

FINANCIAL STATEMENT AUDIT REPORT OF
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
BOONE, 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
CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.**

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

HARWOOD SMITH, CHAIRMAN

ADMINISTRATIVE OFFICER

MARSHALL ASHCRAFT, 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, Children's Council of Watauga County, Inc.

This report presents the results of the financial statement audit of the Children's Council of Watauga County, 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 Children's Council of Watauga County, 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 Children's Council of Watauga County, Inc. is one of these local partnerships. As such, the Children's Council of Watauga County, 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	10
2 Schedule of State Level Service Provider Contracts.....	11
3 Schedule of 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
AUDIT FINDINGS AND RECOMMENDATIONS	17
DISTRIBUTION OF AUDIT REPORT	18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's Council of Watauga County, Inc.
Boone, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Children's Council of Watauga County, Inc. (Children's Council) 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 Children's Council'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 Children's Council of Watauga County, 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 March 8, 2002 on our consideration of the Children's Council'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 Children's Council of Watauga County, 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 Council, 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.

March 8, 2002

Crisp Hughes Evans LLP

Children's Council of Watauga County, 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 \$46,322)	\$ 374,858	\$ 79,156	\$ 454,014
Local Awards	-	2,000	2,000
Private Contributions	-	17,046	17,046
Special Events Fees	-	2,132	2,132
Interest and Investment Earnings	-	2,654	2,654
Sales Tax Refunds	-	1,775	1,775
Other Receipts	134	720	854
Total Receipts	<u>374,992</u>	<u>105,483</u>	<u>480,475</u>
Expenditures:			
Programs:			
Child Care and Education Quality	133,945	64,679	198,624
Child Care and Education Accessibility and Availability	8,723	-	8,723
Child Care and Education Affordability	75,547	-	75,547
Health and Safety	33,792	7,018	40,810
Family Support	72,583	9,950	82,533
Support:			
Management and General	86,032	14,758	100,790
Program Coordination	6,684	-	6,684
Other:			
Sales Tax Paid	-	2,070	2,070
Total Expenditures	<u>417,306</u>	<u>98,475</u>	<u>515,781</u>
Excess of Receipts Over (Under) Expenditures	(42,314)	7,008	(35,306)
Net Assets at Beginning of Year	<u>46,188</u>	<u>45,733</u>	<u>91,921</u>
Net Assets at End of Year	<u>\$ 3,874</u>	<u>\$ 52,741</u>	<u>\$ 56,615</u>
Net Assets Consisted of:			
Petty Cash	\$ -	\$ 100	\$ 100
Cash on Deposit	499	52,641	53,140
Refunds Due From Contractors	3,375	-	3,375
	<u>\$ 3,874</u>	<u>\$ 52,741</u>	<u>\$ 56,615</u>

The accompanying notes are an integral part of these statements.

Children's Council of Watauga County, 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
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 133,945	\$ 56,833	\$ -	\$ 3,364	\$ 2,788	\$ 429	\$ -	\$ 70,431
Child Care and Education Accessibility and Availability	8,723	-	-	-	-	-	-	8,723
Child Care and Education Affordability	75,547	-	-	-	-	-	-	75,547
Health and Safety	33,792	-	-	-	-	-	-	33,792
Family Support	72,583	-	-	-	-	-	-	72,583
Support:								
Management and General	86,032	61,695	590	2,135	9,410	1,457	895	9,850
Program Coordination	6,684	6,234	-	-	450	-	-	-
Total Smart Start Fund Expenditures	\$ 417,306	\$ 124,862	\$ 590	\$ 5,499	\$ 12,648	\$ 1,886	\$ 895	\$ 270,926
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 64,679	\$ 34,187	\$ -	\$ 6,084	\$ 12,114	\$ 8,756	\$ 862	\$ 2,676
Health and Safety	7,018	2,096	-	3,922	-	-	-	1,000
Family Support	9,950	-	-	2,144	1,506	-	-	6,300
Support:								
Management and General	14,758	-	9,423	219	2,225	2,038	853	-
Other:								
Sales Tax Paid	2,070	-	-	2,070	-	-	-	-
Total Other Funds Expenditures	\$ 98,475	\$ 36,283	\$ 9,423	\$ 14,439	\$ 15,845	\$ 10,794	\$ 1,715	\$ 9,976

The accompanying notes are an integral part of these statements.

CHILDREN'S COUNCIL OF WATAUGA COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Children's Council of Watauga County, Inc. (Children's Council) is a legally separate nonprofit organization incorporated on December 9, 1977. The Children's Council was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Children's Council 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 Children's Council'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 Children's Council 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

E. Use of Estimates - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Children's Council are deposited with two commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subject the Children's Council to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Children's Council'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 Children's Council and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Children's Council 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 Children's Council. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Children's Council was awarded and has received \$421,180 under current year Smart Start contracts with NCPC. The unexpended balance of these contracts is subject to reversion to the State. The Children's Council has returned \$3,874 of these contracts to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

The Children's Council expects to receive continued funding through new Smart Start contracts with the State.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Children's Council are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Children's Council that board members not be involved with decisions regarding organizations they represent. During the year, the Children's Council 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 Children's Council'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 program upgrade projects, early education enhancement programs, child care resource and referral, salary supplements, and resources and materials.

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

Child Care and Education Affordability - Used to account for service activities including public preschool classes and the Head Start summer program.

Health and Safety - Used to account for service activities including health clinic, prenatal/newborn services, child abuse and neglect intervention, and outreach materials.

Family Support - Used to account for service activities including parenting education, parenting skills training, general family support, family crisis

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

intervention, transportation services, outreach materials, outreach plan to assess services and school readiness program.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

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

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>	<u>Capital Leases</u>
2002	\$ 6,600	\$ 600
2003	<u>6,600</u>	<u>600</u>
Total Minimum Lease Payments	<u>\$ 13,200</u>	<u>\$ 1,200</u>

Total rental expenditure for all operating leases was \$6,624 for the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 7 - PENSION PLAN

The Children's Council has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Children's Council has an option to participate in the plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Children's Council contributed 3% of gross wages for the year ended June 30, 2001; however, there were employee contributions of \$7,498 for the year. The Children's Council 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 Children's Council had a total payroll of \$129,767, all of which was covered under the plan. The Children's Council contributed \$3,893 for pension benefits during the year.

Children's Council of Watauga County, 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
Appalachian District Health Department *	\$ 20,303	\$ -	\$ -	\$ -
Appalachian Regional Development Institute *	5,000	-	-	-
Appalachian Regional Library *	22,179	(923)	-	-
AppalCART	16,431	(1,855)	-	-
ASU Child Development *	100	-	-	-
Child Service Coordinators Grant	1,000	-	-	-
Cove Creek Preschool *	-	-	100	-
Hardin Park Incentives *	500	-	-	-
Infant/Toddler Incentives	7,873	-	-	-
Intermountain Children's Services, Inc. *	25,963	(598)	-	-
Lucy Brock I *	350	-	-	-
Lucy Brock II *	100	-	-	-
Lynnhill Child Development Center	-	-	500	-
Mabel Head Start *	100	-	-	-
Merryland Academy I	2,500	-	-	-
Merryland Academy II	3,100	-	-	-
New River Child Development *	100	-	-	-
Provider Grants	2,675	-	1,523	-
Watauga County Schools *	110,188	(199)	-	-
Watauga Head Start *	100	-	-	-
Watauga Medical Center *	13,989	-	6,000	-
Individuals:				
Care Giver Awards	-	-	205	-
Emergency Childcare & Family Support	-	-	700	-
Felecia Norris-Salary Supplement *	1,025	-	-	-
Parent Stipends	-	-	100	-
Provider Scholarships	-	-	848	-
Salary Supplements	40,725	-	-	-
	\$ 274,301	\$ (3,375)	\$ 9,976	\$ -

* 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.

Children's Council of Watauga County, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name	DHHS Contracts
Watauga County Department of Social Services	* \$ 174,500

* 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.

Children's Council of Watauga County, Inc.
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 (Prior Year)	* 1-90-5-33-001	\$ (46,322)	\$ -
Early Childhood Initiatives Program (Current Year)	* 1-01-5-33-001	419,732	415,858
Early Childhood Initiatives Encumbrance	* 1-01-5-33-001E	1,448	1,448
Multi-County Accounting and Contracting Grant	-	12,000	12,000
North Carolina Department of Health and Human Services			
Division of Child Development			
Child Care Resource and Referral (Prior Year)	5756	6,824	-
Child Care Resource and Referral (Current Year)	5875	<u>60,332</u>	<u>62,000</u>
Total State Awards		<u>\$ 454,014</u>	<u>\$ 491,306</u>

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

See Independent Auditors' Report.

Children's Council of Watauga County, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2001

Schedule 4

Furniture and Non-Computer Equipment	\$ 8,762
Computer Equipment/Printers	<u>10,300</u>
Total Property and Equipment	<u>\$ 19,062</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.

Children's Council of Watauga County, Inc.
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2001

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	17,046
In-Kind Goods and Services		<u>20,413</u>
	\$	<u>37,459</u>

Match Provided at the Contractor Level:

Cash	\$	46,643
In-Kind Goods and Services		<u>31,195</u>
	\$	<u>77,838</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
Children's Council of Watauga County, Inc.
Boone, North Carolina

We have audited the financial statements of the Children's Council of Watauga County, Inc. (Children's Council) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 8, 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 Children's Council'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 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 another 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 Children's Council, 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.

March 8, 2002

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Other observation and recommendation - The condition and recommendation described below is not considered by us to be a finding or a reportable condition but is presented for your consideration to assist management in its day to day operations.

1. CREDIT CARD LIMIT

During our audit, we noted that the Children's Council had five MBNA America cards with credit limits of \$1,000 on four cards and \$2,500 on the other card. Also, the Children's Council had five Wal-Mart cards with a total credit limit of \$3,000. Each employee is allowed to hold his/her card and is responsible for it. We recommend that the Children's Council reduce the limits on its credit cards and limit the number of cards, to minimize the Children's Council's liability in the event the cards were ever abused.

Children's Council's Response: The following is a list of changes we have made, effective March 8, 2002:

- MBNA credit card account: We have cancelled one card and reduced the credit limit on each card from \$1,000 to \$500, with the exception of the Financial Manager's card which was reduced from \$2,500 to \$1,500 in order to allow for any capital purchases needed.
- Wal-Mart credit card account: We have reduced the number of cards from five to two and have reduced the credit limit from \$3,000 to \$1,500. Each employee will have to sign-out one of the two cards to take for an approved purchase.

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