

STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
THE NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS
DURHAM, NORTH CAROLINA
FOR THE PERIOD JULY 1, 2002 THROUGH MARCH 31, 2003**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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THE NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS
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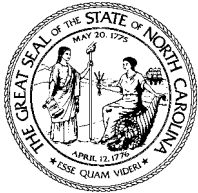
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, The North Carolina School of Science and Mathematics
Dr. Gerald L. Boarman, Executive Director

This report presents the results of our fiscal control audit of The North Carolina School of Science and Mathematics for the period July 1, 2002 through March 31, 2003. Our work was performed by authority of Article 5A of Chapter 147 of the General Statutes and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions.

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of 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
BACKGROUND INFORMATION	1
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS	3
DISTRIBUTION OF AUDIT REPORT	5

BACKGROUND INFORMATION

The North Carolina School of Science and Mathematics (School) is a residential high school for North Carolina juniors and seniors focused on science and math. The North Carolina Legislature established the School in 1978 under the Governor's Office. The School is located on the site of the former Watts Hospital Facility in Durham, North Carolina and opened in the fall of 1980 with its first class of 150 juniors.

In 1985, the Legislature reestablished the School as an affiliated school of The University of North Carolina. The purposes of the School are: (1) to foster the educational development of North Carolina high school students who are academically talented in the areas of science and mathematics and show promise of exceptional development through participation in a residential educational setting emphasizing instruction in the areas of science and mathematics, (2) to develop, evaluate, and disseminate experimental instructional programs, and (3) to serve all schools of the State through research and outreach activities.

A Board of Trustees is responsible for the organization, operation, and management of the School. The University of North Carolina Board of Governors, the Governor, President Pro Tempore of the Senate, and Speaker of the House appoint the 26-member Board. The Board establishes the admissions criteria and standard course of study for the School, and adopts regulations governing class size, the instructional calendar, the length and number of instructional days, and the standard of achievement for enrolled students. The Board adopts the budget for submission to the Legislature through the University of North Carolina Board of Governors. The Board appoints the Executive Director of the School and delegates the responsibilities of administration of the School to the Executive Director.

The Executive Director is responsible for the overall operation and direction of the School and recommends to the Board of Trustees policies pertaining to governance of the School. The Executive Director also serves as liaison to the General Assembly, the Board of Governors and various State, local, and national organizations. Various Administrative Councils at the School provide input regarding the policies, procedures, and programs of the School.

For the 2002-03 school year, the enrollment at the School has grown to 550 students. State appropriations represent the largest source of funding, and the largest expenditures are salaries and related personnel costs. The North Carolina School of Science and Mathematics Foundation, organized in 1979, also provides support for the academic and educational programs of the School.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the General Statutes and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at The North Carolina School of Science and Mathematics. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions for the period July 1, 2002 through March 31, 2003.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected internal controls in the following areas:

Financial Accounting and Reporting

Capital Asset Cycle - An entity's capital asset cycle generally consists of the activities associated with the acquisition, custody, and disposition of long-lived assets. Financial statement accounts typically impacted by the cycle include land, buildings, infrastructure, construction in progress, equipment, and depreciation. Our audit was limited to the School's internal control over buildings, construction in progress, and equipment.

Revenue Cycle - An entity's revenue cycle generally consists of the activities associated with the receipt of cash and billing for amounts due from other parties. Financial statement accounts typically impacted by the cycle include cash, accounts receivable, intergovernmental grants, sales and services, fees and fines, contributions and gifts, transfers in, and State appropriations. Our audit was limited to selected cash receipting areas within sales and services, and fees, licenses, and fines.

Finance-related Compliance

Capital Assets and Construction - Laws, regulations, and/or contracts commonly prescribe procedures for acquiring, constructing, safeguarding, and disposing of capital

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

assets. For example, an entity may be required to tag moveable equipment items and perform an annual physical inventory of the items. We designed our tests to verify compliance with policies and procedures set forth by the Office of State Controller.

Deposit of Receipts - Laws, regulations, and/or contracts commonly require entities to deposit moneys coming into their control as soon as possible in order to safeguard assets and to enhance the cash management and investment program. For example, receipts over a specified amount may be required to be deposited on a daily basis. We designed our tests to verify compliance with General Statutes requiring daily deposits.

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance, as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations; reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

RESULTS

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse, which require disclosure under *Government Auditing Standards*.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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.

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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. Molly Corbett Broad	President, The University of North Carolina
Dr. Gerald L. Boarman	Executive Director, The North Carolina School of Science and Mathematics
Ms. Carol H. Hughes	Chairperson, Board of Trustees
	The North Carolina School of Science and Mathematics

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Representative Richard Morgan	Speaker of the NC House of Representatives
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Mr. James D. Johnson	Director, Fiscal Research Division

September 5, 2003

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