

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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March 7, 2007

Mr. T. Brock Winslow, Chairman, Board of Trustees –
North Carolina School of Science and Mathematics
1219 Broad Street
Durham, North Carolina 27705

Dear Mr. Winslow:

We received a complaint through the *State Auditor's Hotline* concerning the finances for a student exchange trip to Germany in February 2005. Allegedly, the North Carolina School of Science and Mathematics (School of Science and Math) did not fully refund surplus travel fees to the parents of student participants. We have completed an investigation of this matter and are presenting the following findings and recommendations for your review and written response.

Student Exchange Trip to Germany

From February 14-24, 2005, 20 students from the School of Science and Math traveled to Fulda, Germany to participate in a student exchange program with a German school named Winfriedschule. In October 2004, students from the Winfriedschule traveled to North Carolina to participate in the exchange program with the School of Science and Math.

The promotional brochure for the February 2005 exchange trip to Germany included the following statements concerning finances for the trip: "the cost of the trip including plane fare, travel to and accommodations in Berlin, occasional lunches, and other miscellaneous expenses will be \$1,500. Unspent money will be refunded." Parents of the 20 student participants were required to pay \$1,500 in advance for the February 2005 trip.

Summary of Finances for the Student Exchange Trip to Germany

According to the School of Science and Math's records, 19 students paid \$1,500 and one student paid \$1,400 for the 2005 trip. In addition, the School of Science and Math retained \$600 of non-refundable deposits for three students who did not travel to Germany. Thus, \$30,500 was collected in fees for the 2005 exchange trip. The trip to Germany ultimately cost \$16,448.76, resulting in a surplus of \$14,051.24. Accordingly, nineteen students should have received a refund of \$707.56 and one student should have received a refund of \$607.56. The School of Science and Math refunded \$11,300 to 20 students (\$565 per student) in April 2005 and retained the balance of \$2,751.24.

Insufficient Disclosure to Parents of Student Participants

The Executive Vice President of the School of Science and Math sent a letter to parents and student participants in April 2005 with the following explanation:

Please be advised that all of the expenses (including start-up expenses, originally paid by the NCSSM foundation and comparable seed money to continue the exchange) have finally cleared from our mini-term exchange program with the Winfriedschule of Fulda, Germany and NCSSM. I am pleased to report to you that there is a surplus which will be returned equally to all parents of student participants.

The letter indicated each parent was entitled to a \$565 refund. However, the letter did not provide a complete accounting of the trip's finances, including the decision to retain \$2,751.24 of the fees. The letter also did not explain how the remaining surplus would be applied. In response to our inquiry concerning the surplus, the Executive Vice President said it would provide "seed money" for future exchange trips. He also said some of the surplus funds would offset student expenses associated with the Winfriedschule trip to North Carolina in October 2004.

We contacted five parents of student participants regarding the surplus and found they were unaware their refund did not represent a distribution of the entire surplus. In addition, the parents said they were not informed about the application of the remaining surplus to other exchange programs. Each of the parents believed they should have been notified about any funds not used specifically for the trip. However, every parent said that they would have been willing to make a donation if asked because the program was such a positive experience for their child. One parent said she would have been willing to donate a smaller amount.

In our opinion, all surplus funds should have been refunded to the parents of the student participants. At a minimum, parents should have received a complete accounting of the finances for the trip with an option of receiving a full refund or donating part of the refund to the School of Science and Math for future programs.

Recommendations

We recommend the School of Science and Math notify parents of the students that participated in the February 2005 trip to Germany that fees were retained for other exchange programs. The School of Science and Math should provide each parent an opportunity to either receive a refund or indicate their desire to make a donation to the exchange program. In addition, the School of Science and Math should clearly disclose in future fee schedules that a portion of the fees may be applied to exchange program activities in subsequent years.

Mr. Winslow, Chairman, Board of Trustees –
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Please provide your written response to these findings and recommendations, including corrective actions taken or planned, by March 21, 2007. In accordance with General Statute §147-64.6(c)(12), the Governor, the Attorney General, and other appropriate officials, will receive a copy of this management letter. If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the employees of the North Carolina School of Science and Mathematics during our review.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

Management letters and responses receive the same distribution as audit reports.

The North Carolina School
of Science and Mathematics



PO Box 2418
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March 22, 2007

The Honorable Leslie W. Merritt, Jr., CPA, CFP
North Carolina State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Re: NCSSM Student Exchange Trip to Germany

Dear Mr. Merritt:

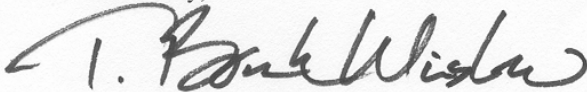
I am in receipt of your letter, dated March 7, 2007, concerning the accounting and refund procedure utilized by the professional staff of the North Carolina School of Science and Mathematics (NCSSM) for one component of an ongoing German Exchange Program ("2005 Trip"). This letter serves as our written response to the findings and recommendations, and includes our corrective actions planned as a result of your letter.

Description of the Exchange Program. In 2004, NCSSM initiated a self-supporting, year-to-year exchange program between our school and one advanced high school in Germany. German students and faculty visit NCSSM each fall, and NCSSM students and faculty visit Germany each spring. The visits include academic and cultural programming, home stays with volunteer families, meals, and some local transportation. Since the 2004-2005 events, the exchange program has become a well-established program of the NCSSM Student and Constituent Support Services, Inc., an independent 501(c)(3) organization operating to support NCSSM's educational mission.

Summary of Management Letter. The Office of State Auditor found "insufficient disclosure" to parents of the student participants in the 2005 Trip because, in refunding \$565 to each parent, the school did not provide a complete accounting or description that surplus funds were applied as "seed money" to continue the program from year to year. There is no allegation that any rule or criteria was violated, nor any allegation that any questionable conduct occurred. The recommended corrective action is to communicate more clearly with parents and offer the 2005 parents an additional refund or opportunity to affirmatively donate that amount to the school. NCSSM has arranged with the NCSSM Student and Constituent Support Services, Inc. to take this corrective action immediately.

We greatly appreciate the Office of the State Auditor's thoroughness and professionalism in reviewing this situation. We have taken additional steps to avoid this kind of confusion in the future with our student programs such as this Exchange, and we express our thanks for your office's role in helping improve our understanding of this issue.

Sincerely,



T. Brock Winslow
Chairman, Board of Trustees
North Carolina School of Science and Mathematics

cc. Chancellor Gerald Boarman
George Burnette, UNC