

**FINANCIAL STATEMENT AUDIT REPORT OF
ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.
SPARTA, 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

ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.

SPARTA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

DON ADAMS, CHAIRMAN

ADMINISTRATIVE OFFICER

ROBERT L. BAMBERG, 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, Alleghany Partnership for Children, Inc.

This report presents the results of the financial statement audit of the Alleghany 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 Alleghany 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 Alleghany Partnership for Children, Inc. is one of these local partnerships. As such, the Alleghany 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
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	9
2 Schedule of State Level Service Provider Contracts	10
3 Schedule of Federal and State Awards - Regulatory Basis.....	11
4 Schedule of Property and Equipment.....	12
5 Schedule of Qualifying Match (Non-GAAP)	13
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>	14
AUDIT OBSERVATIONS AND RECOMMENDATIONS	16
DISTRIBUTION OF AUDIT REPORT	17

INDEPENDENT AUDITORS' REPORT

Board of Directors
Alleghany Partnership for Children, Inc.
Sparta, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Alleghany Partnership for Children, Inc. ("Alleghany 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 Alleghany 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 Alleghany 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 January 25, 2002 on our consideration of the Alleghany 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 Alleghany 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.

January 25, 2002

Crisp Hughes Evans LLP

Allegheny County Partnership for Children, Inc.

***Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2001***

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$91,360)	\$ 309,797	\$ 135,157	\$ 11,205	\$ 456,159
Federal Awards	-	4,190	-	4,190
Local Awards	-	2,000	-	2,000
Private Contributions	-	30,459	-	30,459
Special Events (Net)	-	1,469	-	1,469
Interest and Investment Earnings	-	6,426	-	6,426
Sales Tax Refunds	-	1,888	-	1,888
Other Receipts	-	5,641	-	5,641
Total Receipts	309,797	187,230	11,205	508,232
Expenditures:				
Programs:				
Child Care and Education Quality	91,257	54,864	-	146,121
Child Care and Education Accessibility and Availability	25,030	-	-	25,030
Child Care and Education Affordability	43,005	-	-	43,005
Health and Safety	18,822	42,707	-	61,529
Family Support	95,589	41,132	-	136,721
Support:				
Management and General	107,132	67,545	-	174,677
Program Evaluation	13,335	-	-	13,335
Other:				
Sales Tax Paid	-	1,795	-	1,795
Refunds of Prior Year Grants	-	7,749	-	7,749
Total Expenditures	394,170	215,792	-	609,962
Excess of Receipts Over (Under) Expenditures	(84,373)	(28,562)	11,205	(101,730)
Net Assets at Beginning of Year	89,457	76,160	-	165,617
Net Assets at End of Year	\$ 5,084	\$ 47,598	\$ 11,205	\$ 63,887
Net Assets Consisted of:				
Cash on Deposit	\$ 3,690	\$ 48,420	11,205	\$ 63,315
Refunds Due From Contractors	1,394	-	-	1,394
	5,084	48,420	11,205	64,709
Less: Funds Held for Others	-	(822)	-	(822)
	\$ 5,084	\$ 47,598	\$ 11,205	\$ 63,887

The accompanying notes are an integral part of these statements.

Allegheny County 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/ Grants	Participant Training
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 91,257	\$ 63,192	\$ -	\$ 2,242	\$ 7,721	\$ 4,411	\$ -	\$ 11,901	\$ 1,790
Child Care and Education Accessibility and Availability	25,030	-	-	-	-	-	-	25,030	-
Child Care and Education Affordability	43,005	-	-	3,005	-	-	-	40,000	-
Health and Safety	18,822	-	-	-	-	-	-	18,822	-
Family Support	95,589	19,906	25	993	2,452	510	324	71,379	-
Support:									
Management and General	107,132	64,543	3,541	4,940	12,474	7,539	14,095	-	-
Program Evaluation	13,335	-	13,335	-	-	-	-	-	-
Total Smart Start Fund Expenditures	\$ 394,170	\$ 147,641	\$ 16,901	\$ 11,180	\$ 22,647	\$ 12,460	\$ 14,419	\$ 167,132	\$ 1,790
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 54,864	\$ 54,849	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -
Health and Safety	42,707	30,455	1,466	2,095	8,691	-	-	-	-
Family Support	41,132	16,149	475	5,255	9,558	3,914	533	5,248	-
Support:									
Management and General	67,545	20,912	10,959	5,215	6,317	10,616	13,526	-	-
Other:									
Sales Tax Paid	1,795	-	-	1,795	-	-	-	-	-
Refunds of Prior Year Grants	7,749	-	-	-	7,749	-	-	-	-
Total Other Funds Expenditures	\$ 215,792	\$ 122,365	\$ 12,900	\$ 14,360	\$ 32,330	\$ 14,530	\$ 14,059	\$ 5,248	\$ -

The accompanying notes are an integral part of these statements.

ALLEGHANY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Alleghany Partnership for Children, Inc. (Alleghany Partnership) is a legally separate nonprofit organization incorporated on December 12, 1994. The Alleghany Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Alleghany 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 Alleghany Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations," the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of receipts, expenditures, and net assets as net assets released from restrictions.

The Alleghany Partnership did not have any permanently restricted net assets at June 30, 2001.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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 Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity.
- F. Use of Estimates** - The financial statements includes estimates and assumptions made by management for the allocation of joint costs. It is management's belief these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Alleghany Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subject the Alleghany Partnership to a concentration of credit risk. At June 30, 2001, the Alleghany Partnership's bank deposits in excess of the FDIC insured limit was \$9,615.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Alleghany 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 Alleghany 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 STATEMENTS (CONTINUED)

The Alleghany Partnership was awarded and has received \$401,157 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 \$6,987 of these contracts 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 Alleghany Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Alleghany 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 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, child care resource and referral, professional development, child care substitutes, salary supplements, and T.E.A.C.H. support.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Child Care and Education Affordability - Used to account for service activities including kindergarten orientation program and public preschool classes.

Health and Safety - Used to account for service activities including comprehensive dental services, prenatal/newborn services, and outreach nurses.

Family Support - Used to account for service activities including family resource center and literacy projects.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

NOTE 6 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. No costs are incurred by the Alleghany Partnership. The voluntary contributions by employees amounted to \$15,713 during the year ended June 30, 2001.

NOTE 7 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - All temporarily restricted net assets at June 30, 2001 are available for migrant health clinics.

Alleghany County 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
Alleghany Board of Education *	\$ 65,030	\$ -	\$ -	\$ -
Appalachian District Health Department *	18,822	-	-	-
Family Resource Center	-	-	748	-
Northwestern Regional Library	27,500	(1,394)	-	-
Quality Enhancement Grants	7,692	-	-	-
United Cerebral Palsy of North Carolina	2,409	-	-	-
Various Daycare Organizations	45,273	-	4,500	-
Individuals:				
TEACH Bonuses	1,800	-	-	-
	\$ 168,526	\$ (1,394)	\$ 5,248	\$ -

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

See Independent Auditors' Report.

Alleghany County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

<u>Organization Name</u>	<u>DHHS Contracts</u>
Alleghany County Department of Social Services	* \$ 84,000
Child Care Services Association-WAGE\$ Program	3,100
	\$ 87,100

* 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.

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

Schedule 3

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>CFDA #</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:				
Department of Health and Human Services Pass-through from the North Carolina Department of Health and Human Services Division of Social Services Temporary Aid to Needy Families	93.558	00232-01	\$ 4,190	\$ 5,316
Total Federal Awards			<u>4,190</u>	<u>5,316</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	1-90-3-01-001	(91,360)	-
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-3-01-001	353,475	346,488
Early Childhood Initiatives Program (Encumbrance)	N/A	* 1-01-3-01-001E	47,682	47,682
Multi-County Accounting and Contracting Grant	N/A	-	12,000	12,000
Division of Social Services Family Resource Center	N/A	01099-01	73,476	74,469
Office of Research, Demonstrations, and Rural Health Development Migrant Health Clinics	N/A	2090001693	29,232	31,921
North Carolina Department of Administration N.C. Council for Women Domestic Violence Grant	N/A	-	28,379	29,332
North Carolina State Board of Education Department of Public Instruction Glade Creek Family Resource Center	N/A	0800008621	3,275	-
Total State Awards			<u>456,159</u>	<u>541,892</u>
Total Federal and State Awards			<u>\$ 460,349</u>	<u>\$ 547,208</u>

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

See Independent Auditors' Report.

Alleghany County Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$	12,134
Computer Equipment/Printers		48,602
Motor Vehicles		<u>14,803</u>
Total Property and Equipment	\$	<u>75,539</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.

Alleghany County 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	\$	32,459
In-Kind Goods and Services		<u>16,746</u>
	\$	<u>49,205</u>

Match Provided at the Contractor Level:

Cash	\$	33,188
In-Kind Goods and Services		<u>47,921</u>
	\$	<u>81,109</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
Alleghany Partnership for Children, Inc.
Sparta, North Carolina

We have audited the financial statements of the Alleghany Partnership for Children, Inc. (Alleghany Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 25, 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 Alleghany 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 Alleghany 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or

**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)**

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 matters involving issues of a management control nature that are described in the Audit 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.

January 25, 2002

Crisp Hughes Evans LLP

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Other observations and recommendations - The conditions and recommendations described below are not considered by us to be reportable conditions but are presented for your consideration to assist management in its day to day operations.

1. FUND ACCOUNTING

During the audit we noted the Partnership maintains an excessive number of funds. Some funds have very little or no activity. One of the principles of fund accounting is to maintain the fewest number of funds possible. Therefore, we recommend that management review all funds and close out all inactive and extraneous funds.

Partnership's Response: The Partnership will review and consolidate all unnecessary funds.

2. MANAGEMENT CONTROL - CREDIT CARD PURCHASE CONTROLS

The Partnership lacked adequate controls over expenditures paid with the Partnership's credit cards. The user of the cards was allowed to be one of the two authorizing signers on the check payment of the credit card. We recommend the partnership adopt a policy that the two authorized signers who review the expenditures and authorize the check be independent of the user of the credit card.

Partnership's Response: The Partnership has adopted a policy where the check signers will be two different individuals from the individual initiating a transaction.

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 Luther H. Jordan, Jr.	Representative Flossie Boyd-McIntyre	Representative Wilma M. Sherrill
Senator Ellie Kinnaird	Representative E. Nelson Cole	Representative Ronald L. Smith
Senator Howard N. Lee	Representative James W. Crawford, Jr.	Representative Joe P. Tolson
Senator Jeanne H. Lucas	Representative William T. Culpepper, III	Representative Gregg Thompson
Senator R. L. Martin	Representative W. Pete Cunningham	Representative Russell E. Tucker
Senator William N. Martin	Representative Beverly M. Earle	Representative Thomas E. Wright
Senator Stephen M. Metcalf	Representative Ruth M. Easterling	Representative Douglas Y. Yongue
Senator Fountain Odom	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