	-	-	-	166,031	-
Support:									
Management and General	191,801	88,506	9,608	6,250	34,826	7,572	43,785	-	1,254
Program Evaluation	45,042	6,921	-	-	289	-	37,832	-	-
Total Smart Start Fund Expenditures	\$ 1,991,216	\$403,286	\$ 54,298	\$ 26,237	\$115,613	\$ 15,860	\$ 82,703	\$ 1,281,409	\$ 11,810
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 116,254	\$ 37,183	\$ -	\$ 300	\$ 1,050	\$ 200	\$ -	\$ 77,521	\$ -
Family Support	34,902	16,853	-	5,186	8,762	-	2,500	-	1,601
Support:									
Management and General	43,070	34,070	54	795	4,129	-	3,872	-	150
Other:									
Sales Tax Paid	21,458	-	-	21,458	-	-	-	-	-
Refund of Prior Year Grant	253	-	-	-	253	-	-	-	-
Total Other Funds Expenditures	\$ 215,937	\$ 88,106	\$ 54	\$ 27,739	\$ 14,194	\$ 200	\$ 6,372	\$ 77,521	\$ 1,751

The accompanying notes are an integral part of these statements.

THE HALIFAX-WARREN SMART START PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) is a legally separate nonprofit organization incorporated on February 24, 1994. The Halifax-Warren Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Halifax-Warren 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 Halifax-Warren 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 Halifax-Warren 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 accounting principles generally accepted in the United States of America, primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

- 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. Funds Due from Employees** - Funds due from employees includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Halifax-Warren Partnership was due to be reimbursed by its employees for the cost of health insurance paid on their behalf.

NOTE 2 - DEPOSITS

All funds of the Halifax-Warren Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Halifax-Warren Partnership to a concentration of credit risk. At June 30, 2001, the Halifax-Warren Partnership's bank deposits in excess of the FDIC insured limit was \$260,452.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Halifax-Warren 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 Halifax-Warren 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 is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

The Halifax-Warren Partnership was awarded and has received \$2,044,227 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts is subject to reversion to the State. The Partnership has returned \$53,011 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 Halifax-Warren Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Halifax-Warren Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including program upgrade projects and Child Care Resource and Referral - Comprehensive.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increase child care spaces.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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

Health and Safety - Used to account for service activities including immunization support, comprehensive screenings, special needs - early intervention services, and nutrition programs.

Family Support - Used to account for service activities including family resource center, parenting education, parenting skills training, ongoing parent education, 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.

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	\$ 6,969
2003	6,009
2004	<u>789</u>
Total Minimum Lease Payments	<u>\$ 13,767</u>

Total rental expenditure for all operating leases was \$8,932 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

NOTE 7 - PENSION PLAN

The Halifax-Warren Partnership has a SIMPLE - IRA Plan covering all employees. Each employee of the Halifax-Warren Partnership has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Halifax-Warren Partnership matches employee contributions dollar for dollar up to 3% of annual salary for the year ended June 30, 2001. However, not all employees contribute to the plan or receive the maximum match. The Halifax-Warren 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 Halifax-Warren Partnership had a total payroll of \$491,392, all of which was covered under the plan. The Partnership contributed \$13,195 for pension benefits during the year. The employees of the Partnership contributed \$16,570 to the plan during the year.

Halifax-Warren Smart Start 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
CAB Consulting	\$ 23,000	\$ -	\$ -	\$ -
Halifax / Northampton PRIDE	112,500	-	-	-
Halifax Community College Child Care Center *	14,557	-	-	-
Halifax County Cooperative Extension Service *	5,750	(8)	-	-
Halifax County Health Department *	100,200	(4,582)	-	-
Halifax County Schools *	455,329	-	-	-
Haliwa Saponi Child Care Center *	2,223	-	8,484	-
Hobgood Head Start-CADA *	12,096	-	-	-
New Beginnings Child Care Center *	21,364	-	-	-
Other Licensed Child Care Centers and Homes	89,527	-	52,620	-
RiverStone Counseling and Personal Development *	52,234	-	-	-
Roanoke Rapids Graded School District *	93,846	-	-	-
St Gideon's Child Care Center *	11,216	-	-	-
Tots N Teens Child Care Center of Warren County *	10,634	-	-	-
Warren County Health Department *	979	-	-	-
Warren County Schools *	72,621	(1,712)	-	-
Warren Family Institute *	30,746	(214)	-	-
Weldon City Schools *	155,557	(529)	-	-
Individuals:				
Hargrove Family Child Care Center - Doris Hargrove *	18,584	-	-	-
Just for Kids Child Care Center - Mary Ann Gasko *	7,561	-	15,462	-
Kingdom Kids Child Care Center - Mildred Tyler *	10,637	-	-	-
Little People Play and Learn-Doris Hargrove *	4,550	-	-	-
The Learning Tree - Dorothy Harry *	2,741	-	955	-
	\$ 1,288,452	\$ (7,043)	\$ 77,521	\$ -

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

See Independent Auditors' Report.

Halifax-Warren Smart Start 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 - WAGE\$ Program	\$ 65,000
Department of Social Services of Halifax and Warren Counties	* 454,780
	\$ 519,780

* 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 the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

***Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Federal and State Awards - Regulatory Basis
For the Year Ended June 30, 2001***

Schedule 3

<u>Federal and State Grantor/Pass-through Grantor/Program</u>	<u>CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services -				
Division of Child Development				
Childcare Resource and Referral (Current Year)	93.575	5862	\$ 46,570	\$ 50,610
Childcare Resource and Referral (Prior Year)	93.575	5558	-	229
Pass-through from the North Carolina Department of Health and Human Services -				
Division of Public Health				
Fatherhood Initiative	93.558	15161010	<u>18,749</u>	<u>25,049</u>
Total Federal Awards			<u>65,319</u>	<u>75,888</u>
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)	N/A	* 1-90-5-19-001	(150,367)	-
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-5-19-001	1,944,395	1,911,618
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-1-06-001E	99,832	79,598
Multi-County Accounting and Contracting Grant	N/A	-	<u>24,000</u>	<u>24,000</u>
Total State Awards			<u>1,917,860</u>	<u>2,015,216</u>
Total Federal and State Awards			<u>\$ 1,983,179</u>	<u>\$ 2,091,104</u>

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

See Independent Auditors' Report.

Halifax-Warren Smart Start Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$	83,466
Computer Equipment/Printers		61,493
Buildings		174,488
Land		32,319
Leasehold Improvements		<u>123,615</u>
Total Property and Equipment	\$	<u>475,381</u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year purchased.

See Independent Auditors' Report.

Halifax-Warren Smart Start 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	\$	102,268
In-Kind Goods and Services		<u>203,811</u>
	\$	<u><u>306,079</u></u>

Match Provided at the Contractor Level:

Cash	\$	67,612
In-Kind Goods and Services		<u>233,085</u>
	\$	<u><u>300,697</u></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 accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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
The Halifax-Warren Smart Start Partnership for Children, Inc.
Halifax, North Carolina

We have audited the financial statements of the Halifax-Warren Smart Start Partnership for Children, Inc. (Halifax-Warren Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated June 6, 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 Halifax-Warren 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 Children's Council'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

**INDEPENDENT AUDITORS' 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)**

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.

However, we noted another matter involving an issue of a management control nature that is described in the Other Observations and Recommendations section of this report.

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.

June 6, 2002

Crisp Hughes Evans LLP

OTHER OBSERVATIONS AND RECOMMENDATIONS

Other Observations and Recommendations from the Current Audit - The following presents a management control issue related to the efficiency and effectiveness of operations and is not considered by us to be a finding.

SPENDING DECISIONS

Our review of the Halifax-Warren Partnership's disbursements during the current year noted a prepayment of approximately \$200,000 for playground equipment. The Smart Start Accountability Plan, developed by the North Carolina Partnership for Children, Inc. (NCPC), prohibits the prepayment of goods and services at year-end.

Recommendation: We recommend that the Partnership incorporate guidance established by its oversight entity into its operating procedures. The Board should monitor the Partnership's spending decisions to ensure that the objectives of the strategic plan are being met and expenditures are reasonable within the program objectives. The Partnership should closely monitor expenditures for the prepayment of goods and/or services in order to comply with the Smart Start Accountability Plan.

Partnership's Response: The Halifax-Warren Smart Start Partnership for Children, Inc. has incorporated guidance established by NCPC into our operating procedures. The Board of Directors monitors the spending decisions to ensure that the objectives of the strategic plan are being met and expenditures are reasonable within the program objectives. The Partnership closely monitors for prepayment of goods and/or services in order to comply with the Smart Start Accountability Plan.

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Senator Aaron W. Plyler	Representative R. Phillip Haire
Senator Charlie Albertson	Senator Eric M. Reeves	Representative Dewey L. Hill
Senator Frank W. Ballance, Jr.	Senator Dan Robinson	Representative Mary L. Jarrell
Senator Charles Carter	Senator Larry Shaw	Representative Maggie Jeffus
Senator Daniel G. Clodfelter	Senator Robert G. Shaw	Representative Larry T. Justus
Senator Walter H. Dalton	Senator R. C. Soles, Jr.	Representative Edd Nye
Senator James Forrester	Senator Ed N. Warren	Representative Warren C. Oldham
Senator Linda Garrou	Senator David F. Weinstein	Representative William C. Owens, Jr.
Senator Wilbur P. Gulley	Senator Allen H. Wellons	Representative E. David Redwine
Senator Kay R. Hagan	Representative James B. Black, Co-Chairman	Representative R. Eugene Rogers
Senator David W. Hoyle	Representative Martha B. Alexander	Representative Drew P. Saunders
Senator Ellie Kinnaird	Representative Flossie Boyd-McIntyre	Representative Wilma M. Sherrill
Senator Howard N. Lee	Representative E. Nelson Cole	Representative Ronald L. Smith
Senator Jeanne H. Lucas	Representative James W. Crawford, Jr.	Representative Joe P. Tolson
Senator R. L. Martin	Representative William T. Culpepper, III	Representative Gregg Thompson
Senator William N. Martin	Representative W. Pete Cunningham	Representative Russell E. Tucker
Senator Stephen M. Metcalf	Representative Beverly M. Earle	Representative Thomas E. Wright
Senator Fountain Odom	Representative Ruth M. Easterling	Representative Douglas Y. Yongue
	Representative Stanley H. Fox	

Other Legislative Officials

Representative Philip A. Baddour, Jr.	Majority Leader of the N.C. House of Representatives
Senator Anthony E. Rand	Majority Leader of the N.C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N.C. Senate
Representative N. Leo Daughtry	Minority Leader of the N.C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

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

Telephone: 919/807-7500

Facsimile: 919/807-7647