

Comprehensive Annual Financial Report

**Commonwealth of the Northern Mariana Islands
Public School System**

(A Component Unit of the CNMI Government)

*Year ended September 30, 2020
with Report of Independent Auditors*



Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Comprehensive Annual Financial Report

Year ended September 30, 2020

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Report of Independent Auditors

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the PSS, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 16 and budgetary comparison information on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PSS' basic financial statements. The combining nonmajor fund financial statements in pages 42 through 43 and the schedule of expenditures/expense on page 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 51 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2022, on our consideration of the PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PSS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

August 17, 2022

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Management's Discussion & Analysis

September 30, 2020

This section of the CNMI Public School System financial report represents management's discussion and analysis of the financial performance of PSS for the year ended September 30, 2020. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements and notes to the basic financial statements to further enhance their understanding of PSS' financial performance.

FINANCIAL HIGHLIGHTS

At the close of Fiscal year 2020, PSS' net position amounted to \$77,041,268 an increase of \$863,191 or 1%, from the restated amount of \$76,178,077 in fiscal year 2019 net position. PSS total expenses for fiscal year 2020 amounted to \$88,288,652 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$88,075,386.

PSS' net position includes investment in capital assets, net of accumulated depreciation, of \$79,205,118, restricted for special purpose of \$696,362 and deficit of \$2,860,212. The deficit is due to noncurrent liabilities that are to be funded by appropriations from the CNMI government.

PSS' enrollment for school year 2019-2020 was 9,426 students. There was a decrease of 111 students from 9,537 students for school year 2018-2019.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS

Government Accounting Standards requires the presentation of the MD&A and the basic financial statements. The basic financial statements consist of district-wide statements, fund financial statements, notes to the financial statements, and required supplemental sections.

Management's Discussion and Analysis (MD&A)

The MD&A is intended to be a "plain English" narrative section that introduces the basic financial statements. It should give readers an objective and easily readable analysis of PSS' financial performance for the year.

District-wide Statements

The first two financial statements presented are highly condensed and are somewhat based on the accounting model used by private sector businesses. The district-wide statements are presented on the full accrual basis of accounting and include the Statement of Net Position and the Statement of Activities.

Statement of Net Position

The Statement of Net Position includes all of the CNMI Public School System assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This Statement provides a summary of the school system's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this Statement.

Net position, which is the difference between the school system's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the district's financial health or position. Over time, increases or decreases in PSS' net position are an indicator of whether its financial position is improving or deteriorating.

Statement of Activities

The Statement of Activities summarizes the school system's revenues and expenses for the current year. It is based on full accrual accounting rather than the traditional modified accrual. Depreciation of capital assets is recognized as an expense. A net revenue (expense) format is used to indicate to what extent each function is self-sufficient.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

Governmental-fund Financial Statements

The second type of statements included in the basic financial statements are the Governmental-fund Financial Statements, which are presented for the school system's governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental-fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Such information may be useful in evaluating a government's near-term financing requirements.

These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. Governmental-fund financial statements provide a detailed short-term view of the school district's operations and the services it provides. Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund *balance sheet* and the *governmental fund statement of revenues, expenditures, and changes in fund balance* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The fund financial statements provide more detailed information about the school system's funds, focusing on its most significant or "major" funds - not the school system as a whole. Funds are accounting devices the school system uses to keep track of specific sources of funding and spending on particular programs.

PSS' major funds are:

General Fund - Accounts for all financial resources except for those required to be accounted for in another fund. The General Fund is PSS' major operating fund.

Federal Fund - Accounts for PSS' Grants from Federal Agencies.

Non-major Funds – Accounts for the proceeds of the other specific revenue sources and the other funds that are not major.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u> Restated	<u>Difference</u>	<u>% Change</u>
Current assets	\$ 7,886,404	\$ 9,393,054	\$(1,506,650)	-16%
Capital assets, net	79,205,118	77,932,780	1,272,338	2%
Total assets	87,091,522	87,325,834	(234,312)	0%
Current liabilities	7,107,672	8,273,859	(1,166,187)	-14%
Noncurrent liabilities	2,942,582	2,700,970	241,612	9%
Total liabilities	10,050,254	10,974,829	(924,575)	-8%
Deferred inflows of resources	---	172,928	(172,928)	-100%
Investment in capital assets and capital improvement projects	79,205,118	77,932,780	1,272,338	4%
Restricted for special purpose	696,362	727,034	(30,672)	-4%
Unassigned (Deficit)	(2,860,212)	(2,481,737)	(378,475)	15%
Net position	\$ 77,041,268	\$ 76,178,077	\$ 863,191	1%

- Current assets of \$7,886,404 as of September 30, 2020 decreased by \$1,506,650 or 16% compared to current assets \$9,393,054 as of September 30, 2019.
- Current liabilities of \$7,107,672 as of September 30, 2020 decreased by \$1,166,187 or 14% compared to \$8,273,859 as of September 30, 2019 primarily due to the payment of vendors invoices prior to fiscal year end.

At the end of fiscal year 2020, PSS' net position is at \$77,041,268.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

Condensed Statements of Activities

	<u>2020</u>	<u>2019</u> Restated	<u>Difference</u>	<u>% Change</u>
<i>Revenues</i>				
Program Revenues	\$ 67,540,182	\$ 45,409,218	\$ 22,130,964	49%
General revenues	20,535,204	41,201,756	(20,666,552)	-50%
Total revenues	88,075,386	86,610,974	1,464,412	2%
<i>Expense:</i>				
Instruction	71,075,462	80,622,601	(9,547,139)	-12%
Support Services	16,136,733	8,367,356	7,769,377	93%
Total expenses	87,212,195	88,989,957	(1,777,762)	-2%
Change in net position	863,191	(2,378,983)	3,242,174	-136%
Net position, beginning	76,178,077	78,557,060	(2,378,983)	-3%
Net position, ending	\$ 77,041,268	\$ 76,178,077	\$ 863,191	1%

- The overall increase in revenues and related expenses is due to increase in federal grants received by \$22,130,964 offset by decrease in CNMI appropriations by \$20,666,552. A more detailed revenues and expenses discussion follows.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

Revenues

	<u>2020</u>	<u>2019</u> Restated	<u>Difference</u>	<u>% Change</u>
Program revenues				
Changes for Services	\$ 19,688	\$ 826,642	\$(806,954)	-98%
Grants and contributions	67,520,494	44,582,576	22,937,918	51%
Total program revenues	67,540,182	45,409,218	22,130,964	49%
General revenues				
CNMI appropriations	20,319,507	40,940,631	(20,621,124)	-50%
Miscellaneous	215,697	261,125	(45,428)	-17%
Total general revenues	20,535,204	41,201,756	(20,666,552)	-50%
Total revenues	\$ 88,075,386	\$ 86,610,974	\$ 1,464,412	2%

Total revenues for fiscal year 2020 were \$88,075,386, a \$1,464,412 or 2% increase from fiscal year 2019. The increase in 2020 revenue is primarily due to increase in revenues from federal grants.

The increase in federal grants received is primarily from the U.S Department of Education's Education Stabilization Fund for \$15,899,156.

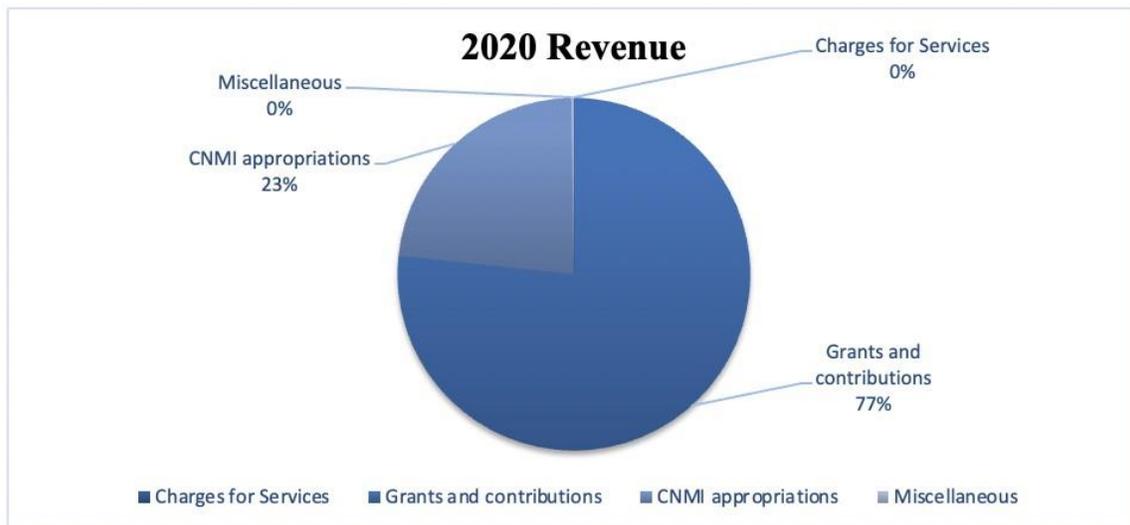
Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

Revenues are classified as either program or general.

Program revenues are those directly generated by a function or activity of the government entity. Revenue reported as program revenues by PSS pertains to Federal grants, local donations, charges for services and indirect costs allocation.

The *general revenues* classification includes appropriations, interest and other income not identifiable to specific activities.



Commonwealth of the Northern Mariana Islands
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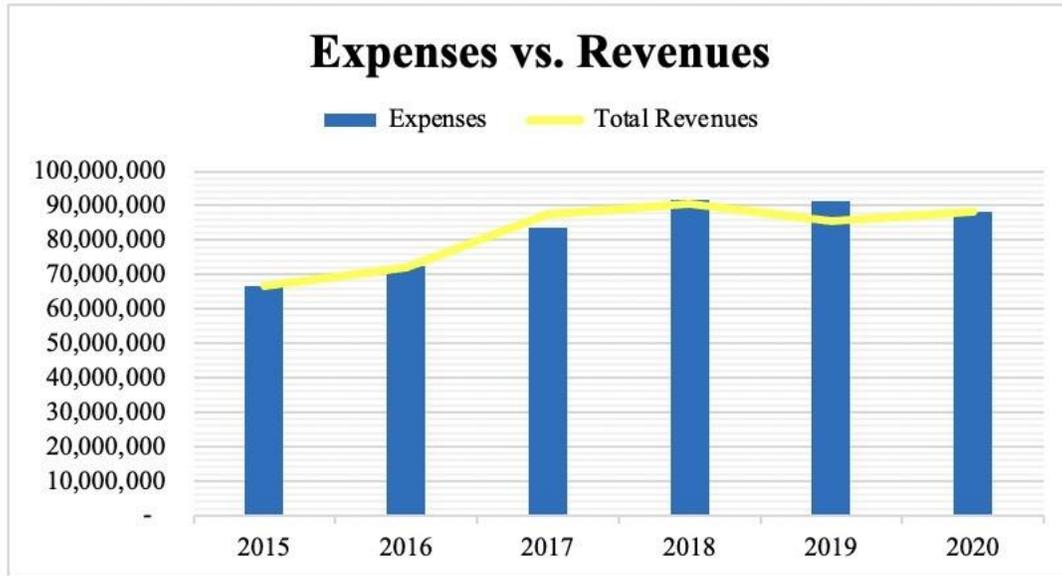
Management's Discussion & Analysis, continued

Expenses	2020	2019	Difference	% Change
		Restated		
Instruction:				
Regular	\$ 36,173,647	\$ 49,601,956	\$(13,428,309)	-27%
Special	6,692,357	13,217,728	(6,525,371)	-49%
Co-curricular	1,551,938	3,708,918	(2,156,980)	-58%
Student services	26,657,520	14,093,999	12,563,521	-89%
Total instruction expenses	71,075,462	80,622,601	(9,547,139)	-12%
Support services:				
General administration	9,976,116	3,010,118	6,965,998	231%
School administration	943,993	1,823,233	(879,240)	-48%
Other support	5,216,624	3,534,005	1,682,619	48%
Total support expenses	16,136,733	8,367,356	7,769,377	93%
Total expenses	\$ 87,212,195	\$ 88,989,957	\$(1,777,762)	-2%

Total expenses in 2020 decreased by \$1,777,762 or 2% as compared to fiscal year 2019. The decrease in fiscal year 2020 expenses is primarily due to decrease in regular instruction expenses offset by increase in student services.

Commonwealth of the Northern Mariana Islands
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Management’s Discussion & Analysis, continued



	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Expenses	66,484,580	72,261,036	83,569,488	91,679,196	91,320,226	88,288,652
Total Revenues	66,673,910	71,935,150	87,341,725	90,429,907	85,524,685	88,075,386

The chart above shows the relationship of revenues and expenses for the past six years. Except for fiscal year 2015 and 2017, expenses exceeded revenues from 2016, 2018, 2019, and the current fiscal year.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

FUND ANALYSIS

Fund Analysis

	General Fund	Federal Fund	Non - Major Fund	Total
Fund balance, beginning of year as restated	(421,100)	1,485,269	965,230	2,029,399
Fund balance, end of year	(3,954,636)	5,101,322	669,447	1,816,133
Change in fund balance	(3,533,536)	3,616,053	(295,783)	(213,266)
Percentage Change	839%	243%	-31%	-11%

The Fund balance decreased by \$213,266 to \$1,816,133 as of September 30, 2020.

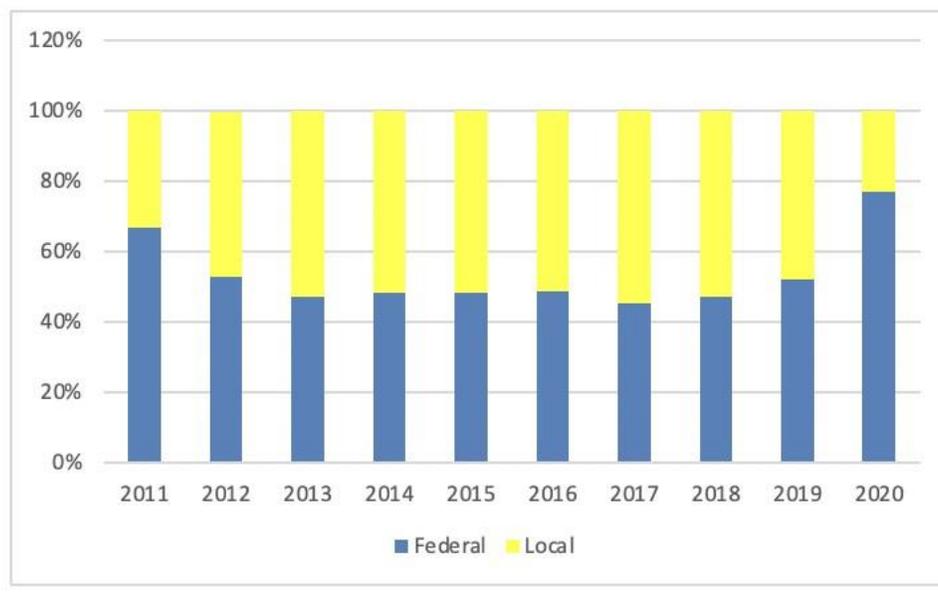
Of the \$1,816,133 total fund balance, \$696,362 is restricted for specific purpose by grantors and donor, \$711,635 is assigned for specific programs approved by the Board of Education and \$408,136 is unassigned.

Commonwealth of the Northern Mariana Islands
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Management’s Discussion & Analysis, continued

Federal and Local Budget Review

Year	Total	Federal		Local	
2011	87,123,334	58,191,215	67%	28,932,119	33%
2012	62,339,197	32,779,735	53%	29,619,462	47%
2013	60,559,808	28,532,681	47%	32,027,127	53%
2014	62,991,869	30,319,671	48%	32,672,198	52%
2015	65,033,822	31,419,624	48%	33,614,198	52%
2016	70,672,847	34,217,753	48%	36,455,094	52%
2017	85,706,574	38,714,700	45%	46,991,874	55%
2018	91,914,180	43,348,354	47%	48,565,826	53%
2019	85,733,031	44,345,983	52%	41,387,048	48%
2020	84,911,819	65,192,312	77%	19,719,507	23%



The table and the chart above show the relationship between federal and local funding.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2020 and 2019 were \$79,205,118 and \$75,877,010, respectively.

More detailed information on capital assets is on page 34 (Note 2) of the basic financial statements.

FUTURE PLANS AND ECONOMIC OUTLOOK

For the fiscal year 2020, PSS received \$20.3 million in appropriations. This was a significant decrease from the previous fiscal year. There was a 48.165% budget cut due to the economic impact of the COVID-19 pandemic. The decreased funding resulted in layoffs and a reduction in the salaries of PSS employees.

In June of 2020, PSS received the Education Stabilization Fund of \$23,163,734, which enabled the PSS to rehire some of the staff furloughed back in March due to the 48% reduction in the local budget.

Future appropriations are dependent on CNMI Government revenue projections. As a result of the COVID-19 pandemic having extreme impacts on the economy, PSS expects a decrease in funding from the central government. This will be supplemented by federal impact aid grants that are available specifically to communities that have been struck with a disaster. A post-period development is the impact of COVID-19, with the huge decrease in tourism due to the COVID-19 pandemic and corresponding reductions in CNMI government revenue collections. The challenge for PSS is twofold: 1) grow our suite of federal grants and 2) insist on receiving 25% of all CNMI revenues as mandated by our constitution and the recent CNMI Supreme Court slip opinion.

Despite the funding challenges year-to-year, PSS has much to celebrate. PSS has successfully implemented the hybrid approach to instructions through cohorts to allow students to attend school virtually and face to face to respond to the COVID-19 task force mandate of social distancing and classroom safety requirements. Students were provided with technology and online devices and adopted the new learning environment. The COVID-19 protocol was in place and all classrooms were provided with the necessary equipment to keep the students safe. Service providers re-invented ways to continue providing services to students. mental health services for students, parents, and staff were provided. PSS also worked collaboratively with various agencies to ensure that the school remains open for all students.

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Management's Discussion & Analysis, continued

PSS students have won national awards in many academic and extracurricular activities such as theater, the International Thespian Society Regional Competition, the NSDA Competition, JROTC, National Competition for Speech and Debate, Athletics competitions, and STEM competition. PSS also has several teachers and staff who were given prestigious awards including the Mariana Islands Nature Alliance (MINA) environmental champion award, Presidential Awards for Excellence in Mathematics and Science Teachers, and Gilder Lehrman History Teacher of the Year Award. The students' and teachers' strive to illustrate PSS's commitment to the motto "Students First." Despite significant funding limitations, PSS does its best to produce for our students, parents, teachers, and community.

The scholarships awarded to our students to attend prestigious colleges and universities in the USA are proof of the high quality of the CNMI's public education system. Many students have been awarded prestigious scholarships, including the Questbridge Scholarship. The senior students' exit survey data show that 42% of our graduating seniors plan to attend either a four or two-year college, 12% plan to enlist in the armed services, and 38% are career-ready to attain part-time and full-time jobs on islands, and 4% of the students plan to go to trade school.

Finally, another measure of success for PSS is improving audit performance as a system. Accountability and transparency are key commitments of PSS as a Public Agency and serving Students First.

REQUESTS FOR INFORMATION

This report is intended to provide a summary of the financial condition of the Public School System of the Commonwealth of the Northern Mariana Islands. Questions or requests for additional information should be addressed to:

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PO Box 501370
Saipan, MP 96950

<http://www.cnmipss.org/>

Commonwealth of the Northern Mariana Islands
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Statement of Net Position

September 30, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 3,235,927
Receivables from the CNMI Government	786,616
Receivables from federal agencies	3,830,210
Other current assets	<u>33,651</u>
Total current assets	<u>7,886,404</u>

Noncurrent assets:

Capital assets, net	<u>79,205,118</u>
Total assets	<u>87,091,522</u>

Liabilities

Current liabilities:

Accounts payable and accrued expenses	6,070,271
Compensated absences due in one year	<u>1,037,401</u>
Total current liabilities	<u>7,107,672</u>

Noncurrent liabilities:

Compensated absences	<u>2,942,582</u>
Total liabilities	<u>10,050,254</u>

Net position

Investment in capital assets	79,205,118
Restricted for special purpose - CIP General Obligation Bond	696,362
Unrestricted	<u>(2,860,212)</u>
Net position	<u>\$77,041,268</u>

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
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Statement of Activities

For the year ended September 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instructional programs:				
Regular	\$ 36,173,647	\$ 19,688	\$ 22,605,607	\$(13,548,352)
Student services	26,657,520	---	28,600,458	1,942,938
Special	6,692,357	---	5,495,502	(1,196,855)
Co-curricular	<u>1,551,938</u>	<u>---</u>	<u>42,349</u>	<u>(1,509,589)</u>
Total instructional programs	<u>71,075,462</u>	<u>19,688</u>	<u>56,743,916</u>	<u>(14,311,858)</u>
Support services:				
Other	5,216,624	---	5,582,104	365,480
Individual programs	4,029,703	---	3,686,257	(343,446)
School administration	943,993	---	---	(943,993)
General administration	3,637,271	---	1,508,217	(2,129,054)
Depreciation - unallocated	<u>2,309,142</u>	<u>---</u>	<u>---</u>	<u>(2,309,142)</u>
Total support services	<u>16,136,733</u>	<u>---</u>	<u>10,776,578</u>	<u>(5,360,155)</u>
Total governmental activities	<u>\$ 87,212,195</u>	<u>\$ 19,688</u>	<u>\$ 67,520,494</u>	<u>(19,672,013)</u>
				20,319,507
				<u>215,697</u>
				<u>20,535,204</u>
				863,191
				<u>76,178,077</u>
				<u>\$ 77,041,268</u>

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
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Balance Sheet
Government Funds

September 30, 2020

	General Fund	Federal Fund	Non-major Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 704,429	\$ 2,120,403	\$ 411,095	\$ 3,235,927
Receivables from CNMI government	786,616	---	---	786,616
Receivable from federal agencies	---	3,830,210	---	3,830,210
Other receivables	32,199	1,452	---	33,651
Due (to) from other funds	(991,134)	732,782	258,352	---
Total assets	\$ 532,110	\$ 6,684,847	\$ 669,447	\$ 7,886,404
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,486,746	\$ 1,583,525	\$ ---	\$ 6,070,271
Total liabilities	4,486,746	1,583,525	---	6,070,271
Fund balances:				
Restricted	---	---	696,362	696,362
Assigned	---	---	711,635	711,635
Unassigned	(3,954,636)	5,101,322	(738,550)	408,136
Total fund balances	(3,954,636)	5,101,322	669,447	1,816,133
Liabilities and fund balances	\$ 532,110	\$ 6,684,847	\$ 669,447	

Reconciliation of fund balance of governmental
funds to net position - governmental activities:

Fund balances - governmental funds 1,816,133

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental funds:

Cost of capital assets 115,433,926
Accumulated depreciation (36,228,808) 79,205,118

Long-term liabilities that are not due and payable in the current
period and therefore are not reported as liabilities in the funds:

Compensated absences (3,979,983)

Net position - governmental activities \$ 77,041,268

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Statement of Revenues, Expenditures, and Changes in Fund Balance
Government Funds

For the year ended September 30, 2020

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-major Fund</u>	<u>Total</u>
Revenues:				
Federal	\$ ---	\$ 67,022,445	\$ 498,049	\$ 67,520,494
CNMI appropriations	20,319,507	---	---	20,319,507
Local	---	---	215,697	215,697
Charges for services	---	---	19,688	19,688
Total revenues	<u>\$ 20,319,507</u>	<u>\$ 67,022,445</u>	<u>\$ 733,434</u>	<u>\$ 88,075,386</u>
Expenditures:				
Instructional programs:				
Regular	17,057,690	18,989,554	174,336	36,221,580
Student services	684,093	28,600,458	---	29,284,551
Special	1,159,005	5,495,502	46,830	6,701,337
Co-curricular	<u>1,393,084</u>	<u>42,349</u>	<u>116,505</u>	<u>1,551,938</u>
Total instructional programs	<u>20,293,872</u>	<u>53,127,863</u>	<u>337,671</u>	<u>73,759,406</u>
Instructional programs:				
Others	142,678	5,084,055	691,546	5,918,279
Individual programs	343,446	3,686,257	---	4,029,703
General administration	2,129,054	1,508,217	---	3,637,271
School administration	<u>943,993</u>	<u>---</u>	<u>---</u>	<u>943,993</u>
Total supporting services	<u>3,559,171</u>	<u>10,278,529</u>	<u>691,546</u>	<u>14,529,246</u>
Total expenditures	<u>23,853,043</u>	<u>63,406,392</u>	<u>1,029,217</u>	<u>88,288,652</u>
(Deficiency) excess of revenues over expenditures and other financing sources	(3,533,536)	3,616,053	(295,783)	(213,266)
Fund balance, beginning - as restated	(421,100)	<u>1,485,269</u>	<u>965,230</u>	<u>2,029,399</u>
Fund balance, ending	\$(<u>3,954,636</u>)	<u>\$ 5,101,322</u>	<u>\$ 669,447</u>	<u>\$ 1,816,133</u>

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Reconciliation of the Government Funds Statement of Revenues, Expenditures
and Changes in Fund Balance with the District-wide Statement of Activities

For the year ended September 30, 2020

Total net change in fund balances – governmental funds \$(213,266)

Amounts reported for governmental activities in the statement of activities are different because of:

Amounts reported for government activities in the statement of activities are different because of:

Change in compensated absences (195,881)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period

Capital outlays	\$3,581,480	
Depreciation expense	(2,309,142)	

1,272,338

Total change in net position \$ 863,191

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

The Commonwealth of the Northern Mariana Islands (CNMI) Public School System (PSS), a component unit of the CNMI, was established as a public non-profit corporation by CNMI Public Law No. 6-10 (The Education Act of 1988), effective October 25, 1988, and began operations on October 1, 1988.

The PSS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity

PSS, as the state educational agency for pre-school, elementary and secondary education programs in the CNMI, is under the direction of the CNMI Board of Education (BOE), which consists of five voting members elected at-large on a nonpartisan basis: one from Rota, one from Tinian, and three from Saipan. The Commissioner of Education, who is appointed by the Board of Education, is responsible for administering PSS in accordance with applicable laws and BOE policies.

Pursuant to CNMI Constitutional Amendment No. 38 and House Legislative Initiative 18-12, the public education school system is guaranteed an annual budget of not less than twenty-five percent (25%) of general fund revenues of the CNMI Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for re-appropriation.

Department-Wide Financial Statements

The Statement of Net Position and Statement of Activities present information about PSS. These statements include the overall financial activities of the school system. PSS operates only with governmental funds. It does not have any fiduciary or proprietary funds. The Statement of Net Position represents all assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position is presented in the following categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* results when constraints are placed on the use of net position by either externally imposed or imposed by law through enabling legislation.
- *Unrestricted net position* is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Department-Wide Financial Statements, continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of PSS' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or other financial resources together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. PSS represents a balance sheet and a statement of revenues, expenditures and changes in fund balance for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net position.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. PSS classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Fund balance is classified as follows:

- *Restricted* – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- *Committed* – Balances that can only be used for specific purposes pursuant to constraints imposed by the CNMI Legislature. Committed fund balance is reported pursuant to Public Laws and directives issued by the Board of Education, PSS' highest level of decision-making authority.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- *Assigned* – Balances that are constrained by PSS management to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* – Residual balances that are not contained in the other classifications.

When both restricted and unrestricted resources are available for use, generally it is PSS' policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is generally PSS' policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the timing of recognition, that is, when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Department-wide Fund Financial Statements

The governmental activities in the Statement of Net Position are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which PSS gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Government Fund Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or 90 days thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating costs to the fiscal year when items are used.

Expenditures for claims, judgments, compensated absences and employer retirement contributions are reported at the amount accrued during the fiscal year and normally would not be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

Under the terms of federal grant award agreements, PSS funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. Expenditures are first applied to restricted resources, when both restricted and unrestricted resources are available.

Fund Accounting

The financial transactions of PSS are recorded in individual funds that are reported in the fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Major individual governmental funds are reported as separate columns in the fund financial statements. Non major funds are summarized into a single column.

PSS reports the following major governmental funds:

- *General Fund* – The general fund is the main operating fund of PSS. It accounts for all financial resources except for those required to be accounted for in another fund.
- *Federal Fund* – The federal fund accounts for federally funded programs for PSS’ major activities. This fund is made up entirely of special revenue funds, which account for the proceeds of specific revenue sources that are for specific purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Accounting, continued

Specific revenues earmarked to finance particular programs and activities of PSS are accounted for in Non-major Funds. The non-major funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

A summary of PSS' Non-major Funds as of September 30, 2020 follows:

- *Local CIP Fund* - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law 8-2.
- *Textbook Fund* - This fund was established to account for the sales of locally published textbooks without fiscal year limitation.
- *GOB Fund* - This fund accounts for the appropriated funds from the CIP General Obligation Bond available at the closure of the Indenture Trust Agreement, which was restricted by Public Law 16-10 to fund critical classroom repairs and renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.
- *Donation and Other Revenue Fund* - This fund accounts for activities pertaining to local donations received for specific purposes. The primary revenue source of this fund is donations from private individuals or organizations.
- *Other Federal Fund* - This fund accounts for federal funds received as appropriated by the CNMI Legislature without fiscal year limitation.
- *JROTC Fund* - This fund was established by Public Law 8-17 to account for the funds received from the United States Department of Defense for the operation of the Junior Reserve Officers Training Corps programs. The Commissioner of Education has the spending authority.
- *Federal Program Income Fund* - This fund accounts for miscellaneous federal funds received from various federally funded programs within the Public School System.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI Legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the CNMI Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds. Pursuant to the approved policies and regulations of the Public School System, Policy 3100 outlines PSS' general budgetary procedures. A summary of the key budgetary steps and data reflected in the financial statements are as follows:

- Program managers and principals submit their budgets to the Commissioner of Education for review and compilation by the Management Committee every October 1st.
- By the fifth working day of November, the Commissioner of Education presents the budget to the BOE.
- From November 15th to December 31st, revisions are made as appropriate and as approved by the BOE.
- By the first working day of February, the budget is presented to the CNMI Senate, House and the Office of the Governor.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

PSS pools money from several funds to facilitate disbursements and investments to maximize investment income.

For purposes of the Statement of Net Position, cash and cash equivalents are defined as cash on-hand, cash in checking and savings accounts, and short-term time certificates of deposit with a maturity date within three months of the date acquired. Time certificates of deposit with original dates greater than ninety days are to be separately classified on the Statement of Net Position.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Assets, Liabilities and Net Position, continued

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation expense for all assets is provided for on the straight-line basis over the following estimated useful lives:

Buildings	20 - 50 years
Building improvements	15 years
Vehicles	5 years
Others	3 - 5 years

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2020 was \$3,979,983. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

An employee cannot carry-over to the following calendar year accumulated annual leave in excess of three hundred sixty (360) hours. However, any annual leave accumulated in excess of 360 hours as of the end of the calendar year can be converted to sick leave on the last day of the respective calendar year.

Revenues

Revenues are classified as either program or general.

Program revenues are those directly generated by a function or activity of the government entity. Revenue reported as program revenues by PSS pertains to Federal grants, local donations, charges for services and indirect costs allocation.

General revenue includes appropriations, interest and other income not identifiable to specific activities.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Assets, Liabilities and Net Position, continued

Inter-fund Balances

The inter-fund balances as of September 30, 2020 pertains to unreimbursed advances between the general fund and the other funds.

PSS uses its general fund for all disbursements and records payments made for other funds as due from other funds in the general fund.

Funds are transferred from the non-major funds as payments to the general fund when draw-downs are received from grantors.

Upcoming Accounting Pronouncements

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and postpones GASB Statement No. 87 by 18 months. In accordance with GASB Statement No. 95, PSS has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statements will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. In accordance with GASB Statement No. 95, GASB Statement No. 84 is effective for PSS for the fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for PSS for the fiscal year ending September 30, 2022.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for PSS for the fiscal year ending September 30, 2022.

GASB Statement No. 90, *Majority Equity Interest - an Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. In accordance with GASB Statement No. 95, GASB Statement No. 90 is effective for PSS for the fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this Statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for PSS for the fiscal year ending September 30, 2023.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; clarifying the definition of reference rate, as it is used in Statement 53, as amended. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for PSS for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for PSS for the fiscal year ending September 30, 2023.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for PSS for the fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

PSS is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds

Cash and Cash Equivalents

For purposes of the Statement of Net Position, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2020, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$4,852,652. From these deposits, \$500,000 is subject to coverage by the FDIC; \$4,352,652 is deposited in a financial institution not subject to FDIC coverage and the remaining balance exceeds insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

Receivables

Receivables are amounts due primarily from the CNMI Government and from federal grantor agencies for local appropriations and grants, respectively.

Other Current Assets

Other current assets as of September 30, 2020 consist of the following:

Advances to vendors	\$25,028
Travel advances	6,973
Others	<u>1,650</u>
Other current assets	<u>\$33,651</u>

The Board of Education's policy considers travel advances as loans to the traveler until proper reconciliation of approved travel expenses has been authorized. Travel advances are liquidated upon submission of required travel documents in accordance with PSS' policy.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds, continued

Capital Assets

Capital asset activities for the year ended September 30, 2020 were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending</u>
Capital assets not depreciated:				
Land	\$ 36,647,850	\$ ---	\$ ---	\$ 36,647,850
Capital assets depreciated:				
Building and improvements	64,594,451	687,933	232,307	65,514,691
Vehicles	7,182,302	1,509,145	---	8,691,447
Others	<u>3,195,536</u>	<u>242,277</u>	<u>---</u>	<u>3,437,813</u>
Total	<u>74,972,289</u>	<u>2,439,355</u>	<u>232,307</u>	<u>77,643,951</u>
Less accumulated depreciation:				
Building and improvements	25,167,551	1,686,562	---	26,854,113
Vehicles	5,933,457	464,295	---	6,397,752
Others	<u>2,818,658</u>	<u>158,285</u>	<u>---</u>	<u>2,976,943</u>
Total	<u>33,919,666</u>	<u>2,309,142</u>	<u>---</u>	<u>36,228,808</u>
Capital assets depreciated, net	<u>41,052,623</u>	<u>130,213</u>	<u>232,307</u>	<u>41,415,143</u>
Capital assets, net	77,700,473	130,213	232,307	78,062,993
Construction in progress	<u>232,307</u>	<u>1,142,125</u>	<u>(232,307)</u>	<u>1,142,125</u>
Total	<u>\$ 77,932,780</u>	<u>\$ 1,272,338</u>	<u>\$ ---</u>	<u>\$ 79,205,118</u>

Assets essentially serve all functions; hence depreciation is charged as unallocated expense.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds, continued

Retirement Plan

PSS contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF) and PSS now contributes to the NMISF.

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 CNMI Pension Reform Recovery Act of 2012 was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan.

PSS contributed \$340,929, \$386,694 and \$554,575 to the NMISF for the years ended September 30, 2020, 2019 and 2018, respectively.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds, continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. PSS' recorded DC contributions for the years ended September 30, 2020, 2019 and 2018 were \$435,521, \$409,471 and \$244,973, respectively, equal to the required contributions for each year.

Members of the DC Plan who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Unremitted Employer Contribution prior to September 30, 2013

PSS recognized a \$26,902,270 payable to the Retirement Fund prior to the creation of the NMISF including penalties as of September 30, 2013 and the amount due from PSS based on the actuarially determined rate including interest amounted to \$41,016,172. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Retirement Fund.

PSS believes that the difference of \$14,113,902, as well as the \$26,902,270 is ultimately due from the CNMI central government and not from PSS. The Settlement Order for Federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities, strengthen PSS' position. In fiscal year 2015, the beginning net position in the Statement of Activities was restated to reverse the liabilities and prior year expenses accrued amounting to \$26,902,270.

Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the NMIRF. PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents.

Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by the NMIRF Board of Trustees. Employee deductions are made through payroll withholdings.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds, continued

Federal Grants

Federal grants and assistance awards from various Federal agencies made on the basis of entitlement periods are recorded as revenue when entitlement occurs. Federal reimbursement-type grants are recorded as revenues when the related expenditures or expenses are incurred.

Related Party Transactions

The CNMI Government appropriated \$19,617,160 for PSS' operational use and \$167,347 for the Board of Education's operations for the fiscal year ended September 30, 2020. PSS also received additional appropriation of \$535,000 from the CNMI Government.

During the year ended September 30, 2020, total utilities expense to CUC amounted to \$1,497,177.

Non-current Liabilities

Changes in non-current liabilities presented in the Statement of Net Position are as follows:

	<u>October 1, 2019</u>	<u>Change</u>	<u>September 30, 2020</u>	<u>Due in 1 year</u>	<u>Noncurrent</u>
Compensated absences	\$ <u>3,784,102</u>	\$ <u>195,881</u>	\$ <u>3,979,983</u>	\$ <u>1,037,401</u>	\$ <u>2,942,582</u>

PSS uses its general funds to liquidate its accrued compensated absences. Payments will be drawn from the annual CNMI government appropriation.

3. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. PSS does not have any deferred outflows of resources as of September 30, 2020.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2020, PSS does not have any deferred inflows of resources.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

4. Contingencies

CNMI Contributions

A substantial amount of PSS' funding is provided by appropriations from the CNMI Government. PSS is guaranteed an annual budget of not less than twenty five percent (25%) of general revenues of the CNMI Government. The future of PSS is contingent on its ability to continue to obtain CNMI appropriations.

Financial and Compliance Audits

PSS administers significant financial assistance from the U.S. Federal Government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditure of resources for eligible purposes. Substantially all grants are subject to either the Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal Government or their designees.

Lawsuits and Claims

PSS is involved in various legal actions and possible claims arising principally from claims of former employees. The eventual outcome of these matters cannot be reasonably predicted by management and, accordingly, no provisions for any liabilities or potential losses that may result from settlement of these claims have been recorded in the accompanying financial statements.

Sick Leave

It is the policy of PSS to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2020 is \$2.0 million.

5. Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$5,091,308 of outstanding purchase orders and purchase commitments for which goods and services have not been received are not reported in the financial statements as of September 30, 2020.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

6. Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings. At some future date, PSS may insure some of its assets. As an autonomous agency, PSS is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2020.

PSS does require performance bonds on all its building projects financed by the CNMI and Federal grants.

7. Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ended September 30, 2020, 23.07% and 76.66% of total revenues were received from local appropriations and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

8. Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through August 17, 2022, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization characterized the novel strain of coronavirus (COVID-19) as a pandemic. On March 16, 2020, COVID-19 hit the CNMI causing major lockdown of all schools in the islands of Saipan, Tinian and Rota. This has also caused the Central Government Finance Office to reduce PSS' FY2020 budget to \$19,294,979 due to the sharp decline in the CNMI Government Revenues. This caused PSS to furlough most of its employees. The US Department of Education has informed the CNMI's Governor of an additional \$5.85 million for the CNMI under the Governor's Emergency Education Relief (GEER) Fund, as well as \$22.35 million for the PSS, the CNMI's state education agency.

For fiscal year 2021, COVID-19 continued to adversely impact PSS' local funding. Although there was an increase of 20% from fiscal year 2020, there remains a budgetary gap between local funding for fiscal year 2021, which amounted to \$24,362,713, and the operational needs of PSS. The budgetary gap is being addressed by the funding received from the Education Stabilization Fund of \$61.7 million and from the American Rescue Plan Act of \$160 million available to PSS through fiscal year 2024.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

9. Prior Period Adjustment

PSS determined that it had incorrectly over and understated certain assets and liabilities as of September 30, 2019. The effects of corrections for these errors is as follow:

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2019:			
Government Funds:			
General fund:			
Fund balance	\$(695,599)	\$ 274,499	\$(421,100)
Federal fund			
Fund balance	684,866	800,403	1,485,269
Non major fund			
Fund balance	<u>679,344</u>	<u>285,886</u>	<u>965,230</u>
	<u>\$ 668,611</u>	<u>\$ 1,360,788</u>	<u>\$ 2,029,399</u>
Department-wide Statement of Activities			
Net position	<u>\$72,761,519</u>	<u>\$ 3,416,558</u>	<u>\$76,178,077</u>

Required Supplementary Information

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund

For the year ended September 30, 2020

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 34,755,468	\$(16,739,450)	\$ 18,016,018	\$ 19,563,160	\$(1,547,142)
All other	<u>3,286,273</u>	<u>(1,582,784)</u>	<u>1,703,489</u>	<u>4,289,883</u>	<u>(2,586,394)</u>
Total expenditures	<u>38,041,741</u>	<u>(18,322,234)</u>	<u>19,719,507</u>	<u>23,853,043</u>	<u>(4,133,536)</u>
Revenues:					
CNMI appropriation	<u>38,041,741</u>	<u>(18,322,234)</u>	<u>19,719,507</u>	<u>20,319,507</u>	<u>600,000</u>
Excess of expenditures and other financing uses over revenues and other financing sources	\$ <u>---</u>	\$ <u>---</u>	\$ <u>---</u>	\$(<u>3,533,536</u>)	\$(<u>3,533,536</u>)
Reconciliation of Budget to GAAP Basis					
2020 Budget					
Appropriations				\$ 19,719,507	
2020 Expenditures					
Actual (GAAP)				<u>23,853,043</u>	
Variance					\$(<u>4,133,536</u>)

Supplementary Information

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Combining Balance Sheets
Non-major Funds

September 30, 2020

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
Assets								
Current assets:								
Cash	\$ 2,735	\$ 277	\$ ---	\$ ---	\$ ---	\$ 408,083	\$ ---	\$ 411,095
Due from other funds	<u>---</u>	<u>---</u>	<u>696,362</u>	<u>359,157</u>	<u>1,133,400</u>	<u>---</u>	<u>46,546</u>	<u>2,235,465</u>
Total assets	<u>\$ 2,735</u>	<u>\$ 277</u>	<u>\$ 696,362</u>	<u>\$ 359,157</u>	<u>\$ 1,133,400</u>	<u>\$ 408,083</u>	<u>\$ 46,546</u>	<u>\$ 2,646,560</u>
Liabilities and Fund Balances								
Liabilities:								
Due to other funds	<u>\$ 1,918,356</u>	<u>\$ 3,152</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 55,605</u>	<u>\$ ---</u>	<u>\$ 1,977,113</u>
Total liabilities	<u>1,918,356</u>	<u>3,152</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>55,605</u>	<u>---</u>	<u>1,977,113</u>
Fund balances:								
Restricted	---	---	696,362	---	---	---	---	696,362
Assigned	---	---	---	359,157	---	352,478	---	711,635
Unassigned	(1,915,621)	(2,875)	---	---	1,133,400	---	46,546	(738,550)
Total fund balances	<u>(1,915,621)</u>	<u>(2,875)</u>	<u>696,362</u>	<u>359,157</u>	<u>1,133,400</u>	<u>352,478</u>	<u>46,546</u>	<u>669,447</u>
Total Liabilities and Fund Balances	<u>\$ 2,735</u>	<u>\$ 277</u>	<u>\$ 696,362</u>	<u>\$ 359,157</u>	<u>\$ 1,133,400</u>	<u>\$ 408,083</u>	<u>\$ 46,546</u>	<u>\$ 2,646,560</u>

(1) Fund codes 17000 and 18000

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds

For the year ended September 30, 2020

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
Revenues:								
Federal	\$ ---	\$ ---	\$ ---	\$ ---	\$ 21,432	\$ 476,617	\$ ---	\$ 498,049
Local	---	---	---	215,697	---	---	---	215,697
Charges for services	---	---	---	---	---	---	19,688	19,688
Total revenues	<u>---</u>	<u>---</u>	<u>---</u>	<u>215,697</u>	<u>21,432</u>	<u>476,617</u>	<u>19,688</u>	<u>733,434</u>
Expenditures:								
Instructional programs:								
Regular	---	---	---	174,336	---	---	---	174,336
Co-curricular	---	---	---	---	378	116,127	---	116,505
Special	---	---	---	---	---	---	46,830	46,830
Total instructional programs	<u>---</u>	<u>---</u>	<u>---</u>	<u>174,336</u>	<u>378</u>	<u>116,127</u>	<u>46,830</u>	<u>337,671</u>
Supporting services:								
Other	<u>645,693</u>	---	<u>30,672</u>	<u>15,181</u>	---	---	---	<u>691,546</u>
Total expenditures	<u>645,693</u>	<u>---</u>	<u>30,672</u>	<u>189,517</u>	<u>378</u>	<u>116,127</u>	<u>46,830</u>	<u>1,029,217</u>
(Deficiency) excess of revenues over expenditures	(<u>645,693</u>)	---	(<u>30,672</u>)	26,180	21,054	360,490	(<u>27,142</u>)	(<u>295,783</u>)
Fund balance (deficit), beginning of year, as restated	(<u>1,269,928</u>)	(<u>2,875</u>)	<u>727,034</u>	<u>332,977</u>	<u>1,112,346</u>	(<u>8,012</u>)	<u>73,688</u>	<u>965,230</u>
Fund balance (deficit), end of year	\$(<u>1,915,621</u>)	\$(<u>2,875</u>)	<u>\$ 696,362</u>	<u>\$ 359,157</u>	<u>\$ 1,133,400</u>	<u>\$ 352,478</u>	<u>\$ 46,546</u>	<u>\$ 669,447</u>

(1) Fund codes 17000 and 18000

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Expenditures/Expense (By Natural Classification)

For the year ended September 30, 2020

	General Fund	Federal Fund	Non-Major Fund	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 16,128,269	\$ 22,675,907	\$ 192	\$ 38,804,368	\$ 195,881	\$ 39,000,249
Professional services	81,813	19,515,564	24,600	19,621,977	---	19,621,977
Books and instructional materials	284,082	8,282,929	63,839	8,630,850	(114,249)	8,516,601
Employee benefits	3,201,145	4,183,864	19	7,385,028	---	7,385,028
Depreciation	---	---	---	---	2,309,142	2,309,142
Supplies and materials	161,299	1,470,909	42,087	1,674,295	---	1,674,295
Utilities	1,230,674	334,406	14,679	1,579,759	---	1,579,759
Travel	288,440	1,055,777	57,470	1,401,687	---	1,401,687
Rental	99,624	938,648	9,700	1,047,972	---	1,047,972
Controlled assets	309,787	2,076,066	16,200	2,402,053	(1,587,200)	814,853
Repairs and maintenance	647,315	1,345,190	681,511	2,674,016	(1,880,031)	793,985
Dues and subscriptions	12,058	542,089	---	554,147	---	554,147
Miscellaneous	40,301	464,029	30,425	534,755	---	534,755
Communications	431,589	84,128	---	515,717	---	515,717
Cleaning services	231,583	154,987	47,514	434,084	---	434,084
Printing and photocopying	234,715	180,579	11,821	427,115	---	427,115
Fuel and lubrication	102,745	33,850	8,763	145,358	---	145,358
Licenses and fees	127,572	---	---	127,572	---	127,572
Bank charges	106,935	---	---	106,935	---	106,935
Freight and handling	26,320	37,343	2,033	65,696	---	65,696
Security services	45,394	---	10,860	56,254	---	56,254
Insurance	50,112	2,100	---	52,212	---	52,212
Advertising	6,895	21,552	200	28,647	---	28,647
Food items	4,376	6,475	7,167	18,018	---	18,018
Recruitment and repatriation	---	---	137	137	---	137
Total expenditures (page 21)	<u>\$ 23,853,043</u>	<u>\$ 63,406,392</u>	<u>\$ 1,029,217</u>	<u>\$ 88,288,652</u>	<u>\$(1,076,457)</u>	<u>\$ 87,212,195</u>
				Total expenses (page 19)		<u>\$ 87,212,195</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

REPORT OF INDEPENDENT AUDITORS ON
INTERNAL CONTROL AND ON COMPLIANCE

Year ended September 30, 2020



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS) as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PSS' internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control. Accordingly, we do not express an opinion on the effectiveness of the PSS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2020-001 through 2020-004 and 2020-008 that we consider to be material weaknesses.

Compliance and Other Matters

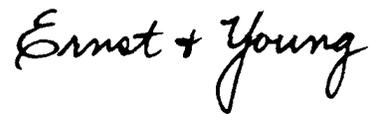
As part of obtaining reasonable assurance about whether PSS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004.

PSS' Response to Findings

PSS' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

August 17, 2022



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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of PSS' major federal programs for the year ended September 30, 2020. PSS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of PSS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PSS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal program. However, our audit does not provide a legal determination of PSS' compliance.

Basis for Qualified Opinion on COVID-19 Education Stabilization Fund – State Educational Agency (Outlying Areas)

As described in items 2020-003 and 2020-004 in the accompanying schedule of findings and questioned costs, PSS did not comply with requirements regarding the following:

Finding No.	Assistance Listings No.	Federal Program Name	Compliance Requirement
2020-003	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	Allowable Costs/ Cost Principles
2020-004	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	Cash Management

Compliance with such requirements is necessary, in our opinion, for PSS to comply with requirements applicable to those programs.

Qualified Opinion on COVID-19 Education Stabilization Fund – State Educational Agency (Outlying Areas)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as items 2020-002 and 2020-005 through 2020-008. Our opinion on each major federal program is not modified with respect to these matters.

Finding No.	Assistance Listings No.	Federal Program Name	Compliance Requirement
2020-002	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	General Ledger and Schedule of Expenditures of Federal Awards
	12.U01	Army JROTC EFT District	
	84.938A	Elementary and Secondary Education Hurricane Relief - Immediate Aid to Restart School Operations	
	10.555	National School Lunch Program	
	84.403	Consolidated Grants to the Outlying Areas	
	84.027	Special Education - Grants to States (IDEA, Part B)	
	15.875	CNMI Government - Economic, Social, and Political Development of the Territories - ABC Deferred Maintenance	
2020-005 2020-006 2020-007	84.938	Elementary and Secondary Education Hurricane Relief	Allowable Costs/ Cost Principles
2020-008	84.403	Consolidated Grants to the Outlying Areas	Procurement, Suspension and Debarment

PSS’ response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS’ response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of PSS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PSS’ internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PSS’ internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-002 through 2020-004 and 2020-008 to be material weaknesses.

Finding No.	Assistance Listings No.	Federal Program Name	Compliance Requirement
2020-002	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	Reporting
2020-003	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	Allowable Costs/ Cost Principles
2020-004	84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	Cash Management
2020-008	84.403	Consolidated Grants to the Outlying Areas	Procurement, Suspension and Debarment

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-005 through 2020-007 to be significant deficiencies.

Finding No.	Assistance Listings No.	Federal Program Name	Compliance Requirement
2020-005 2020-006 2020-007	84.938	Elementary and Secondary Education Hurricane Relief	Allowable Costs/ Cost Principles

PSS' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



August 17, 2022

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
For the year ended September 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listings Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Program	10.555		\$ 16,858,328
Food Distribution Cluster:			
Emergency Food Assistance Program	10.568		727,240
Total U.S. Department of Agriculture			<u>17,585,568</u>
U.S. Department of Education			
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		5,098,124
Special Education - Grants for Infants and Families	84.181		491,321
Comprehensive Literacy Development	84.371		154,563
Statewide Longitudinal Data Systems	84.372		18,809
Consolidated Grants to the Outlying Areas	84.403		16,607,003
COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	84.425A		15,899,156
Elementary and Secondary Education Hurricane Relief - Immediate Aid to Restart School Operations	84.938A		6,371,601
Elementary and Secondary Education Hurricane Relief - Project School Emergency Response to Violence (SERV)	84.938G		455,418
Total U.S. Department of Education			<u>45,095,995</u>
U.S. Department of Health and Human Services			
Personal Responsibility Education Program	93.092		302,577
Promote the Survival and Continuing Vitality of Native American Languages	93.587		4,970
Head Start Cluster:			
Head Start	93.600		3,359,604
Native American Programs	93.612		91,896
Mental Health Disaster Assistance and Emergency Mental Health	93.982		198,013
Child Care Bureau Technical Assistance	93.U01		1,165
Total U.S. Department of Health and Human Services			<u>3,958,225</u>

See accompanying notes to the schedule of expenditures of federal awards.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards, continued
For the year ended September 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listings Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Corporation for National and Community Service			
AmeriCorps	94.006		270,795
U.S. Department of Interior			
Technical Assistance Program	11.550		106,755
CNMI Government - Economic, Social, and Political Development of the Territories - ABC Deferred Maintenance	15.875	CNMI-CIP-2017-7	21,432
Total U.S. Department of Interior			<u>128,187</u>
U.S. Department of Defense			
Army JROTC EFT District	12.U01		481,724
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 67,520,494</u></u>
Reconciliation:			
Expenditures included in Federal Fund			\$ 67,022,445
Expenditures included in Nonmajor Funds			498,049
Expenditures included in General Fund			-
Total expenditures			<u><u>\$ 67,520,494</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Schedule of Expenditures of Federal Awards
For the year ended September 30, 2020

1. Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the Uniform Guidance audit (the “Single Audit”). The U.S. Department of the Interior’s Office of the Inspector General has been designated as PSS’ cognizant agency for the Single Audit.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards (the “Schedule”) is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Because the Schedule presents only a selected portion of the operations of PSS, it is not intended to and does not present the financial position, changes in net position, or cash flows of PSS.

Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Interior for fiscal year 2020. The approved fixed carryforward rate is 5.11%.

The fixed carryforward rate is applicable only to U.S. Department of Education programs and is based on total direct costs, less capital expenditures and pass-through funds. Pass-through funds are normally defined as major subcontracts, payments to participants, stipends to eligible recipients and subgrants, all of which normally require minimal administrative effort.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
For the year ended September 30, 2020

SECTION I – SUMMARY OF INDEPENDENT AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X YES NO
- Significant deficiency(ies) identified that are not considered to be material weaknesses? YES X NONE REPORTED

Noncompliance material to financial statements noted? YES X NO

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X YES NO
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X YES NONE REPORTED

Type of auditors’ report issued on compliance:

<i>Assistance Listings No.</i>	<i>Federal Agency</i>	<i>Name of Major Program</i>	<i>Type of Opinion</i>
84.403	U.S. Department of Education	Consolidated Grants to the Outlying Areas	Unmodified
84.425A	U.S. Department of Education	COVID-19 Education Stabilization Fund – State Educational Agency (Outlying Areas)	Qualified
84.938	U.S. Department of Education	Elementary and Secondary Education Hurricane Relief	Unmodified
10.568	U.S. Department of Agriculture	Food Distribution Cluster	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200 516 (a)? X YES NO

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Federal Awards

Identification of major programs:

Assistance Listings Number	Description	Federal Expenditures
84.403	Consolidated Grants to the Outlying Areas	\$ 16,607,003
84.425A	COVID-19 Education Stabilization Fund–State Educational Agencies (Outlying Areas)	15,899,156
84.938	Elementary and Secondary Education Hurricane Relief	6,827,019
10.568	Food Distribution Cluster	<u>727,240</u>
Total Federal Expenditures - Major Programs		<u>\$ 40,060,418</u>

Percentage of total awards tested 59%

Dollar threshold used to distinguish between
Type A and Type B programs \$ 2,025,615
3% of the total awards expended

Auditee qualified as low-risk auditee YES X NO

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2020-001	General Ledger and Financial Statement Close Process
2020-002	General Ledger and Schedule of Expenditures of Federal Awards

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>Assistance Listings No.</u>	<u>Finding</u>	<u>Questioned Costs</u>
2020-002	84.425A	Reporting	\$ ---
2020-003	84.425A	Allowable Costs/Cost Principles	2,467,312
2020-004	84.425A	Cash Management	1,090,828
2020-005	84.938A	Allowable Costs/ Cost Principles	1,000
2020-006	84.938A	Allowable Costs/Cost Principles	84,926
2020-007	84.938G	Allowable Costs/Cost Principles	---
2020-008	84.403	Procurement, Suspension and Debarment	<u>666,325</u>
			<u>\$4,310,391</u>

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-001

Area: General Ledger and Financial Statement Close Process

Criteria:

Generally Accepted Accounting Principles require that cut off procedures be accurately performed such that transactions and events have been recorded in the correct accounting period.

Condition:

We identified over and understatement of assets and liabilities resulting in a restatement to beginning net position. In addition, material adjusting journal entries were recorded to correct errors affecting current year revenue and expenditures.

Cause:

There appears to have been a combination of either (1) lack of reconciliations, (2) improper performance of cut-off procedures, (3) inefficient communication with pass through entities and/or (4) supervision and review relating to significant classes of transactions.

Effect or potential effect:

Material errors over the financial statement close process may exist and not be identified and corrected in a timely manner resulting in the preparation of materially misstated financial statements.

Recommendation:

Management should consider improving processes to ensure all transactions, including non-cash transactions, are recorded in the proper accounting period. These improved processes would include timely reconciliations, accurate cut off procedures, communication with pass through entities and frequent supervision/review over significant classes of transactions. Significant classes of transactions include payroll, purchases, federal award income, and cash receipts and disbursements.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-002

Area: General Ledger and Schedule of Expenditures of Federal Awards

Criteria:

Paragraph 200.510 of 2 CFR part 200 requires an auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) which must include the total federal awards expended for the period covered by the auditee's financial statements.

Condition:

The SEFA originally provided did not include all federal awards expended in fiscal year ended September 30, 2020 totaling approximately \$2.5 million. Below is the list of federal awards not included:

Assistance Listings No.	Federal Program Name	Amount
84.425A	COVID-19 Education Stabilization Fund - State Educational Agency (Outlying Areas)	\$ 1,090,828
12.U01	Army JROTC EFT District	481,724
84.938A	Elementary and Secondary Education Hurricane Relief - Immediate Aid to Restart School Operations	435,325
10.555	National School Lunch Program	383,066
84.403	Consolidated Grants to the Outlying Areas	52,177
84.027	Special Education - Grants to States (IDEA, Part B)	30,905
15.875	CNMI Government - Economic, Social, and Political Development of the Territories - ABC Deferred Maintenance	21,432
		<u>\$ 2,495,457</u>

Cause:

PSS does not have effective controls over the preparation of the SEFA.

Effect:

Any interim reporting may contain materially misstated information.

Recommendation:

PSS should improve controls to help ensure the SEFA is prepared accurately and completely. In addition, accounting personnel should reconcile the SEFA to all Federal grant revenues recorded, included Federal grant revenues recorded in non-major funds.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-003

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.425A COVID-19 Education Stabilization Fund (ESF) – State Educational Agency (SEA) (Outlying Areas)
Award Number: S425A200001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$2,467,312

Criteria:

The ESF-SEA Frequently Asked Question (FAQ) No. 11 provides that a SEA or Local Educational Agency (LEA) may use ESF-SEA funds for any allowable expenditure incurred on or after March 13, 2020, the date the President declared the national emergency due to COVID-19.

Condition:

Of sixty (60) nonpayroll expenditures tested totaling \$260,106 out of a total population of nonpayroll expenditures of \$5,964,311, we noted that for twelve (12) transactions, the program incurred salaries and wages, including taxes and employee share of insurance premium totaling \$140,451. These payroll and related expenses pertained to pay periods ended prior to March 13, 2020. Further review of the supporting documents for the twelve (12) transactions revealed additional costs with the same nature charged to the grant that were incurred from pay periods ended from January 4, 2020 up to March 14, 2020 totaling \$1,861,469.

Upon further investigation, PSS identified utilities expense incurred prior to March 13, 2020 amounting to \$465,392 that were also charged to the grant.

Cause:

The CNMI economy has been negatively affected by the impact of COVID-19. As a result, PSS did not timely receive local funding from the CNMI government and accordingly, PSS requested for federal reimbursement of expenses.

Effect:

PSS is noncompliant with the requirements of allowable costs/cost principles.

Recommendation:

PSS should improve its review procedures on the allowability of costs charged to the grant and must consider all available regulatory guidance related to the grant in performing the review.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-004

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.425A COVID-19 Education Stabilization Fund (ESF) – State Educational Agency (SEA) (Outlying Areas)
Award Number: S425A200001
Area: Cash Management
Questioned Costs: \$1,090,828

Criteria:

Non-federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR section 200.305(b)).

Condition:

Based on our analytical review procedures, we noted that in May to August 2020, PSS recorded \$3,849,873 of expenditures related to payroll taxes, employer share of insurance premium and utilities. However, at fiscal year-end, PSS determined that actual expenses were lower than what was requested for federal reimbursement. As a result, \$1,090,828 of federal reimbursements exceeded the actual expenditures incurred as of September 30, 2020. PSS has yet to return the \$1,090,828 excess reimbursement.

Cause:

The CNMI economy has been negatively affected by the impact of COVID-19. As a result, PSS did not timely receive local funding from the CNMI government and accordingly, PSS requested for federal reimbursement of expenses.

Effect:

PSS is noncompliant with the requirements of cash management principles.

Recommendation:

PSS should ensure compliance with its cash management policy, specifically of minimizing the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-federal entity for program or project costs.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-005

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.938A Elementary and Secondary Education Hurricane Relief –
Immediate Aid to Restart School Operations
Award Number: S938A190001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,000

Criteria:

2 CFR part 200 requires that costs should not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; (2) payments that do not account for credit for applicable discounts; (3) duplicate payments; (4) payments that were made to an ineligible party or for an ineligible good or service; and (5) payments for goods or services not received (except for such payments where authorized by law).

Condition:

Of sixty (60) nonpayroll expenditures tested, totaling \$101,023 out of a total population of nonpayroll expenditures of \$5,936,276, we noted that for one (1) transaction (PV 160073), the program incurred cost for retention incentive for an employee amounting to \$1,000 paid on April 1, 2020; however, the employee who received such retention incentive had already resigned effective in December 31, 2019.

Cause:

PSS failed to ensure that payees for the retention incentives are still validly employed.

Effect:

PSS made a payment to an ineligible party and is therefore, noncompliant with allowable costs/cost principles requirements. Known questioned costs exist amounting to \$1,000 since likely questioned costs exceeded the threshold.

Recommendation:

PSS should ensure that payments using grant funds are made to eligible parties.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-006

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.938A Elementary and Secondary Education Hurricane Relief –
Immediate Aid to Restart School Operations
Award Number: S938A190001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$84,926

Criteria:

Part 4 of the 2020 OMB Compliance Supplement, *84.000 Cross-Cutting Section*, provides that a “restricted” indirect cost rate (RICR) must be used for programs administered by state and local governments and their governmental subgrantees that have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds.

In addition, the terms and conditions of the grant state that the negotiated indirect cost rate or the indirect cost allocation plan approved for the entity applies to the grant award. The indirect cost negotiation agreement states a fixed carryforward rate of 5.11% and also provides that the base shall be the modified total direct costs which is determined as total direct costs less capital expenditures, food costs, the portion of subawards in excess of the first \$25,000, and passthrough funds.

Condition:

We tested total indirect costs charged to the grant totaling \$282,680 and noted that the modified total direct cost base used to compute for the indirect costs included capital expenditures totaling \$1,698,519. In addition, the indirect cost rate used was 5% instead of the negotiated indirect cost rate of 5.11%. This resulted in additional indirect cost reimbursements being requested totaling \$84,926.

Cause:

PSS failed to exclude capital expenditures from the modified total direct cost pool and failed to use the negotiated indirect cost rate in computing for indirect costs for reimbursement.

Effect:

PSS is noncompliant with allowable costs/cost principles requirements.

Recommendation:

PSS must ensure that indirect costs charged to the grant are computed using the modified total direct cost pool and appropriate indirect cost rate as required by the indirect cost negotiation agreement and in accordance with grant terms and conditions.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-007

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.938G Elementary and Secondary Education Hurricane Relief –
Project SERV
Award Number: S938G190001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

The terms and conditions of the grant provide that the Grant Award Notification (GAN) for this grant award shows the indirect cost rate that applies on the date of the initial grant. On the date of the initial grant, the GAN indicated that no indirect cost is allowed and that the project indirect cost rate is not applicable.

The terms and conditions further state that after the initial grant date, when a new indirect cost rate agreement is negotiated, the newly approved indirect cost rate supersedes the indirect cost rate shown on the GAN for the initial grant. This new indirect cost rate should be applied according to the period specified in the indirect cost rate agreement, unless expressly limited under program regulations.

Subsequent to initial grant date, a fixed carryforward rate of 5.11% was approved for PSS under an indirect cost negotiation agreement. Said agreement also provides that the base shall be the modified total direct costs which is determined as total direct costs less capital expenditures, food costs, the portion of subawards in excess of the first \$25,000, and passthrough funds.

Condition:

We tested total indirect costs charged to the grant totaling \$21,687 and noted that the modified total direct cost base used to compute for the indirect costs included capital expenditures amounting to \$5,362. In addition, the indirect cost rate used was 5% instead of the negotiated indirect cost rate of 5.11%.

Cause:

PSS failed to exclude capital expenditures from the modified total direct cost pool and failed to use the negotiated indirect cost rate in computing for indirect costs for reimbursement.

Effect:

PSS is noncompliant with allowable costs/cost principles requirements.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Recommendation:

PSS must ensure that indirect costs charged to the grant are computed using the modified total direct cost pool and appropriate indirect cost rate as required by the indirect cost negotiation agreement and in accordance with grant terms and conditions.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Finding No. 2020-008

Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.403 Consolidated Grants to the Outlying Areas
Award Number: S403A190001
Area: Procurement, Suspension and Debarment
Questioned Costs: \$666,325

Criteria:

In accordance with 2 CFR 200.318, the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Furthermore, 2 CFR 200.324 states that a non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the \$250,000 Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.

In addition, PSS Procurement Regulations provide the following:

§ 60-40-210

Purchases not exceeding \$250 may be made without securing bids or price quotations if the Chief of Procurement and Supply considers the price reasonable. Such determination shall be made in writing and shall indicate: (1) the reason why price quotations were not sought; (2) the utility of the purchase; (3) an explanation of why the price is reasonable under the circumstances.

§ 60-40-225

When the Commissioner of Education determines in writing upon the advise of the legal counsel that the use of a competitive sealed bidding is either not practical or not advantageous to the Public School System, a contract may be entered into by competitive sealed proposals.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2020

Condition:

Of sixty (60) nonpayroll expenditures tested totaling \$110,628 out of a total population of nonpayroll expenditures of \$9,942,870, we noted the following:

For one expenditure (PV 307627 amounting to \$2,595), the vendor invoice was supported by a contract change order. The contract change order (00138955-OC) totaled \$912,072, of which \$666,325 was recorded in FY2020, had exceeded the \$250,000 Simplified Acquisition Threshold. No documentation was provided to support that a cost or price analysis was performed by PSS in relation to the contract modification, in accordance with 2 CFR 200.324. We also noted there was no cost or price analysis performed for the previous contract change orders or during the original procurement. The original procurement method was under competitive sealed proposals. In addition, no written documentation was provided to support the use of competitive sealed proposals upon initial procurement, in accordance with PSS Procurement Regulations § 60-40-225.

Cause:

PSS failed to effectively implement its procurement regulations.

Effect:

PSS is noncompliant with the requirements of procurement, suspension and debarment.

Recommendation:

PSS should consistently enforce compliance with its procurement regulations and consider all other applicable procurement requirements. In addition, PSS should ensure completeness of documentation related to each procurement in accordance with the applicable regulations and requirements.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.



COMMONWEALTH of the NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM



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Corrective Action Plan

Year ended September 30, 2020

Financial Statement Findings

Finding No. 2020-001

Area: General Ledger and Financial Statement Close Process

Views of Auditee and Planned Corrective Action

Agree with the finding. The Finance department lack of adequate staffing and management personnel contributed to the findings. Finance director and comptroller position was filled and have implemented financial statement close process including cutoff procedures, account reconciliations and in depth review of transactions related to payroll, purchases and federal award income and cash receipts.

Anticipated Completion Date:

September 30, 2022

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

Finding No. 2020-002

Area: General Ledger and Schedule of Expenditures of Federal Awards

Views of Auditee and Planned Corrective Action

Agree with the finding. The Federal Programs Office has hired a Director of Internal Control & Evaluation to oversee and ensure that SEFA is prepared accurately and completely while working closely with Federal Programs Officer and Financial Budget Analyst. Future preparations of the SEFA will follow the accrual basis, so activities and receipt of goods that occurred during the fiscal year will be reflected in both SEFA and in the books. The Federal Programs Office process of recording grant revenues and reporting will be revisited. Future trainings with the Finance Office will be scheduled.

Anticipated Completion Date:

September 30, 2022

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-003

Area: Allowable Costs/Costs Principles

Views of Auditee and Planned Corrective Action

Agree with the finding. All these costs were paid for needed education related expenses due to budgetary shortfalls that challenged PSS' ability to pay all of its salaries, wages, insurance, utilities and taxes. According to the U.S. Department of Education, use of the ESF funds for these purposes is allowable. Correct accounting entries were made and local funds will fully reimburse these charges and then use the ESF reimbursement to offset payroll costs towards the end of the fiscal year.

Anticipated Completion Date:

September 30, 2022

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-004

Area: Cash Management

Views of Auditee and Planned Corrective Action

Agree with the finding. All these costs were paid for needed education related expenses due to budgetary shortfalls that challenged PSS ability to pay all of its salaries, wages, insurance, utilities and taxes. According to the U.S. Department of Education, use of the ESF funds for these purposes is allowable. Correct accounting entries were made and local funds will fully reimburse these charges and then use the ESF reimbursement to offset payroll costs towards the end of the fiscal year.

Anticipated Completion Date:

September 30, 2022

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-005

Area: Allowable Costs/Cost Principles

Views of Auditee and Planned Corrective Action

Agree with the finding. The Public School System had adopted a standard operating procedure for the recent retention incentive payout made to employees. Any and all future incentive payouts will be accompanied with Standard Operating Procedures to ensure that employees receiving payment meet the eligibility requirements.

Anticipated Completion Date:

Completed.

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-006

Area: Allowable Costs/Cost Principles

Views of Auditee and Planned Corrective Action

Agree with the finding.

The Public School System used the Admin cost rate of 5% which was used to pay staff for assessing damages to school caused by Super Typhoon Yutu.

PSS will use the negotiated indirect cost rate in computing and will exclude capital expenditures from the modified total direct cost pool.

Anticipated Completion Date:

Completed.

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-007

Area: Allowable Costs/Cost Principles

Views of Auditee and Planned Corrective Action

Agree with the finding.

The Grant Award Notification indicated that the project indirect cost rate is not applicable until a new indirect cost rate agreement is negotiated. The Public School System used the formula grant rate of 5%. PSS will use the negotiated indirect cost rate in computing and will exclude capital expenditures from the modified total direct cost pool.

Anticipated Completion Date:

Completed.

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2020-008

Area: Procurement, Suspension and Debarment

Views of Auditee and Planned Corrective Action

Agree with the finding. The PSS performed a price analysis of the cost of the service on a price per copy basis. A three-year lease was awarded for the provision of copiers for all schools both public and private including toner, paper and service within twenty four hours. There is written documentation to support the use of competitive sealed proposals upon initial procurement, in accordance with PSS Procurement Regulations § 60-40-225.

The cause of the price increase was due to the standards-based system that PSS adopted. No textbook publisher has shown interest in developing this standards-based system for a school system with only 10,000 students. Accordingly, PSS teachers developed their own standards-based lessons for presentation, practice and assessments that involved use of copier printed lessons for practice sheets and weekly assessments.

Anticipated Completion Date:

September 30, 2022

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

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Public School System
(A Component Unit of the CNMI Government)

Summary of Schedule of Prior Year Audit Findings
For the year ended September 30, 2020

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2018-001	General Ledger and Financial Statement Close Process	Not resolved. Similar to Finding No. 2020-001
2018-002	General Ledger and Schedule of Expenditures of Federal Awards	Not resolved. Similar to Finding No. 2020-002
2019-001	Human Resources	Resolved
2019-002	Travel Advance Liquidation	Resolved
2019-003	Overdraft of the BOG General Fund	Resolved
2019-004	General Ledger is not Reconciled to Subsidiary Records	Not resolved. Similar to Finding No. 2020-001
2019-005	Bank Account Reconciliations	Resolved

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.	Findings	Status
2018-003	CFDA 84.181 – Allowable Costs/ Cost Principles	Resolved
2018-004	CFDA 84.181 – Cash Management	Resolved