

EXECUTIVE SUMMARY

PSS Single Audit Report as of September 30, 2005

Single Audit Summary No. 06-007

Summary

This summary presents the Office of the Public Auditor's (OPA) review of the *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* of the Public School System (PSS) for the fiscal year ended (FYE) September 30, 2005. This audit was conducted by the independent CPA firm of J. Scott Magliari & Company. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. This summary is provided solely for informational purposes. No audit opinion on the related data is expressed nor inferred by OPA. A copy of the audit report may be obtained at PSS or the Office of the Public Auditor.

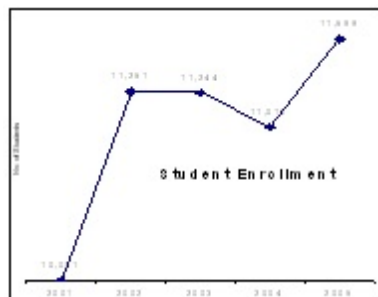
The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components, which taken together, give an informed reader an overview of the financial condition of the audited entity. PSS received an unqualified opinion, or "clean" opinion, indicating that the data contained in the report can be relied upon. Additionally, management of PSS prepares an unaudited *Management Discussion and Analysis* (MD&A) which is presented on pages 3-14 of the audit report. The MD&A provides, in common language, a more detailed summary of the financial activity of the PSS.

Fiscal Year 2005 Performance

The Public School System operates 22 schools and utilizes 10 Head Start centers. PSS is also the largest employer in the government with over 1,150 government workers. Student enrollment during FYE 2005 was 11,599, up 5% from 11,016 in the previous year.

Student Enrollment Projected to Reach 15,000 in Year 2010, Major Capital Improvements Needed

Although student enrollment remained flat between 2002 and 2004, student enrollment in 2005 increased by 5% from 2004. PSS enrollment in 2005 was 11,599 students, up by 583 students. Moreover, PSS projects the enrollment numbers to increase to approximately 15,000 students by the year 2010.



In anticipation of the significant growth in enrollment, PSS submitted to the CNMI Government a long term CIP plan that includes new schools and major renovations over the next seven to ten years on Saipan, Rota and Tinian. Among the capital projects planned are an As-Matuis Elementary School, a Marpi Secondary School, and a second Kagman Elementary School. Major expansions and renovations are also planned for the existing schools.

FYE 2005 Federal Grants Increased by \$11 M Over Prior Year

Funding for PSS is received from several sources including Federal grants and General Fund transfers from the CNMI government. In FYE 2005, PSS received \$32.1 million in Federal grants which represented an increase of more than \$11 million from the FYE 2004 level funding of \$20.8 million. Additionally, \$37.2 million in General Fund transfers were received.

The combination of funding from the local General Fund, Federal grants, and \$1.2 million in Capital Improvement Projects funding provided PSS a total of \$73.3 million in funding in FYE 2005. This was a significant increase of nearly \$12 million over FYE 2004, or 19% over the \$61.6 million and \$61.4 million received in FYE 2004 and in FYE 2003, respectively.

Local Funding Share Represented 59% of Total PSS Resources

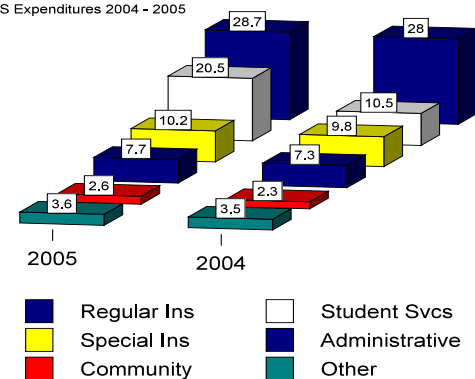
While total funding increased significantly over the previous year, the General Fund's share, relative to the various revenue sources, topped out in FYE 1997 when it represented 78% of total available funding. Since then local funding has steadily eroded, representing only 59% in FYE 2005. PSS management considers the erosion a particularly worrisome situation, in that PSS has become extremely dependent upon a major funding source over which it has very little control or influence.

PSS Spent 83% on Instructional Expenses

The bulk of PSS' FYE 2005 expenditures, 83%, or \$60.9 million, related to instructional expenses. This is slightly up from 81% in the previous year. Instructional expenses included regular classroom instruction, special education, co-curricular and student services.

Non-instructional support services, including administration, community, other support and depreciation, accounted for the balance of the expenditures during the year. Of the total \$12.4 in support services expenses, \$7.8 million related to general and school administration expenses.

PSS Expenditures 2004 - 2005



Net Assets Remained Relatively Flat, But Current Ratio Deteriorates

In terms of the Balance Sheet, which reports the assets and liabilities of the PSS, little change was noted overall between FYEs 2004 and 2005. Total assets declined by \$1.2 million to \$89.3 million and total liabilities increased by \$1.3 million to \$8.2 million. However, the current economic health of PSS, as determined by the ratio of current assets to current liabilities, declined significantly. For FYE 2004 the ratio was 3.2 to 1, but declined to 1.9 to 1 for FYE 2005. This means that for every \$1.00 in liabilities owed by PSS, due within one year, PSS has only \$1.90 in current assets to meet the obligation.

Audit Findings

Audit Findings document situations where established policy, procedures or standards have not been followed. Such deviations may lead to losses for the CNMI or misstatements in its financial reports. Findings, if they remain uncorrected, can ultimately lead to qualifications in the Opinion of the auditors. For FYE 2005, there were 15 reported findings, a decrease from 20 reported findings in FYE 2004. Reportable findings relating to internal control totaled 10. A reportable finding is one which, "could effect PSS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements." Of the 10 reportable findings, 4 were considered to be material weaknesses. The 4 material weaknesses can be summarized as follows:

- Deposit controls regarding cafeteria receipts were weak.
- Variances between the recorded fixed assets and the inventoried assets.
- Improper identification and tagging of fixed assets.
- Employee attendance violations.

In all four findings PSS concurred with the finding and provided positive steps to correct the problems. For the current year there were no questioned costs relating to Federal grant compliance.

OPA commends PSS for timely reporting its financial condition, obtaining an unqualified audit opinion and on the continued decrease in its audit findings.



A copy of the full financial statements may be obtained from the Office of the Public Auditor or the Public School System

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