

FINANCIAL STATEMENT AUDIT REPORT OF
SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP
MOUNT AIRY, 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
SURRY COUNTY EARLY CHILDHOOD PARTNERSHIP
MOUNT AIRY, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

WILLIAM CHURCH, CHAIRMAN

ADMINISTRATIVE OFFICER

DR. CARLYLE SHEPHERD, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

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

This report presents the results of the financial statement audit of the Surry County Early Childhood Partnership 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 Surry County Early Childhood Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Surry County Early Childhood Partnership is one of these local partnerships. As such, the Surry County Early Childhood Partnership 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	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of State Awards - Regulatory Basis	13
4 Schedule of Property and Equipment.....	14
5 Schedule of Qualifying Match (Non-GAAP)	15
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>	16
AUDIT FINDINGS AND RECOMMENDATIONS	18
DISTRIBUTION OF AUDIT REPORT	19

INDEPENDENT AUDITORS' REPORT

Board of Directors
Surry County Early Childhood Partnership
Mount Airy, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Surry County Early Childhood Partnership (Surry 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 Surry 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 Surry County Early Childhood Partnership as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2002 on our consideration of the Surry 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 auditors' 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 Surry County Early Childhood Partnership taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

February 13, 2002

Crisp Hughes Evans LLP

Surry County Early Childhood Partnership

Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis

For the Year Ended June 30, 2001

Exhibit A

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$347,678)	\$ 1,863,420	\$ 5,499	\$ -	\$ 1,868,919
Private Contributions	-	17,188	14,500	31,688
Interest and Investment Earnings	-	3,728	-	3,728
Other Receipts	-	21,869	-	21,869
Total Receipts	1,863,420	48,284	14,500	1,926,204
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	-	13,846	(13,846)	-
	<u>1,863,420</u>	<u>62,130</u>	<u>654</u>	<u>1,926,204</u>
Expenditures:				
Programs:				
Child Care and Education Quality	765,077	6,101	-	771,178
Child Care and Education Accessibility and Availability	1,546	552	-	2,098
Child Care and Education Affordability	524,300	-	-	524,300
Health and Safety	49,810	-	-	49,810
Family Support	510,929	15,364	-	526,293
Support:				
Management and General	148,162	23,693	-	171,855
Program Evaluation	41,780	14,209	-	55,989
Total Expenditures	2,041,604	59,919	-	2,101,523
Excess of Receipts Over (under) Expenditures	(178,184)	2,211	654	(175,319)
Net Assets at Beginning of Year	184,981	8,372	29,880	223,233
Net Assets at End of Year	\$ 6,797	\$ 10,583	\$ 30,534	\$ 47,914
Net Assets Consisted of:				
Cash on Deposit	\$ 3,230	\$ 12,902	\$ 30,534	\$ 46,666
Refunds Due From Contractors	3,567	-	-	3,567
	<u>6,797</u>	<u>12,902</u>	<u>30,534</u>	<u>50,233</u>
Less: Funds Held for Others	-	(2,319)	-	(2,319)
	<u>\$ 6,797</u>	<u>\$ 10,583</u>	<u>\$ 30,534</u>	<u>\$ 47,914</u>

The accompanying notes are an integral part of these statements

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

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 765,077	\$ 67,019	\$ 10	\$ 17,499	\$ 12,630	\$ 5,144	\$ 7,639	\$ 655,136
Child Care and Education Accessibility and Availability	1,546	-	-	-	-	-	-	1,546
Child Care and Education Affordability	524,300	-	-	-	-	-	-	524,300
Health and Safety	49,810	31,264	-	5,055	8,151	2,610	2,730	-
Family Support	510,929	-	-	-	-	-	-	510,929
Support:								
Management and General	148,162	111,127	1,216	5,829	18,837	6,886	4,467	-
Program Evaluation	41,780	30,026	-	1,461	5,459	2,104	2,730	-
Total Smart Start Fund Expenditures	\$2,041,604	\$ 239,436	\$ 1,226	\$ 29,844	\$ 45,077	\$ 16,544	\$ 17,566	\$1,691,911
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 6,101	\$ -	\$ -	\$ -	\$ 3,047	\$ -	\$ -	\$ 3,054
Child Care and Education Accessibility and Availability	552	-	-	552	-	-	-	-
Family Support	15,364	-	-	7,364	-	-	8,000	-
Support:								
Management and General	23,693	-	7,852	12,052	-	-	3,789	-
Program Evaluation	14,209	-	2,381	2,434	1,692	27	1,077	6,598
Total Other Funds Expenditures	\$ 59,919	\$ -	\$ 10,233	\$ 22,402	\$ 4,739	\$ 27	\$ 12,866	\$ 9,652

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Surry County Early Childhood Partnership (Surry Partnership) is a legally separate nonprofit organization incorporated on August 24, 1994. The Surry Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Surry 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 Surry 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 Surry Partnership did not have any permanently restricted net assets at June 30, 2001.

C. Basis of Accounting - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles 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. For the year ended, the Surry Partnership was holding amounts for the Gilmer-Smith Foundation.
- 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 Surry 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 Surry Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Surry 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 Surry Partnership. These service provider contracts are not reflected on the accompanying financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Surry Partnership was awarded and has received \$2,197,621 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$7,102 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001. The partnership also reverted \$148,915 prior 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 Surry Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Surry 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, program upgrade projects, early education enhancement programs, child care resource and referral, salary supplements, provider training, resources and materials, curriculum

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

enhancement, health and safety intervention in child care, and school readiness programs.

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

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

Health and Safety - Used to account for service activities including: comprehensive health services, prenatal/newborn services, and special needs - early intervention services.

Family Support - Used to account for service activities including: family resource center, parenting education, teen parent/child program, parenting skills training, general family support, support services for children in crisis, literacy projects, and family literacy.

B. Support Functions

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

Occupancy Cost - Allocated between administration and in-house activities based on utilization data.

Supplies and Materials - General supplies and materials are allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Costs - Other costs including postage rental and copier lease expense are allocated based on utilization data.

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	\$ 8,319
2003	780
2004	780
2005	780
2006	780
Total Minimum Lease Payments	\$ <u>11,439</u>

Total rental expenditures for all operating leases was \$9,750 for the year ended June 30, 2001.

NOTE 7 - 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 Surry Partnership. The voluntary contributions by employees amounted to \$15,701 during the year ended June 30, 2001.

Also, for the year ended June 30, 2001, the Surry Partnership provided a 6% matching contribution of each participating employee's salary. The Partnership contributed \$10,948 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Dental - Reynolds Grant	\$ 7,500
Scholarship program - Reynolds Grant	6,957
Family Support - Duke Energy Grant	9,077
Promotional Materials - Reynolds Grant	7,000
	<u>\$ 30,534</u>

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Family Support - Duke Energy Grant	\$ 10,682
Scholarship Program - Reynolds Grant	22
Spanish Translator - Reynolds Grant	3,142
	<u>\$ 13,846</u>

Surry County Early Childhood Partnership

Schedule of Contract and Grant Expenditures - Regulatory Basis

For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Bright Beginnings Preschool	* \$ 44,955	\$ (344)	\$ 2	\$ -
Elkin City Schools	* 90,900	(1,867)	-	-
Friday's Child	* -	-	2,722	-
Head Start	* -	-	51	-
Mount Airy City Schools	* 158,870	-	-	-
Mount Airy Housing Authority	3,200	-	-	-
NC Cooperative Extension Services	* 39,479	-	-	-
Northwestern Regional Library	* 42,300	(995)	-	-
Surry Arts Council	56,500	-	-	-
Surry Community College	* 15,381	(80)	-	-
Surry County Schools	* 452,850	(93)	-	-
Surry County Health & Nutrition Center	* 130,000	-	-	-
Surry Scan	161,589	-	-	-
Grassy Creek United Methodist Church	25,490	(188)	-	-
Individuals:				
Regulatory Upgrades	* 61,800	-	-	-
Salary Supplements	* 277,525	-	6,598	-
Quality Enhancement Grants	* 133,139	-	279	-
Expansion	1,700	-	-	-
	\$ 1,695,478	\$ (3,567)	\$ 9,652	\$ -

* 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.

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

Schedule 2

Organization Name	DHHS Contracts
Surry County Department of Social Services	* \$ 605,000

* 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.

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

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</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 (Other Prior Years)	-	\$ 6,976	\$ -
Early Childhood Initiatives Program (Prior Year)	* 1-90-3-08-001	(192,262)	-
Early Childhood Initiatives Program (Current Year)	* 1-01-3-08-001	(148,915)	-
Early Childhood Initiatives Program (Current Year)	* 1-01-3-08-001	2,197,621	2,041,604
Multi-County Accounting and Contract Grant (Current Year)	-	12,000	11,741
Multi-County Accounting and Contract Grant (Prior Year)	-	<u>(6,501)</u>	<u>-</u>
Total State Awards		<u>\$ 1,868,919</u>	<u>\$ 2,053,345</u>

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

See Independent Auditors' Report.

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

Schedule 4

Furniture and Non-Computer Equipment	\$	12,326
Computer Equipment/Printers		45,727
Leasehold Improvements		<u>2,030</u>
Total Property and Equipment	\$	<u><u>60,083</u></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.

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	31,688
In-Kind Goods and Services		<u>201,561</u>
	\$	<u>233,249</u>

Match Provided at the Contractor Level:

Cash	\$	83,243
In-Kind Goods and Services		<u>158,501</u>
	\$	<u>241,744</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
Surry County Early Childhood Partnership
Mount Airy, North Carolina

We have audited the financial statements of the Surry County Early Childhood Partnership (Surry Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 13, 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 Surry 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 Surry 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

**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)**

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving an issue of a management control nature that is described in the Audit Findings 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.

February 13, 2002

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Material Findings and Recommendations from Prior Audits - The following presents the status of a material finding and recommendation presented in the prior year audit report that affected the current year audit of the financial statements.

1. CONTRACT MANAGEMENT/MONITORING

Adequate contract management/monitoring systems were not in place in prior years.

The finding is resolved.

Other Observations and Recommendations from the Current Audit - The following presents a management control issue related to the efficiency and effectiveness of operations.

2. CREDIT CARD PURCHASES AND AUTHORIZATION

The partnership had excessive credit limits associated with the cards possessed and also lacked adequate controls over the authorization of credit card purchases. There was no policy to prevent the card user from authorizing the payment by signing the check to pay off the credit card.

The issue is resolved. The partnership has adopted a policy to address the control issue and has reduced the credit limits on the cards to more reasonable amounts based on prior and foreseeable needs.

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
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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

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