

**FINANCIAL STATEMENT AUDIT REPORT OF
BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
WASHINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

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

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

WASHINGTON, NORTH CAROLINA

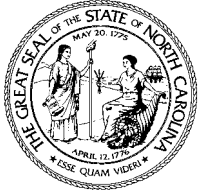
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

DAVID McLAWHORN, CHAIRMAN

ADMINISTRATIVE OFFICER

LISA WOOLARD, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
**Office of the State
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Beaufort Partnership for Children, Inc.

This report presents the results of the financial statement audit of the Beaufort Partnership for Children, Inc. for the year ended June 30, 2002. 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 Beaufort 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 Beaufort Partnership for Children, Inc. is one of these local partnerships. As such, the Beaufort 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 black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Beaufort Partnership for Children, Inc.
Washington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets--Regulatory Basis of the Beaufort Partnership for Children, Inc. (Beaufort Partnership) as of June 30, 2002, and the related Statement of Functional Expenditures--Regulatory Basis for the year then ended. These financial statements are the responsibility of the Beaufort Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 Beaufort Partnership for Children, Inc. as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2003 on our consideration of the Beaufort 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 Beaufort 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.

March 26, 2003

Crisp Hughes Evans LLP

BEAUFORT PARTNERSHIP FOR CHILDREN, INC.**STATEMENT OF RECEIPTS, EXPENDITURES, AND NET ASSETS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002****EXHIBIT A**

	<u>Unrestricted Funds</u>		<u>Temporarily</u>	<u>Total</u>
	<u>Smart Start</u>	<u>Other</u>	<u>Restricted</u>	<u>Funds</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	
Receipts:				
State Awards (less refunds of \$8,859)	\$ 574,943	\$ 138,604	\$ -	\$ 713,547
Federal Awards	-	93,035	-	93,035
Private Contributions	-	9,572	-	9,572
Interest and Investment Earnings	-	712	-	712
Sales Tax Refunds	-	1,646	-	1,646
Other Receipts	<u>200</u>	<u>227</u>	<u>-</u>	<u>427</u>
Total Receipts	<u>575,143</u>	<u>243,796</u>	<u>-</u>	<u>818,939</u>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	<u>-</u>	<u>10,980</u>	<u>(10,980)</u>	<u>-</u>
	<u>575,143</u>	<u>254,776</u>	<u>(10,980)</u>	<u>818,939</u>
Expenditures:				
Programs:				
Child Care and Education Quality	199,353	6,688	-	206,041
Child Care and Education Affordability	91,629	103,874	-	195,503
Health and Safety	123,097	227	-	123,324
More at Four	-	126,604	-	126,604
Support:				
Management and General	119,835	13,894	-	133,729
Program Evaluation	43,970	-	-	43,970
Other:				
Sales Tax Paid	<u>-</u>	<u>4,205</u>	<u>-</u>	<u>4,205</u>
Total Expenditures	<u>577,884</u>	<u>255,492</u>	<u>-</u>	<u>833,376</u>
Deficiency of Receipts Over Expenditures	(2,741)	(716)	(10,980)	(14,437)
Net Assets at Beginning of Year	<u>9,274</u>	<u>3,565</u>	<u>11,235</u>	<u>24,074</u>
Net Assets at End of Year	<u>\$ 6,533</u>	<u>\$ 2,849</u>	<u>\$ 255</u>	<u>\$ 9,637</u>
Net Assets Consisted of:				
Cash on Deposit	\$ 2,989	\$ 2,849	\$ 255	\$ 6,093
Refunds Due from Contractors	<u>3,544</u>	<u>-</u>	<u>-</u>	<u>3,544</u>
	<u>\$ 6,533</u>	<u>\$ 2,849</u>	<u>\$ 255</u>	<u>\$ 9,637</u>

The accompanying notes are an integral part of these statements.

BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENDITURES--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002

EXHIBIT B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/Contracts/Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$ 199,353	\$ 100,122	\$ 3,907	\$ 12,372	\$ 19,625	\$ 12,610	\$ 1,812	\$ 48,905
Child Care and Education Affordability	91,629	-	-	-	3,200	-	-	88,429
Health and Safety	123,097	-	-	-	-	-	-	123,097
Support:								
Management and General	119,835	85,144	4,534	4,243	16,248	7,437	1,729	500
Program Evaluation	43,970	37,959	316	854	2,254	2,587	-	-
Total Smart Start Fund Expenditures	\$ 577,884	\$ 223,225	\$ 8,757	\$ 17,469	\$ 41,327	\$ 22,634	\$ 3,541	\$ 260,931
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 6,688	\$ 934	\$ -	\$ 2,337	\$ 322	\$ -	\$ -	\$ 3,095
Child Care and Education Affordability	103,874	-	-	-	-	-	-	103,874
Health and Safety	227	-	-	-	-	-	-	227
More at Four	126,604	-	-	1,349	1,488	-	37,221	86,546
Support:								
Management and General	13,894	100	11,815	601	1,327	51	-	-
Other:								
Sales Tax Paid	4,205	-	-	4,205	-	-	-	-
Total Other Funds Expenditures	\$ 255,492	\$ 1,034	\$ 11,815	\$ 8,492	\$ 3,137	\$ 51	\$ 37,221	\$ 193,742

The accompanying notes are an integral part of these statements.

BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Beaufort Partnership for Children, Inc. (Beaufort Partnership) is a legally separate nonprofit organization incorporated on April 16, 1996. The Beaufort Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Beaufort 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 Beaufort Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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 Beaufort Partnership did not have any permanently restricted net assets at June 30, 2002.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from 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.

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

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 Beaufort 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 Beaufort Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Beaufort Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Beaufort Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by NCPC and DHHS is presented on Schedule 2 accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Beaufort Partnership was awarded and has received \$583,802 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 \$5,918 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

More At Four - The Beaufort Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Beaufort Partnership was awarded \$126,604 under a current year cost-reimbursement contract. The Partnership expects to receive continued funding through new More At Four contracts with the State.

Work First Pilot Program - The Beaufort Partnership's other major source of revenue and support is from the State of North Carolina based on a cost-reimbursement contract with DHHS for the Work First Pilot Program.

The Beaufort Partnership was awarded \$230,780 under a contract with DHHS and has received \$93,035 of this amount during the current year. The unexpended balance of this contract is subject to reversion to the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Beaufort Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Beaufort 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.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, and curriculum enhancements.

Child Care and Education Affordability - Used to account for service activities including child care cost supports (DCD), child care subsidy, and preschool (0-4) classes.

Health and Safety - Used to account for service activities including vision screenings, prenatal/newborn services, child care health consultants/outreach nurses, and special needs--early intervention services.

More at Four - Used to account for development and implementation of More at Four pre-kindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten services in order to enhance kindergarten readiness.

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:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

Rental payments for all operating leases during the year was \$13,153.

NOTE 7 - PENSION PLAN

The Beaufort Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Beaufort Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Beaufort Partnership contributed up to 6% of gross wages for the year ended June 30, 2002. The Beaufort Partnership does not own the accounts nor is it liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Beaufort Partnership had a total payroll of \$198,709, of which \$134,233 was covered under the plan. The Partnership contributed \$8,054 for pension benefits during the year.

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 Beaufort Partnership. The voluntary contributions by employees amounted to \$10,000 during the year ended June 30, 2002.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

Purpose	Amount
Community Awareness and Access	\$ <u>255</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Net Assets Released from Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Community Awareness and Access	\$ 141
Work First Pilot Program--Los Ninos	<u>10,839</u>
	<u>\$ 10,980</u>

BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
SCHEDULE OF CONTRACT AND GRANT EXPENDITURES--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002

SCHEDULE 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Beaufort County Health Department	* \$ 43,352	\$ (1,166)	\$ -	\$ -
BMH Regional Library	* 21,778	(214)	-	-
Episcopal Hispanic Ministry	* 86,630	(1)	103,874	-
NC Cooperative Extension Service of Beaufort County	* 37,679	(101)	-	-
Beaufort County Development Center, Inc.	* 48,416	(1,682)	367	-
Care-O-World--More At Four	1,800	-	33,167	-
Beaufort County Schools--More At Four	* -	-	53,379	-
Northeastern Elementary	* 2,000	(154)	222	-
The Learning Center	* 100	-	-	-
The Children's House	* 100	-	-	-
Various Daycare Providers	21,620	(226)	2,622	-
Individuals:				
Alice Langley	* 1,000	-	111	-
	\$ 264,475	\$ (3,544)	\$ 193,742	\$ -

* 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.

**BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
 SCHEDULE OF STATE LEVEL SERVICE PROVIDER CONTRACTS
 FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 2

<u>Organization Name</u>	DHHS Contracts	NCPC Contracts	Total Contracts
Beaufort County Department of Social Services	\$ 231,644	\$ -	\$ 231,644
Child Care Services Association--WAGES Program	74,340	-	74,340
National Society to Prevent Blindness--NC	-	13,500	13,500
	\$ 305,984	\$ 13,500	\$ 319,484

*

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

See Independent Auditors' Report.

**BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number		Contract #	Receipts	Expenditures
Federal Awards:					
US Department of Health and Human Services:					
Pass-through from the North Carolina Department of Health and Human Services:					
Division of Social Services:					
Temporary Assistance for Needy Families (TANF):					
Work First Pilot Program	93.558	*	00428-01	\$ <u>93,035</u>	\$ <u>103,874</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		1-01-5-04-000	(8,859)	-
Early Childhood Initiatives Program (current year)	N/A	*	1-12-5-04-001	583,802	577,884
Multi-County Accounting and Contract Grant	N/A		-	12,000	11,795
The Office of the Governor:					
More At Four Pre-kindergarten Program	N/A	*	2090002840	<u>126,604</u>	<u>126,604</u>
Total State Awards				<u>713,547</u>	<u>716,283</u>
Total Federal and State Awards				<u>\$ 806,582</u>	<u>\$ 820,157</u>

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

See Independent Auditors' Report.

**BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
SCHEDULE OF PROPERTY AND EQUIPMENT
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 4

Furniture and Non-Computer Equipment	\$ 30,759
Computer Equipment/Printers	17,161
Leasehold Improvements	<u>703</u>
Total Property and Equipment	<u>\$ 48,623</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.

**BEAUFORT PARTNERSHIP FOR CHILDREN, INC.
SCHEDULE OF QUALIFYING MATCH (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2002**

SCHEDULE 5

Match Provided at the Partnership Level:

Cash	\$	9,572
In-Kind Goods and Services		<u>27,330</u>
	\$	<u><u>36,902</u></u>

Match Provided at the Contractor Level:

Cash	\$	64,698
In-Kind Goods and Services		<u>6,183</u>
	\$	<u><u>70,881</u></u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(1). 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
Beaufort Partnership for Children, Inc.
Washington, North Carolina

We have audited the financial statements of the Beaufort Partnership for Children, Inc. (Beaufort Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Beaufort 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

2. COMPETITIVE BIDDING

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Beaufort 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

**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)**

control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Beaufort Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report.

Finding

1. CONTRACT MANAGEMENT AND MONITORING

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, 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 26, 2003

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the prior audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. CONTRACT MANAGEMENT AND MONITORING

The previous auditors reported problems with the Beaufort Partnership's contract management system. Issues noted included inadequate contract agreements, prepayments for goods and services, and inconsistencies in applying grant guidelines, resulting in contract overpayments.

This finding is partially resolved. We noted the Partnership had corrected the prior year issues. However, the Partnership failed to appropriately monitor the direct service providers for a new program as required by the contract.

Recommendation: We recommend that the Beaufort Partnership implement and follow the monitoring policies as adopted.

Partnership's Response: The Partnership failed to complete an on-site monitoring visit on the program in question even though the program had only been in operation less than four months and had received appropriate monthly desk reviews without incident. This program is now completing a full year cycle; it will receive an annual on-site monitoring visit and review per adopted policies and procedures. In addition, as this program in question was actually a grant, policies have been adopted to reflect separate procedures for all non-Smart Start monies.

2. COMPETITIVE BIDDING

The prior year auditors noted that documentation was not available to support the Beaufort Partnership's compliance with the competitive bidding requirements.

This finding is partially resolved. We continued to note errors with the Beaufort Partnership's documentation of compliance with competitive bidding requirements concerning contracts. However, appropriate competitive bidding procedures were used for other transactions.

Partnership's Response: Beginning with fiscal year 2002-2003, the Partnership's continued error in its multi-year bidding will be resolved. Delay in its correction was due to the fact that the audit took place nine months into the fiscal year. Steps have been taken to amend the bid package to include a three-year budget proposal requirement. This amendment is in accordance with the memo the Partnership received from the North Carolina Partnership for Children concerning multi-year bidding requirements.

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