



STATE OF NORTH CAROLINA

THE NORTH CAROLINA SCHOOL OF SCIENCE AND MATHEMATICS FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

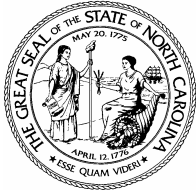
LESLIE W. MERRITT, JR., CPA, CFP

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DR. GERALD L. BOARMAN, CHANCELLOR



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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, Chancellor

This report presents the results of our fiscal control audit of The North Carolina School of Science and Mathematics. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina 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 a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable 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.

Leslie W. Merritt, Jr.

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State Auditor

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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.

The School will become a "constituent high school" of the University of North Carolina system effective July 1, 2007.

The 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 27-member Board. The Board establishes the admissions criteria and standard course of study for the School, and adopts the budget for submission to the Legislature through the University of North Carolina Board of Governors.

The Board appoints the Chancellor. The Chancellor 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 Chancellor 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.

The enrollment at the School has grown to 640 students for the 2006-2007 school year. State appropriations represent the largest source of funding, and the largest expenditure is personal services. The North Carolina School of Science and Mathematics Foundation, Inc., 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 *North Carolina 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 a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

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 covered the period July 1, 2006, through February 28, 2007, and included selected internal controls in the following organizational units:

Business Office – This unit is responsible for the accounting, budgeting, purchasing, accounts payable, accounts receivable, payroll and fixed asset activities at the School.

Human Resources – This unit is responsible for the coordination of services, programs and activities which support the human resource needs of the School.

During our audit we considered internal control and compliance related to the following accounts and control objectives:

Personal Services – This account includes expenditures incurred for services rendered by permanent and temporary employees. Our audit covered personal service expenditures paid during the period which exceeded \$6.7 million in the general fund. We examined internal control designed to ensure that the School properly accounts for and reports these expenditures. We also examined evidence to support compliance with finance-related laws and regulations over these expenditures. These laws and regulations require verification of academic and professional credentials, establish the guidelines for salary adjustments, and set salary ranges for new employees.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Capital Outlay – This account includes the purchase of furniture and equipment. Our audit covered capital outlay expenditures during the period which approximates \$472 thousand in the general fund. We examined internal control designed to ensure that the School properly accounts for and reports these expenditures. We also examined evidence to support compliance with finance-related laws and regulations over these expenditures. These laws and regulations set the thresholds for which additional approvals are required and established the conditions under which State agencies may use different purchasing procedures.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions 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.

RESULTS

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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