

CNMI PUBLIC SCHOOL SYSTEM
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN ENGAGEMENT TO AUDIT FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Board of Education
CNMI Public School System:

We were engaged to audit the financial statements of the Commonwealth of the Northern Mariana Islands Public School System (PSS) as of and for the year ended September 30, 2011. Our report dated February 26, 2013, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine the propriety of capital assets, accumulated depreciation, depreciation expense, advances, vouchers payable, accrued expenses, retirement contributions payable and related expenses.

Internal Control Over Financial Reporting

Management of PSS is responsible for establishing and maintaining effective internal control over financial reporting. In planning the audit, we considered PSS's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PSS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 99), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one other deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 through 2011-10 and 2011-12 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSS's 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to 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 2011-07 through 2011-10 and 2011-13.

We noted certain matters that we reported to management of PSS in a separate letter dated February 26, 2013.

PSS's response to the findings identified in our engagement to audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit PSS's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the State Board of Education, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

February 26, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

State Board of Education
CNMI Public School System:

Compliance

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of PSS's major federal programs for the year ended September 30, 2011. PSS's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 99). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of PSS's management. Our responsibility is to express an opinion on PSS's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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's 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 opinion. Our audit does not provide a legal determination of PSS's compliance with those requirements.

As described in items 2011-14 through 2011-30 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding equipment and real property management that are applicable to its ARRA - Federal Transit Formula Grants (CFDA # 20.507) major program; activities allowed or unallowed, allowable costs/cost principles, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds and procurement and suspension and debarment that are applicable to its Special Education Cluster (IDEA) (CFDA #s 84.027 and 84.391) major program; allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment and reporting that are applicable to its State Fiscal Stabilization Fund Cluster (CFDA #s 84.394 and 84.397) major program; allowable costs/cost principles and procurement and suspension and debarment that are applicable to its ARRA - Consolidated Grants to the Outlying Areas, Recovery Act (CFDA # 84.402) major program; allowable costs/cost principles and procurement and suspension and debarment that are applicable to its Consolidated Grants to the Outlying Areas (CFDA # 84.403) major program; activities allowed or unallowed and allowable costs/cost principles that are applicable to its ARRA - Education Jobs Fund (CFDA # 84.410) major program; and allowable costs/cost principles, eligibility, equipment and real property management, procurement and suspension and debarment and subrecipient monitoring that are applicable to its Head Start Cluster (CFDA #s 93.600 and 93.708) major program. Compliance with such requirements is necessary, in our opinion, for PSS to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of PSS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PSS's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 2011-14 and 2011-21 to be material weaknesses.

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 in internal control over compliance, 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 2011-15 through 2011-20 and 2011-22 through 2011-30 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We were engaged to audit the financial statements of PSS as of and for the year ended September 30, 2011. The accompanying Schedule of Expenditures of Federal Awards (pages 6 and 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Our report dated February 26, 2013, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine the propriety of capital assets, accumulated depreciation, depreciation expense, advances, vouchers payable, accrued expenses, retirement contributions payable and related expenses.

PSS's responses to the findings identified in our engagement to audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit PSS's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the State Board of Education, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

February 26, 2013

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct Program:		
National School Lunch Program	10.555	\$ 9,831,925
Total U.S. Department of Agriculture		<u>9,831,925</u>
U.S. Department of Commerce		
Direct Program:		
Public Telecommunications Facilities Planning and Construction	11.550	10,286
Total U.S. Department of Commerce		<u>10,286</u>
U.S. Department of Defense		
Direct Program:		
Army JROTC	12.Unknown	357,843
Total U.S. Department of Defense		<u>357,843</u>
U.S. Department of Transportation		
Direct Programs:		
ARRA - Federal Transit - Formula Grants	20.507	289,071
Formula Grants for Other Than Urbanized Areas	20.509	1,108,152
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	52,510
Total U.S. Department of Transportation		<u>1,449,733</u>
U.S. Department of Education		
Direct Programs:		
Special Education - Grants to States (IDEA, Part B)	84.027	4,787,840
Special Education - Grants for Infants and Families	84.181	347,279
Byrd Honors Scholarships	84.185	7,500
Fund for the Improvement of Education	84.215	160,308
Territories and Freely Associated States Education Grant Program	84.256	1,060,828
Improving Literacy Through School Libraries	84.364	8,825
Striving Readers	84.371	31,186
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	49,909
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393	265
ARRA - Consolidated Grants to the Outlying Areas, Recovery Act	84.402	2,048,460
Consolidated Grants to the Outlying Areas	84.403	9,475,792
Common Core of Data (NCES)	84.Unknown	3,328
Subtotal Direct Programs		<u>17,981,520</u>
Pass-Through the Government of the CNMI:		
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	20,168,778
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	339,142
ARRA - Education Jobs Fund	84.410	5,725,918
Subtotal Pass-Through the Government of the CNMI		<u>26,233,838</u>
Total U.S. Department of Education		<u>44,215,358</u>

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

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct Programs:		
Head Start	93.600	1,773,717
ARRA - Head Start	93.708	97,966
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>121,334</u>
Subtotal Direct Programs		1,993,017
Pass-Through the Government of the CNMI:		
Child Care	93.575	<u>150,000</u>
Total U.S. Department of Health and Human Services		<u>2,143,017</u>
Corporation for National and Community Service		
Direct Program:		
AmeriCorps	94.006	<u>67,234</u>
Total Corporation for National and Community Service		<u>67,234</u>
Program Income:		
Food Court		6,652
Child Care		107,921
Prel VocEd		<u>1,246</u>
		<u>115,819</u>
		<u>\$ 58,191,215</u>
Reconciliation:		
Expenditures per combined Schedule of Expenditures by Account		\$ 47,571,422
Capital outlays		<u>9,996,131</u>
Total expenditures, Federal Grants Fund		57,567,553
Expenditures included in nonmajor funds		<u>623,662</u>
		<u>\$ 58,191,215</u>

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

CNMI PUBLIC SCHOOL SYSTEM

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(1) Scope of Audit

The Commonwealth of the Northern Mariana Islands (CNMI) Public School System (PSS) was established as a public nonprofit corporation by CNMI Public Law 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 OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of Inspector General has been designated as PSS's cognizant agency for the Single Audit.

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the cash basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency, and any federal funds received in excess of federal funds expended are recorded as deferred revenue.

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Education for fiscal year 2011. The approved rate is as follows:

Restricted rate	4.30%
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The restricted 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.

PSS has an unrestricted indirect cost rate that is applicable to all programs except for the U.S. Department of Education programs and is based on total direct salaries and wages, including fringe benefits. The provisional rate is as follows:

Unrestricted	2.04%
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CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Disclaimer |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | | |
|----|--|-----------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major programs: | |

<u>CFDA Number</u>	<u>Federal Program</u>
20.507	ARRA - Federal Transit Formula Grants
	Special Education Cluster (IDEA):
84.027	Special Education - Grants to States (IDEA, Part B)
84.391	ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act
	State Fiscal Stabilization Fund Cluster:
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act
84.402	ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
84.403	Consolidated Grants to the Outlying Areas
84.410	ARRA - Education Jobs Fund
	Head Start Cluster:
93.600	Head Start
93.708	ARRA - Head Start

- | | | |
|-----|--|-------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$1,745,736 |
| 11. | Auditee qualified as a low-risk auditee? | No |

CNMI PUBLIC SCHOOL SYSTEM

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2011**

B. FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2011-01	Purchases/Disbursements	11 - 14
2011-02	Payroll	15 - 19
2011-03	Cash	20 - 21
2011-04	Receivables	22
2011-05	Capital Assets	23 - 26
2011-06	Liabilities	27 - 28
2011-07	Withholding Taxes Payable	29 - 30
2011-08	Medicare Payments	31
2011-09 - 10	Retirement Benefits	32 - 34
2011-11	Journal Entries	35 - 36
2011-12	Operating Systems	37 - 38
2011-13	Local Noncompliance	39 - 40

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2011-30	20.507	Equipment and Real Property Management	\$ -	98 - 99
2011-14	84.027/84.391	Activities Allowed or Unallowed/Allowable Costs/Cost Principles	\$ 119,335	41 - 48
2011-30	84.027/84.391	Equipment and Real Property Management	\$ -	98 - 99
2011-15	84.027/84.391	Matching, Level of Effort, Earmarking	\$ -	49 - 50
2011-16	84.027/84.391	Period of Availability of Federal Funds	\$ 1,983	51
2011-17	84.027/84.391	Procurement and Suspension and Debarment	\$ 6,433	52 - 56
2011-18	84.394/84.397	Allowable Costs/Cost Principles	\$ 67,754	57 - 59
2011-30	84.394/84.397	Equipment and Real Property Management	\$ -	98 - 99
2011-19	84.394/84.397	Procurement and Suspension and Debarment	\$ 6,993	60 - 64
2011-20	84.394/84.397	Reporting	\$ -	65
2011-21	84.402	Allowable Costs/Cost Principles	\$ 52,831	66 - 68
2011-22	84.402	Procurement and Suspension and Debarment	\$ 7,081	69 - 71
2011-23	84.403	Allowable Costs/Cost Principles	\$ 39,461	72 - 78
2011-24	84.403	Procurement and Suspension and Debarment	\$ 67,047	79 - 84
2011-25	84.410	Activities Allowed or Unallowed/Allowable Costs/Cost Principles	\$ 38,078	85 - 89
2011-26	93.600/93.708	Allowable Costs/Cost Principles	\$ 23,747	90 - 92
2011-27	93.600/93.708	Eligibility	\$ 4,078	93 - 94
2011-30	93.600/93.708	Equipment and Real Property Management	\$ -	98 - 99
2011-28	93.600/93.708	Procurement and Suspension and Debarment	\$ -	95 - 96
2011-29	93.600/93.708	Subrecipient Monitoring	\$ -	97

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

B. FINANCIAL STATEMENT FINDINGS

Purchases/Disbursements

Finding No. 2011-01

Criteria: Proper controls mitigate risks associated with the processing and recording of transactions.

Conditions:

1. Our tests of eleven nonpayroll disbursements totaling \$460,112 noted the following:
 - a. For one item (document no. PV # 186160, GL date 07/15/11) PSS was billed for 2,022 hours of service at \$3.40 per hour. The related invoice indicated 1,974 hours of service was provided resulting in an overpayment of \$163. PSS did not confirm whether the vendor was exempt from paying the CNMI minimum wage.
 - b. For one travel item totaling \$1,540 (document no. PV # 183350, GL date 05/14/11) for travel from October 15, 2010 through October 22, 2010, the travel voucher was not liquidated until May 14, 2011. PSS travel policy requires liquidation of travel advances within fifteen days from completion of travel. In addition, \$1,110 related to per diem and layovers, was calculated using U.S. federal per diem guidelines that were not effective as of October 1, 2010. Further, U.S. federal per diem guidelines do not provide for a prorated rate for layovers less than twenty-four hours, which was used in this instance. As a result, per diem paid was \$27 per day in excess of that allowable.
 - c. The invoice for one item (document no. PV # 188014, GL date 09/07/11), a \$2,000 deposit related to a \$9,954 purchase, was procured through the sole source method and was dated May 1, 2009. The sole source justification for the remaining balance of \$7,954 (recorded in the general ledger on September 7, 2011) was dated May 26, 2011.
2. Supporting invoices/contracts for the following disbursements were not available for:
 - a. Ten of seventy-five subsequent disbursements requested:

<u>Check Date</u>	<u>Document No.</u>	<u>Amount</u>
10/12/11	131222	\$ 33,330
10/21/11	131556	\$ 34,300
10/25/11	131637	\$ 13,360
11/15/11	132044	\$ 93,233
12/21/11	132835	\$ 127,915
12/29/11	132972	\$ 18,806
03/19/12	134954	\$ 340,709
05/02/12	136120	\$ 342,130
05/10/12	136314	\$ 362,908
05/31/12	137027	\$ 123,034

In addition, for one \$20,593 item (check no. 134093, dated 2/22/12) supporting invoices only totaled \$1,711.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-01, Continued

Conditions, Continued:

- b. Seven of seventeen professional fees tested:

<u>Document No.</u>	<u>Amount</u>
PV 183072	\$ 4,109
PV 184251	\$ 1,585
PV 185092	\$ 9,097
PV 187733	\$ 1,085
PV 188764	\$ 10,545
PV 178234	\$ 28,573
PV 182045	\$ 31,088

3. Written justification from the Commissioner of Education (COE) or indication of advice from legal counsel could not be provided to substantiate the use of competitive sealed proposals for two disbursements tested (PV # 176908, GL date 12/07/10 and PV # 188459, GL date 09/20/11). In accordance with PSS Administrative Code 60-40-225, the use of competitive sealed proposals may be used only when the COE determines in writing, upon the advice of legal counsel, that the use of competitive sealed bidding is either not practical or not advantageous. In addition, PSS Procurement Rules and Regulations state that publication of notice in a newspaper of general circulation in the CNMI once each week over a period of thirty calendar days shall be deemed adequate unless the Chief of Procurement and Supply determines a shorter period is reasonable and necessary. The bidding times for the related invitations for bid were less than thirty days and there was no evidence that the Chief of Procurement and Supply determined that a shorter period is reasonable and necessary as follows:

<u>PV No.</u>	<u>Amount</u>	<u>Announcement Dates</u>
176908	\$ 57,236	08/06/10 and 08/13/10
188459	\$ 73,000	07/28/10 and 08/04/10

4. PSS recorded travel advances totaling \$620,274 at September 30, 2011. We were advised that certain of these travel advances were aged and supporting travel vouchers were not available. An audit adjustment was proposed to record a \$267,687 provision for potential uncollectible accounts.

Of eight travel advances tested, we noted the following:

- a. Travel vouchers for four items (FY 00 audit adjustments \$427,975, AMEX charges \$10,044, Freedom Air \$128 and pp01 cash return entry (\$6,577)) were not made available.
- b. Three former employees (employee nos. 2257, 3184 and 14017) have travel advances totaling \$5,817 recorded in the general ledger for fiscal years 1999 through 2011. Related employee ledgers indicate total receivables of \$302.
- c. One employee (employee no. 2746) has travel advances recorded in the general ledger of \$12,288. The related employee ledger indicates total receivables of negative \$4,629.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-01, Continued

Conditions, Continued:

Additionally, our tests of travel advance details in the general ledger noted the following:

- d. Approximately 87% of the general ledger balance is greater than 120 days old.
- e. Travel advances dating back to 1999 have not been timely liquidated and supporting documents could not be provided.
- f. Cash receipts for liquidated travel advances are not directly applied to the related advance.
- g. The general ledger includes travel advances of former PSS employees.
- h. Travel liquidation policies are not consistently followed:

- (i) Travel outside the CNMI:

- In accordance with §60-20-720 (g), travelers must file a travel voucher with supporting documentation within fifteen working days upon completion of travel.

- (ii) Travel within the CNMI (Commutes):

- In accordance with §60-20-721 (g), commuters must file a travel voucher with supporting documentation within thirty days upon completion of each individual commute.

PSS subsequently provided a \$168,135 schedule of travel advances for airfare that have yet to be liquidated. We have been advised that travel has been completed; however, the advance and liquidation were not recorded. No audit adjustment was proposed.

- 5. Airfares for interisland travel are purchased through credit card. PSS is unable to match the airfare to the respective traveler upon receipt of the credit card statement. As a result, the charges remain unidentified and the related travel voucher is not timely liquidated. Subsequent to our inquiries, PSS identified total interisland airfare charges of approximately \$103,471. An audit adjustment was proposed to record the amount at September 30, 2011. We have been advised that PSS has ceased the use of credit cards effective June 2012.

Cause: The cause of the above condition is the lack of adherence to established controls related to the processing and recording of transactions.

Effect: The effect of the above condition is the misstatement of account balances.

Recommendation: We recommend:

- Supporting journal vouchers, disbursement vouchers, invoices and reconciliations be properly maintained and vendor invoices be examined for accuracy prior to processing payments;

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-01, Continued

Recommendation, Continued:

- PSS Procurement Rules and Regulations be adhered to;
- An assessment of travel advances be performed, cash receipts/adjustments be appropriately applied to employee accounts and adherence to PSS travel policies be required; and
- All travel advances be properly recorded in the general ledger and travel vouchers be properly filed and maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: George Palican, Acting Director of Finance and Robert Florian, Procurement & Supply Officer

Corrective Action:

Condition 1 For items a and b, PSS agrees with the audit recommendations. Audit recommendations are being implemented to properly maintain supporting journal vouchers, disbursement vouchers, invoices and reconciliations. Vendor invoices are being verified for accuracy prior to processing payments. The Procurement & Supply Officer is certifying that bidding times less than 30 days are reasonable and necessary in compliance with PSS Procurement Rules and Regulations. Travel advances are being assessed. Cash receipts/adjustments are being applied to employee accounts. PSS plans to issue computerized cash receipts directly from JDE and discontinue the issuance of manual cash receipts. PSS travel policies are being adhered to by emailing travelers their travel documents and itinerary and notifying travelers of PSS's travel policies including enforcement actions that will be taken for noncompliance. Travel advances are being recorded in the general ledger, AMEX charges have ceased since June 2012 and vouchers are properly maintained.

For item c, sole source justification is not needed for the remaining balance when the initial total purchase was approved as a sole source.

Condition 2 See corrective action for Condition 1.

Condition 3 Procurement regulations will be revised to eliminate the COE and the Legal Counsel from the RFP process and designate the Procurement & Supply Officer to approve the use of RFPs. Also, Procurement & Supply is now complying with the requirement to justify bid times of less than 30 days.

Condition 4 See corrective action for Condition 1.

Condition 5 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Payroll

Finding No. 2011-02

Criteria: Employee salaries and wages should be supported by an approved employment contract or personnel action form, timecards and approved timesheets.

Condition: Our tests of thirty payroll items noted the following:

1. The Finance Director does not evidence review of the payroll report. In addition, for one item tested (employee no. 14599; PPE 08/13/11), we did not note the department head's approval of the timesheet summary.
2. Payroll distribution reports, which reflect the allocation of employee salaries and benefits could not be provided. We were informed that such reports were not printed, maintained or backed up during the fiscal year. Further, complete payroll registers covering the entire fiscal year were not available; however, historical payroll registers (HPR) were generated at our request. A comparison of recorded gross personnel expenditures of the HPR to the general ledger (GL) noted the following variances:

<u>Payroll Period Ended</u>	<u>Gross Pay Per GL Posting</u>	<u>Gross Pay Per HPR</u>	<u>Variance</u>
11/06/10	\$ 50,429	\$ 63,839	\$ (13,410)
12/04/10	\$ 37,522	\$ 22,683	\$ 14,839
12/04/10	\$ 24,735	\$ 31,254	\$ (6,519)
02/26/11	\$ 16,995	\$ 16,872	\$ 123
06/04/11	\$ 2,831	\$ 2,891	\$ (60)
06/18/11	\$ 72,883	\$ 80,192	\$ (7,309)
07/30/11	\$ 46,634	\$ 69,019	\$ (22,385)
08/27/11	\$ 19,635	\$ 29,496	\$ (9,861)
09/10/11	\$ 37,095	\$ 43,327	\$ (6,232)

3. The employment contract and addendum to employment for five employees (employee nos. 2848; PPE 12/04/10, 2199; PPE 12/04/10, 11087; PPE 04/09/11, 10666; PPE 08/27/11 and 12505; PPE 07/16/11) were not signed by the employees. For two employees (employee nos. 2848; PPE 12/04/10 and 10666; PPE 08/27/11), the compensated time agreements were not signed by the employees. Further, for one employee (employee no. 12505; PPE 07/16/11), the employment contract was not signed by legal counsel.
4. The employment contract renewal and updated notice of personnel action form for three employees (employee nos. 2750; PPE 11/20/10, 6136; PPE 03/12/11 and 7662; PPE 07/30/11) was not available.
5. For one employee (employee no. 2650; PPE 05/07/11), the employment contract hourly rate of \$14.542 differs from the personnel action form hourly rate of \$15.268. In addition, the annual salary on the personnel action form is \$30,247, which equates to the hourly rate of \$14.542; however, the employee was paid the hourly rate of \$15.268.
6. The hourly rate on the personnel action form for one employee (employee no. 13309; PPE 05/21/11) was based on the U.S. military pay level; however, supporting documentation justifying this basis was not made available.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-02, Continued

Condition, Continued:

7. The journal voucher (JE 16115) for one payroll item was not made available.
8. State Board of Education approval for the administrative leave of thirty-two hours paid to one employee (employee no. 2746; PPE 10/23/10), was not provided.
9. Authorization forms for employee payroll deductions were not provided for all payroll items tested.
10. For eighteen employees, timecard hours did not agree with hours summarized in the approved timesheet summary. In addition, related timecards were not signed by fifteen employees as follows:

<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Hours</u>		<u>Variance</u>	<u>Timecard Signed</u>
		<u>Per Timesheet</u>	<u>Per Timecard</u>		
11/06/10	3062	80.00	80.25	(0.25)	No
11/20/10	2750	80.00	71.00	9.00	No
12/04/10	2848	81.95	91.00	(9.05)	No
12/04/10	2199	80.00	80.25	(0.25)	Yes
01/15/11	8580	80.00	94.00	(14.00)	No
01/29/11	7423	80.00	85.75	(5.75)	No
02/12/11	11092	80.00	90.75	(10.75)	No
02/12/11	9721	80.00	88.00	(8.00)	No
02/26/11	2154	80.00	92.25	(12.25)	No
03/12/11	6136	80.00	85.75	(5.75)	No
03/26/11	5249	80.00	87.00	(7.00)	No
04/23/11	8259	80.00	85.75	(5.75)	No
05/07/11	2650	80.00	96.50	(16.50)	Yes
05/21/11	7568	80.00	85.75	(5.75)	No
07/16/11	9946	89.00	82.00	7.00	No
07/30/11	7662	80.00	90.00	(10.00)	No
08/27/11	14057	80.00	85.50	(5.50)	No
02/26/11	2888	80.00	81.06	(1.06)	Yes

11. One employee's timecard (employee no. 7701; PPE 06/18/11) was not signed and we could not verify hours worked as the hours on the timecard were not legible. We could not verify the hours worked for another employee (employee no. 10666; PPE 08/27/11) as the related timecard was not signed and there were no hours clocked in or out.
12. For two employees (employee nos. 2750; PPE 11/20/10 and 2848; PPE 12/04/10), the authorization or approval to substantiate the payment of accrued compensated hours was not provided.
13. Supporting documents for the payment of an extended day credit for one employee (employee no. 7423; PPE 01/29/11) were not made available.
14. Documents authorizing the payment of accrued annual leave for one employee (employee no. 11087; PPE 04/09/11) were not made available.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-02, Continued

Condition, Continued:

15. The night differential hours per timecard did not agree with hours reported on the approved timesheet summary for the following:

<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Hours</u>		<u>Variance</u>
		<u>Per Timesheet</u>	<u>Per Timecard</u>	
12/04/10	2848	3.00	5.00	(2.00)
07/16/11	9946	9.00	12.25	(3.25)

16. For one employee (employee no. 12867; PPE 06/04/11), the authorization/approval for differential hours paid of \$60 was not made available. In addition, we were not able to agree the related payment to the general ledger.
17. We were unable to verify hours worked for eight employees as the related timecards were not provided, as follows:

<u>Employee No.</u>	<u>Payroll Period Ended</u>
2746	10/23/10
2322	02/12/11
13529	04/09/11
13309	05/21/11
12867	06/04/11
10482	07/02/11
12505	07/16/11
9014	08/13/11

18. For one employee (employee no. 10482; PPE 07/02/11), the authorization/approval for an additional payment of \$86 were not made available.

Cause: The cause of the above conditions is the lack of controls and management review of payroll related documents.

Effect: The effect of the above conditions is the misstatement of payroll expenses.

Recommendation: We recommend the following:

- All employment contracts and personnel action forms be signed by the employee, filed and maintained. Further, we recommend that changes to employment terms be forwarded to the payroll department in a timely manner;
- All payroll related accounts recorded in the general ledger should be reconciled and evidenced as to review in a timely manner;
- Employment contracts should be updated in a timely manner;
- Hours paid to employees should be properly supported with signed timecards and approved leave/comptime forms. We also recommend that employee deductions be properly authorized and supported; and

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-02, Continued

Recommendation, Continued:

- Electronic copies or backups of payroll registers should be maintained to support employee payroll and amounts recorded in the general ledger.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: George Palican, Acting Director of Finance and Coreen Palacios, Interim HRO Director

Corrective Action:

Condition 1 PSS concurs with the audit recommendations. The Interim HRO Director agrees to have employees sign employment contracts and personnel action forms and will file and maintain these documents. HRO will forward employment contract updates and changes to employment terms to the Payroll Department in a timely manner.

All payroll related accounts recorded in the general ledger are to be reconciled and evidenced as reviewed in a timely manner. Hours paid to employees are to be properly supported with timecards and approved leave/comptime forms; however, PSS does not have a policy requiring all timecards to be signed. Employees will be requested to provide updated deduction forms. Payroll registers are to be maintained to support employee payroll and amounts recorded in the general ledger in the form of electronic copies and backups. Timekeepers and payroll staff will be re-trained in documenting timekeeping and payroll records. Efforts will be made to obtain and procure a computerized timekeeping system to replace the manual timecard system.

Condition 2 See corrective action for Condition 1.

Condition 3 PSS agrees. HRO will refine its standard operating procedures to ensure that all signatories are verified and completed before personnel action forms and employment contracts are filed. HRO will ensure timely renewal of employment contracts.

Condition 4 PSS agrees. HRO will refine its renewal process to prevent the delay of employees submitting the required documents. HRO has taken a proactive step to ensure that all employees' contracts are processed and filed accordingly. Memos were sent to schools and programs with their listing of all employees and their contract expiration dates on January 23, 2012. An updated listing was also provided at the principal meetings. HRO and Finance will work with the JDE programmer to alert the Payroll Department not to pay employees with expired contracts.

Condition 5 PSS agrees. HRO will ensure that the salary rate in JDE reflects the actual pay on the personnel action form by refining its standard operating procedures.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-02, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 6 PSS disagrees. Military instructor pay (MIP) factors in the cost of living allowance; therefore, stipulating a salary in the personnel action form based on PSS's contributions will not be in line with MIP. The MIP salary is controlled by the Department of Defense (DOD) and there is an MIP agreement between DOD and PSS. The MIP is subject to change at any time.
- Condition 7 See corrective action for Condition 1.
- Condition 8 See corrective action for Condition 1.
- Condition 9 See corrective action for Condition 1.
- Condition 10 See corrective action for Condition 1.
- Condition 11 See corrective action for Condition 1.
- Condition 12 See corrective action for Condition 1.
- Condition 13 See corrective action for Condition 1.
- Condition 14 See corrective action for Condition 1.
- Condition 15 See corrective action for Condition 1.
- Condition 16 See corrective action for Condition 1.
- Condition 17 See corrective action for Condition 1.
- Condition 18 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

Auditor Response:

- Condition 6 The salary stipulated in the personnel action form indicated "MIP". We were not able to determine that the salary paid to the selected employee agreed to the MIP in effect at the time the employees' personnel action was processed.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Cash

Finding No. 2011-03

Criteria: Cash accounts should be monitored by management and reconciling items should be properly supported.

Condition: Our tests of cash noted the following:

1. At September 30, 2011, PSS's general checking account bank reconciliation included \$3,218,104 in outstanding checks. PSS subsequently determined that \$2,475,880 of this amount should be offset against vouchers payable. An audit adjustment was proposed to record this offset.
2. At September 30, 2011, PSS determined bank reconciliation adjustments totaling \$547,384 for accrued expenses (account # 10000.685). We were advised that the amounts relate to unidentified items resulting from monthly bank reconciliations that are the result of unrecorded disbursements in the general ledger. Of the total adjustments, \$366,001 were subsequently identified and an audit adjustment was proposed to record the amounts. Management did not consider the remaining amount of \$181,383 sufficiently material to the financial statements to warrant an adjustment.
3. At September 30, 2011, PSS determined unidentified American Express (AMEX) charges of \$453,000 (account # 10000.689). The amount relates to AMEX charges for airfare and online purchases that could not be identified during the reconciliation of the general checking account. Of the total amount recorded, approximately \$334,038 has subsequently been identified. Accordingly, an audit adjustment was proposed to record the identified items in the correct account. Management did not consider the remaining amount of \$118,962 material to the financial statements to warrant an adjustment.
4. General checking account bank reconciliations prepared by PSS's external consultant for the months of October 2010 through March 2011 did not indicate review and approval of a member of management of PSS. Bank reconciliations thereafter performed were duly reviewed and approved by the Finance Director.
5. The general ledger included checking account #s 10000.103 and 10000.113 identified as CIP Fund and Tinian Food Service with balances of \$2,735 and \$7,463, respectively, at September 30, 2011. The bank confirmation received confirmed balances for two savings accounts, Rota Childcare and Tinian Childcare, with balances of \$2,293 and \$7,515, respectively, at September 30, 2011. We were unable to determine if the checking accounts per the general ledger are actually the savings accounts confirmed since bank reconciliations were not performed.

Cause: The cause of the above condition is the lack of monitoring of cash accounts and determining and recording reconciling items.

Effect: The effect of the above condition is the misstatement of cash accounts.

Recommendation: We recommend that all cash accounts be monitored and reconciled and that reconciling items be recorded.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-03, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 PSS concurs with the recommendation to monitor, reconcile and record reconciling items for all cash accounts.
- Condition 2 See corrective action for Condition 1.
- Condition 3 See corrective action for Condition 1.
- Condition 4 See corrective action for Condition 1.
- Condition 5 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Receivables

Finding No. 2011-04

Criteria: Receivables should be reconciled to sub-ledger balances and assessed for collectability on a timely basis.

Condition: At September 30, 2010 PSS recorded receivables from the CNMI of \$3,846,402. Related to this balance, in fiscal year 2011, the CNMI paid \$234,911 directly to PSS and \$1,028,279 to the Commonwealth Utilities Corporation (CUC) for past due utility liabilities. As of and for the year ended September 30, 2010, PSS recorded utilities payable to CUC of \$3,133 and utilities expense of \$5,216,710. An audit adjustment was proposed to restate fiscal year 2010 balances for the liability to CUC. Per CUC, total fiscal year 2010 utility charges of PSS were \$4,165,691. No reconciliation of these charges to recorded charges was provided by PSS.

Audit adjustments were proposed to record fiscal year 2011 CNMI appropriations to PSS. These adjustments resulted in a receivable from the CNMI of \$6,294,244 at September 30, 2011. Of the total receivable amount, \$2,583,212 relates to fiscal year 2010 appropriations. No assessment of the collectability of this prior year receivable was performed by PSS at September 30, 2011. PSS, however, has subsequently received the total amount outstanding at September 30, 2011 from the CNMI.

PSS recorded receivables from federal agencies of \$1,119,956 and \$1,098,104 at September 30, 2011 and 2010, respectively. The federal agencies sub-ledger, however, reflected a deferred revenue balance of \$102,896 at September 30, 2011. The discrepancy between the general ledger and sub-ledger relate to fiscal year 2010. An audit adjustment was proposed to restate fiscal year 2010 balances for the receivable from federal agencies. In addition, we noted that federally funded expenses totaling \$623,662 are recorded in nonmajor funds. These expenses were not initially included in the Schedule of Expenditures of Federal Awards.

Cause: The cause of the above condition is the lack of reconciliation and timely assessment of collectability of receivable balances.

Effect: The effect of the above condition is the misstatement of receivable balances.

Recommendation: We recommend that PSS reconcile all receivable accounts to sub-ledger balances and assess the collectability of receivables on a timely basis.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action: PSS concurs with the audit recommendations. PSS will reconcile all receivable accounts to sub-ledger balances and assess the collectability of receivables on a timely basis.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Capital Assets

Finding No. 2011-05

Criteria: The PSS Administrative Code, Title 60-20-815 (b) Fixed Asset Policy, states as follows:

- To be classified as fixed asset/equipment, a specific piece of property must possess three attributes:
 - (i) Be tangible in nature;
 - (ii) Have a useful life of two years or more; and
 - (iii) Have a value of \$5,000 or more
- All fixed asset/equipment expenditures shall be recorded initially as a fixed asset. All such assets shall be tagged and identified as PSS property. A separate fixed asset ledger will be maintained with related accumulated depreciation.
- All depreciation will be recorded on a straight-line basis.
- All fixed assets purchased with federal funds shall be identified as such on the property itself, and the property if purchased for an agency shall be so identified. The fixed asset ledger shall include proper identification as to federal or local status.

Additionally, land should be recorded at fair value at the date of acquisition and valuations should be periodically performed, and adjustments made, to reflect land at the lower of carrying amount or fair value. The carrying amount of the land should be evaluated on an annual basis to determine impairment by estimating the recoverable value which is based on management's historical knowledge and changes in market conditions from the time of valuation. An impairment loss is recognized in the period in which it arises.

Condition: Our tests of capital assets noted the following:

1. At September 30, 2011, capital assets were not recorded in the general ledger. In addition, PSS was not able to provide details of its capital assets as of September 30, 2011. Detailed schedules at September 30, 2010, however, were subsequently obtained from the predecessor auditor and updated for fiscal year 2011 additions and disposals. In addition, the schedule does not include the equipment management requirements of the Single Audit discussed in finding 2011-30. We are aware that PSS has subsequently begun the initial setup of capital assets in the general ledger and proposed an audit adjustment to record capital assets at September 30, 2011.
2. A complete physical inventory of equipment and property has not been performed since June 2009. PSS Property Management and Accountability manual requires that an annual physical inventory of capital assets be performed. For Single Audit purposes, a physical inventory of capital assets must be taken once every two years. Accordingly, PSS is also not in compliance with applicable equipment management requirements in accordance with the Single Audit as discussed in finding 2011-30. As a result, capital assets records are not updated to reflect assets physically on hand or in use at September 30, 2011.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-05, Continued

Condition, Continued:

3. A basis of the valuation of land, donated by the CNMI Government and recorded at \$36,647,850, has not been provided. The land was initially recorded in fiscal year 2001 as indicated in PSS's audited financial statements for the fiscal year ended September 30, 2001.
4. Of \$66,525,194 in buildings recorded, details such as the identification and location of the buildings totaling \$46,802,327 were not made available. These buildings were initially recorded by PSS in fiscal years 2001 through 2005 as indicated in PSS's audited financial statements for such fiscal years.
5. Support for beginning construction in progress (CIP), totaling \$3,318,462, was not made available. Of the total amount, \$2,999,426 relates to fiscal year 2009 and prior years increased by additions of \$319,036 in fiscal year 2010 as reported in PSS's audited financial statements for fiscal year 2010. An update on the status of the projects by the PSS CIP Office indicated differences in the costs of the projects. A reconciliation of the differences was not provided. Further, approximately \$1,732,237 of the projects was completed in fiscal year 2010 and prior years. Fiscal year 2011 CIP additions amounted to \$554,865. Of the total amount, the details for \$269,794 were not available.
6. PSS recorded repairs and maintenance expense of \$9,983,808 during the year ended September 30, 2011, of which \$9,061,663 has been identified as building improvements. Of the total amount, approximately \$8,900,781 (98%) was tested as part of our compliance testing for major programs in accordance with the Single Audit. Our compliance testing resulted in noncompliance with the procurement, suspension and debarment requirements as discussed in findings 2011-17, 2011-19, 2011-22, 2011-24 and 2011-28. An audit adjustment was proposed to record the amounts as capital assets. A detailed schedule of building improvements totaling \$11,677,544 was provided by the PSS CIP Office resulting in a variance of \$2,615,881. An explanation or reconciliation of the variance was not provided.

Our physical observation of selected capital assets noted the following:

7. The following assets were not made available for observation:

<u>Description</u>	<u>Tag Number</u>
Toyota 4x2 Pick Up Short Bed	CNMI-000864-US
JROTC	None
MCU, Accord MGC-100 Confer. Bridge	CNMI-14426-US

8. One asset (tag # CNMI-05267-US) has been disposed but is still recorded in the capital assets subledger.
9. Two assets (tag #s CNMI 08268 US and CNMI 20458 US), located in Tinian and Rota, for which vehicle registrations were not made available.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-05, Continued

Condition, Continued:

10. Two assets (tag #s CNMI 08268 US and CNMI 24834 US) were identified as inoperable but were recorded in the capital assets subledger. In addition, the vehicle identification number on the vehicle registration form for tag # CNMI 24834 US differs from the number in the subledger.
11. One item (tag # US) totaling \$1,251,106 consists of a group of assets that is recorded in total in the capital asset subledger. As a result, we were unable to sight and specifically identify individual assets. In addition, we sighted one asset (tag # CNMI 26330 US) totaling \$112,741; however, we were advised that the asset is comprised of multiple units, which are located at various schools and departments of PSS and are not individually tagged.
12. One asset (tag # CNMI-03061) could not be located.

Cause: The cause of the above condition is the lack of established policies and procedures for the accounting and maintenance of capital assets.

Effect: The effect of the above condition is potential material misstatement of capital assets.

Recommendation: We recommend management establish policies and procedures for the accounting and maintenance of capital assets. We also recommend the following:

- A complete physical count of all buildings and equipment be performed, properly documented and results reflected in the accounting records/general ledger.
- Communicate with the CNMI Government regarding the valuation of donated land and buildings.
- A subledger of construction in progress supporting ongoing projects be maintained and be scrutinized for propriety.
- PSS update its capital assets subledger to include assets currently operable and in use and that asset records be maintained to individually include a description of the property, a serial number or other identification number, the funding source of the property, title information, the acquisition date and cost of the property.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: George Palican, Acting Director of Finance and Robert Florian, Procurement & Supply Officer

Corrective Action:

- Condition 1 The auditor acknowledges PSS's fixed asset project scheduled adjustment to record capital assets at September 30, 2012.
- Condition 2 A complete physical inventory will be scheduled following the completion of the fixed assets recordation.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-05, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 3 PSS has a valuation of land as a school district and will update the valuation of land and buildings by school campus. Documents will be provided to the auditors.
- Condition 4 PSS will update and record the valuation of buildings into the JDE system by the end of October 2012.
- Condition 5 PSS will identify all construction in progress from 2009 thru 2011 and if projects are completed, they will be transferred to capital assets and entered into JDE system by October 2012.
- Condition 6 PSS will post the audit adjustments as proposed by the auditor upon receipt.
- Condition 7 PSS concurs with the finding and corrections will be made.
- Condition 8 No request to see these assets was received by Procurement & Supply.
- Condition 9 PSS concurs with the finding and corrections will be made.
- Condition 10 No request for vehicle registration was received by Procurement & Supply.
- Condition 11 PSS concurs with the finding and corrections will be made.
- Condition 12 PSS concurs with the finding and corrections will be made.

Proposed Completion Date: October 31, 2012.

Auditor Response:

- Condition 8 A schedule of fixed assets selected for physical sighting was provided to Richard Waldo, the former Director of Finance.
- Condition 10 Vehicle registrations were requested from Mr. Eric Atalig, Pupil Transportation Manager.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Liabilities

Finding No. 2011-06

Criteria: Expenses and related liabilities should be recorded when incurred.

Condition: Vendor invoices are entered and recorded into the general ledger only when payments are made. Our tests of liability accounts noted the following:

1. Audit adjustments were proposed to reduce vouchers payable by \$2,002,025 for bank reconciliation adjustments and bank overdraft adjustments and by \$2,696,291 for withholding taxes payable. Audit adjustments were proposed to increase vouchers payable for unrecorded liabilities totaling \$2,518,777. After proposed adjustments, vouchers payable include amounts in excess of \$3,000,000 that were not detailed or explained.
2. PSS recorded an accrued payroll liability of \$646,379 (account #s 10000.506, 10000.508, 40000.508 and 42000.508) as of September 30, 2011. Our estimation of the accrued payroll liability at September 30, 2011 was \$1,837,774. We were told that the variance is included in the unexplained \$3,000,000 referenced above. No adjustment was proposed as the specifics of general ledger entries were not available.
3. PSS estimated accrued communication expenses at the end of fiscal year 2011 at \$300,000 and recorded a liability for this amount. Actual communication expenses of fiscal year 2011 were determined to be \$663,882. An audit adjustment was proposed to record the additional liability.
4. An accrued compensatory time (comptime) schedule as of September 30, 2011 was not available. As a result, the total comptime liability at September 30, 2011 cannot be determined.
5. In accordance with PSS Administrative Code §60.30-615(c), the maximum accumulation of accrued annual leave shall be three hundred sixty hours. Hours in excess of three hundred sixty hours will be converted to sick leave. At September 30, 2011, PSS recorded annual leave of \$2,599,503 which is inclusive of \$198,870 in excess of three hundred sixty hours of unused leave. Management did not consider the amount sufficiently material to the financial statements to warrant adjustment.
6. Interfund accounts were out of balance by \$122,022 at September 30, 2011. We were informed that the out of balance condition is due to old unreconciled account balances. A summary of interfund balances by fund are identified as follows:

CNMI Grants	\$ 490,028
Federal Grants Fund	(647,884)
General Fund	695,397
Indirect Cost Fund	(602,784)
Local Fund	<u>(56,779)</u>
Total	\$ <u>(122,022)</u>

Management did not consider the amount sufficiently material to the financial statements to warrant adjustment and the amount was reported as vouchers payable in the financial statements.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-06, Continued

Cause: The cause of the above condition is that PSS only records vendor invoices when payments are made, does not monitor the recording of transactions or system generated entries and does not timely forward and file vendor invoices and statements at a central location (the PSS central office or the Finance and Budget office).

Effect: The effect of the above condition is the misstatement of liabilities and related expenses and a modification of the auditors' report on the financial statements.

Recommendation: We recommend that PSS record liabilities when incurred. PSS should monitor and reconcile its vouchers payable accounts and forward vendor invoices to a central location timely. In addition, interfund accounts should be properly reconciled.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

Condition 1 PSS agrees with the audit recommendations. Liabilities are being recorded when incurred and payables aging is prepared and reviewed periodically. New procedures have been implemented to require vendors to submit goods and products to the Receiving Department at Lower Base who will record all items received into the JDE financial system. The Receiving Department will forward receiving reports and invoice documents to the Finance Office. Interfund accounts are to be properly reconciled. Approval will be requested to hire a JDE Accounting Supervisor in the Finance Office who will primarily be responsible for reconciliation of accounts and to fill an existing vacancy in the Payables Section which is needed to record payables and invoices as they are incurred.

Condition 2 See corrective action for Condition 1.

Condition 3 See corrective action for Condition 1.

Condition 4 See corrective action for Condition 1.

Condition 5 See corrective action for Condition 1.

Condition 6 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Withholding Taxes Payable

Finding No. 2011-07

Criteria: CNMI tax laws require employers to withhold taxes (Chapter 2 local tax and Chapter 7 NMTIT) from each employee's salary and to remit and report on the last day of the month following the end of the quarter to the CNMI Division of Revenue and Taxation (R&T), the taxing authority of the CNMI Government. Further, the Annual Reconciliation of Taxes Withheld (Form OS 3710) is required to be filed on or before February 28 of the following year.

Condition: At September 30, 2011, PSS recorded negative (debit balances) local and NMTIT withholding taxes payable of \$391,554 and \$399,229, respectively. Our tests of general ledger details and inquiries noted the following:

1. The withholding taxes payable accounts (GL account nos. 10000.630 and 10000.631) were not reconciled during the fiscal year resulting in the debit balances. The nature of the debit balances could not be explained.
2. PSS did not report or remit Chapter 2 and Chapter 7 withholding taxes for the second, third and fourth quarters of fiscal year 2011. The related interest and penalties has not been determined.
3. The withholding taxes payable, covering the payroll period December 19, 2010 through January 1, 2011 (pay period #1), was reported and paid twice. One payment was made on January 15, 2011 (check # 123887) and another payment was made on March 16, 2012.
4. The Annual Reconciliation of Taxes Withheld was prepared and submitted to R&T in May 2012. The related interest and penalties for late filing has not been determined.
5. The liability for the outstanding withholding payables is initially recorded in withholding taxes payable accounts (GL account nos. 10000.630 and 10000.631). This liability was subsequently cleared from the withholding tax payable accounts and was recorded in a vouchers payable account (GL account no. 10000.500). No explanation was given for this clearing.

Audit adjustments of \$2,199,684 and \$1,130,266 for Chapter 2 and Chapter 7, respectively, were proposed to reflect actual withholding tax liability at September 30, 2011. Subsequent to year end, the withholding tax liability excluding interest and penalties was settled.

Cause: The cause of the above condition is the use of employee withholdings to fund operations due to untimely remittances of appropriations.

Effect: The effect of the above condition is the unlawful use of employee withholdings and the possibility of interest and penalties for nonpayment and failure to file.

Recommendation: We recommend the following:

- Management should address the nonpayment of withholding taxes with the CNMI Government to determine an achievable resolution;

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-07, Continued

Recommendation, Continued:

- Withholding taxes payable should be reported and remitted to R&T in accordance with applicable laws and due dates; and
- All general ledger accounts should be properly reconciled in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

Condition 1 PSS concurs with the audit recommendations. The PSS Finance Director and Finance staff had meetings with R&T and the CNMI Secretary of Finance on the payment of withholding taxes to determine an achievable resolution. Withholding taxes payable are being reported to R&T. Discussions with the Secretary of Finance are ongoing to pay taxes upon settlement of the Maintenance of Effort negotiations between the CNMI Government and the U.S. Department of Education. All general ledger accounts are to be properly reconciled in a timely manner. Approval will be requested to hire a JDE Accounting Supervisor level position to be primarily responsible for reconciliation of general ledger accounts.

Condition 2 See corrective action for Condition 1.

Condition 3 See corrective action for Condition 1.

Condition 4 See corrective action for Condition 1.

Condition 5 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Medicare Payments

Finding No. 2011-08

Criteria: Medicare withholdings from employee salaries and employer's share are required to be remitted to the United States Treasury in accordance with Publication 15 of the Internal Revenue Service (IRS).

Condition: PSS did not report or remit Medicare payments withheld from employee salaries and the related employer share from July 2011 through September 30, 2011. At September 30, 2011, the total Medicare liability amounted to \$292,840. Although payments were subsequently remitted, the related interest and penalties have not been determined.

Cause: The cause of the above condition is the lack of monitoring of required payments for each payroll period.

Effect: The effect of the above condition is noncompliance with Publication 15 of the IRS and the possibility of interest and penalties for nonpayment.

Recommendation: We recommend that management address this issue with the IRS as soon as possible and require all payroll allotments to be made in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action: PSS concurs with the audit recommendations. Medicare payments were made in the following quarter. Medicare payments are to be remitted in a timely manner. Staff will be re-trained on Medicare payment procedures. PSS is receiving procedures to compile Medicare payment data in a computerized report format to eliminate the manual report presently being performed. PSS is reviewing procedures to reduce special payroll runs in a pay period in order to better monitor the reporting and payment of Medicare withholdings.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Retirement Benefits

Finding No. 2011-09

Criteria: PSS contributes to Defined Benefit (DB) and Defined Contribution (DC) Plans as part of its employee benefits. In accordance with a court order (Civil Action 06-0367) dated August 10, 2010, PSS is required to remit employer contributions of 30% to the Northern Mariana Islands Retirement Fund (NMIRF) effective October 1, 2010 related to its DB Plan members. PSS's contribution rate for its DC Plan members is 4% of qualified salaries and wages.

Condition: Our tests of retirement contributions noted the following:

1. At September 30, 2011, PSS recorded negative (debit balance) due to retirement fund of \$2,066,901. An explanation of this debit balance was not made available. An audit adjustment was proposed to record the beginning balance of \$19,176,195 due to retirement fund.
2. The beginning balance of the amount due to retirement fund does not agree to PSS's audited ending balance at September 30, 2010 due to a penalty of \$1,188,250 and an unidentified variance of \$390,394. An audit adjustment was proposed to record these amounts.
3. A schedule supporting retirement contributions during fiscal year 2011 did not agree to the general ledger as follows:

	<u>Gross Pay</u>	<u>Total Contribution</u>
Per Schedule		
Defined Benefit	\$ 20,746,244	\$ 4,126,101
Defined Contribution	<u>16,571,249</u>	<u>662,802</u>
Total Schedule	<u>37,317,493</u>	<u>4,788,903</u>
Per General Ledger		
Salaries and wages	37,895,529	-
Contributions - DB	-	4,046,409
Contributions - DC	<u>-</u>	<u>691,352</u>
Total General Ledger	<u>37,895,529</u>	<u>4,737,761</u>
Variance	\$ <u>(578,036)</u>	\$ <u>51,142</u>

An explanation of the variances was not made available.

4. PSS utilized a rate of 20% for its DB Plan and recorded retirement contributions expense of \$4,046,409 during the year ended September 30, 2011. Per confirmation from NMIRF, total contributions utilizing the actuarial rate in effect during the year ended September 30, 2011 of 37.3909% amounted to \$9,362,480. The total employer share utilizing a rate of 30% as per the court order has not been recalculated or provided.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-09, Continued

Condition, Continued:

5. Employer contributions for the pay periods ended September 24 and September 30, 2011 were not recorded at September 30, 2011. In addition, on September 29, 2011, PSS wrote a check (check #130881, dated 09/29/11) to NMIRF for payment of employer contributions for the pay period ended September 9, 2011. The check was subsequently voided on July 11, 2012. Audit adjustments were proposed to record the accrued contributions at September 30, 2011. In a correspondence from NMIRF dated May 10, 2012, NMIRF claimed that PSS had not remitted both employer and employee contributions since pay period no. 23 (payroll period 10/23/11 - 11/05/11) through April 21, 2012. PSS has subsequently remitted employee contributions claimed by NMIRF.

Cause: The cause of the above condition is the lack of reconciliation to the general and lack of awareness of compliance with the court order.

Effect: The effect of the above condition is noncompliance with the court order, understatement of expenses and restatement of due to retirement fund.

Recommendation: We recommend PSS determine, recalculate and record its employer share of retirement contributions. We also recommend PSS adhere to the court order.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

Condition 1 PSS concurs with the audit recommendations. PSS changed its employer contribution rate to 30% to adhere to the court order and is in communication with NMIRF regarding reconciling its outstanding balance. PSS will work to determine, recalculate and record its employer share of retirement contributions. Approval will be requested to hire a JDE Accounting Supervisor level position to be primarily responsible for reconciliation of general ledger accounts.

Condition 2 See corrective action for Condition 1.

Condition 3 See corrective action for Condition 1.

Condition 4 See corrective action for Condition 1.

Condition 5 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Retirement Benefits

Finding No. 2011-10

Criteria: In accordance with CNMI Public Law (PL) 15-126, applicable to salaries paid by the PSS budget and the CNMI General Fund, PSS was required to remit employer contributions of 18%, effective fiscal year 2008. The difference between the actuarial rate of 36.7% and the 18% will accrue as a liability of the CNMI Government. A subsequent public law was enacted and a court order issued which changed/revised the employer contribution rate; however, PSS maintains that the deficient contributions are the CNMI Government's obligation.

Condition: At September 30, 2011, NMIRF confirmed a receivable from PSS of approximately \$24,536,911 utilizing a rate of 37.3909% and penalty of \$1,245,078 during the fiscal year. The total amount represents current and unpaid contributions dating back to fiscal year 2008. PSS recorded retirement contributions payable of \$20,280,840 at September 30, 2011 resulting in a difference of \$5,501,149. A reconciliation of the difference or resolution has not been provided. PSS's balance consists of the following:

Beginning balance per the general ledger	\$ (2,066,901)
Proposed audit adjustments:	
To record beginning balance	19,176,195
To record fiscal year 2010 penalty	1,188,250
To record prior years unidentified difference	390,395
To record accrual for PPE 09/24/11 through 09/30/11	347,823
To record assessed penalty for fiscal year 2011	<u>1,245,078</u>
Adjusted balance at September 30, 2011	\$ <u>20,280,840</u>

Cause: The cause of the above condition is the lack of awareness of statutory requirements.

Effect: The effect of the above condition is the possibility that PSS's liability to NMIRF is limited to the current statutory rate of 30%.

Recommendation: We recommend that PSS establish communications with the CNMI Government to determine the effects of PL 15-126 and resolve discrepancies with NMIRF.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action: PSS concurs with the audit recommendations. PSS has established productive communications with NMIRF and is working on obtaining verification that the CNMI Government will assume liability of employer contributions in excess of budgeted contribution rates.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Journal Entries

Finding No. 2011-11

Criteria: Journal entries should be used to post unusual and nonrecurring transactions into the general ledger.

Condition: Our tests of journal entries noted the following:

1. The total debit and credit entries amounted to \$48,989,050 and \$22,311,782, respectively, resulting in a variance of \$26,677,268. Our tests of the following selected journal entries indicated that they were one-sided entries and relate to the posting and/or adjustment of encumbrances/budget adjustments and allotments.

<u>Journal Entry No.</u>	<u>GL Date</u>	<u>Journal Entry No.</u>	<u>GL Date</u>
14770	10/29/10	15727	07/12/11
14843	11/29/10	15888	07/28/11
14922	12/02/10	15899	07/29/11
14977	12/14/10	15938	08/09/11
15624	05/24/11	16072	09/29/11

We have been advised that the entries do not affect the general ledger.

2. Gaps were identified in the sequence of journal entries used during the fiscal year. An explanation of the discrepancies was not made available.
3. Of twenty-two journal entries selected for testing, the following were not made available as follows:

<u>Journal Entry No.</u>	<u>General Ledger Date</u>	<u>Journal Entry No.</u>	<u>General Ledger Date</u>
14765	10/25/10	15346	04/08/11
15124	12/18/10	15408	04/23/11
15174	01/29/11	15686	06/20/11
15183	02/01/11	15726	07/11/11
15271	03/14/11	16115	09/10/11

4. In addition, one journal entry (JE # 15269, dated 03/12/11) was not reviewed and approved by the Finance Director.

Cause: The cause of the above condition is the lack of established policies and procedures regarding the use of journal entries. Further, the use of journal entries is not centralized and monitored.

Effect: The effect of the above conditions is that journal entries cannot be accounted for and are not properly used.

Recommendation: We recommend PSS establish policies and procedures for the use and recording of journal entries in the general ledger. We also recommend that all proposed entries be forwarded to the Finance & Budget office for review, approval and posting into the general ledger.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-11, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

Condition 1 PSS concurs with the audit recommendations. PSS will implement procedures to minimize the use of journal entries to post non-recurring items.

Condition 2 See corrective action for Condition 1.

Condition 3 See corrective action for Condition 1.

Condition 4 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Operating Systems

Finding No. 2011-12

Criteria: Operating systems are implemented to process, record, summarize and capture daily transactions and to provide sound and meaningful information to decision makers and stakeholders.

Condition: PSS has an operating system (JD Edwards) and related modules in place to process daily transactions. The following issues/matters related to the operating system were noted during our audit:

1. The general ledger is not properly maintained and requires extensive research to locate and understand transactions.
2. The general ledger does not physically close at year end resulting in cumulative account balances since the inception of the system.
3. Subledgers generated by the system are not reviewed or reconciled to the general ledger.
4. The nature and purpose of numerous automated entries generated by the system cannot be explained.
5. Encumbrances are processed outside of the system.
6. Both the accounting department and federal grants section post entries into the general ledger/system.
7. Understanding and use of the system is limited to posting transactions.
8. Reports generated from the general ledger relate only to revenue and expense items.
9. General ledger accounts are not reviewed, monitored or reconciled regularly resulting in unreliable account balances. We have been advised that information provided to the State Board of Education consists of a fund status report that summarizes and compares actual expenses to budget and allotments to date.

Cause: The cause of the above condition is the lack of understanding and training on the use of the operating system which has resulted in unreconciled accounts, unposted transactions, unexplained entries/variances and ineffective use of the general ledger.

Effect: The effect of the above condition is that the general ledger does not accurately reflect the entity's transactions resulting in unreliable information being produced.

Recommendation: We recommend that PSS examine its operating system including the setup of accounts. We also recommend that a complete set of financial statements be prepared on a regular basis for management's review and approval by the State Board of Education.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-12, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: George Palican, Acting Director of Finance and Tim Thornburgh, Federal Programs Officer

Corrective Action:

- Condition 1 PSS concurs with the audit recommendations. PSS is examining its operating and accounts setup. The general ledger account numbers will be converted from a three character code to a four character code which is necessary in order for the system year-end process to work properly. Efforts will continue to provide regular financial statements for management's review and approval by the State Board of Education.
- Condition 2 See corrective action for Condition 1.
- Condition 3 See corrective action for Condition 1.
- Condition 4 See corrective action for Condition 1.
- Condition 5 See corrective action for Condition 1.
- Condition 6 See corrective action for Condition 1.
- Condition 7 The Federal Programs Office enters the federal budget allocations into JDE, tracks all encumbrances against each federal grant, draws down federal funds electronically and reports all expenditures, encumbrances and fund balances for each federal account on a biweekly basis. We de-obligate or roll-over encumbrances as needed, enter federal travel and journal entries that pertain to federal grants into the JDE accounting system as this is standard operating procedure. This prevents co-mingling of federal grant funds with the local appropriation.
- Condition 8 See corrective action for Condition 1.
- Condition 9 See corrective action for Condition 1.

Proposed Completion Date: October 31, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Local Noncompliance

Finding No. 2011-13

Criteria: In June 1997, CNMI House Joint Resolution No. 10-36 authorized PSS to issue general obligation bonds for a total value not to exceed \$15,685,000. These bonds were used to leverage an equal amount of federal capital improvement project funds to finance school construction projects and will be repaid by the CNMI Government through appropriation of liquid fuel taxes per Public Law No. 11-14. The liability relating to these bonds is recorded by the CNMI Government. In August 2008, Public Law No. 16-10 appropriated funds available at the closure of the indenture trust agreement to fund critical classroom repairs, renovations and the paving of school parking areas at public schools with the Commissioner of Education as expenditure authority.

Condition: PSS accounts for bond proceeds in the Capital Projects Fund (Fund 30000). At September 30, 2011, total revenues and expenses were \$599,067 and deferred revenue (acct. # 30000.830) amounted to \$1,259,817. Management has subsequently determined that the deferred revenue amount should be presented as restricted net assets and an audit adjustment has been proposed to record deferred revenue as restricted net assets.

Our tests of the related restricted cash account recorded in the General Fund (acct # 10000.120) noted the following:

Beginning balance, October 1, 2010	\$ 385,445
Add: Deposits	<u>1,073,375</u>
Ending balance, September 30, 2011	\$ <u>1,458,820</u>

Based on the above, the restricted cash balance was \$199,003 more than the restricted balance and \$150,589 less than restricted net asset at September 30, 2011. Management did not consider the amount material to warrant an audit adjustment. Further, of the total deposit of \$1,073,375, \$27,929 and \$1,044,311 represents cash receipts from the CNMI for Childcare reimbursements related to fiscal years 2011 and 2010 and from the Federal Grants checking account (check # 1955), respectively.

In addition, our non-payroll expense testing noted one \$57,236 item (account #30000.4306, PV #176908, GL date 12/07/10) related to the purchase of furniture.

Cause: The cause of the above condition is the use of restricted funds for purposes other than stipulated in Public Law 16-10.

Effect: The effect of the above condition is the noncompliance with Public Law 16-10.

Recommendation: We recommend funding available from bond proceeds be used in accordance with Public Law 16-10.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-13, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: George Palican, Acting Director of Finance and Tim Thornburgh, Federal Programs Officer

Corrective Action: The \$1,044,311 cash receipt was transferred from the Federal Grants account since the GO Bonds funds were initially deposited to this account. Funds were then transferred from the Federal Grants account to the General Obligation account.

It is common practice to include collateral equipment in school construction/renovation projects as a new classroom still needs tables, chairs, bookshelves, etc. Nothing in P.L. 16-10 prohibits collateral equipment. As a matter of fact, we included collateral equipment in our GO bond projects. This is a finding that should be removed.

Proposed Completion Date: Ongoing

Auditor Response: The public law refers to repairs, renovations and paving and does not include equipment.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2011-14
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$119,335

Criteria: Expenditures should be authorized, supported and approved prior to incurrence. Further, payroll costs should be supported by an authorized notice of personnel action (NOPA), time cards, certified timesheets and/or equivalent time and effort documentation. In addition, if an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.

Moreover, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

In addition, the grant’s special terms and conditions require that “When issuing statements, press releases, requests for proposals, bid solicitations and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving Federal funds, including but not limited to state and local governments, shall state clearly:

- (1) The dollar value amount of federal funds for the project;
- (2) The percentage of the total costs of the project that will be financed with federal funds; and
- (3) The percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.”

Condition: Of eighteen nonpayroll expenditures tested totaling \$189,304, of a population of \$1,029,371, the following were noted:

- 1. For one expenditure (or 6%) of \$22,162 (reference no. PV 178726), there was no approved contract at the time the expenditure was incurred in January 2011. Payments to the vendor during the expired period from January 2011 through May 2011 totaled \$41,962 under expired contract no. 65761-OC. Further, for one expenditure (or 6%) of \$796 (reference no. PV 177673), the supporting purchase requisition/order approval date was after the invoice date.
- 2. Two expenditures (or 11%) were not supported by payable or journal vouchers, purchase requisitions, purchase orders, vendor invoices and evidence of goods or services received or equivalent documentation. No questioned costs result for the negative amount since the transactions relate to a reduction in program expenditures. Details are as follows:

<u>Document Type</u>	<u>Document Number</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	177767	12/21/10	\$ 84
JE	15229	02/25/11	\$ (3,330)

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$119,335

Condition, Continued:

3. One advance payment (or 6%) of \$50,000 (document no. PV 183612) was recorded as a program expenditure in full; however, professional services of \$40,707 were not received and have not benefited the program as of September 30, 2011. No questioned costs result because services were subsequently received.
4. The requests for proposal (RFP) and related public notices issued for two purchases (or 11%) did not state the required federal funding dollar and percentage descriptions pursuant to the grant's special terms and conditions. Since PSS did not comply with the grant terms and conditions to indicate Federal descriptions in public documents, the transactions should not be charged to federal funds.

<u>Document Type</u>	<u>Document Number</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	183612	05/18/11	\$ 50,000
PV	186068	07/14/11	900
			<u>\$ 50,900</u>

5. For one rental expenditure (or 6%) tested of \$24,853 (reference number PV 185766), the program was charged 20.81% of total costs, which was \$8,565 more than the authorized allocation percentage of 13.64% calculated based on the square foot area occupied by the program.
6. For one travel expenditure (or 6%) of \$2,027 (document no. PV 188142), the travel voucher, which must be submitted within fifteen days upon completion of official travel, was not completed until January 27, 2012 and was not signed by an approving officer. No questioned cost is presented at this condition since the travel did occur and did relate to the program.
7. For one travel expenditure (or 6%) of \$468 (document no. PV 180297), the travel voucher in file was signed, but not completed, and included a transportation allowance higher by \$52 than the actual ground transportation costs incurred.

Of fifty-five payroll expenditures tested totaling \$568,656, of a population of \$3,848,164, the following were noted:

8. For four employees (or 7%), the salary rate per the historical payroll register does not agree to the salary rate in the Notice of Personnel Action (NOPA) provided. No questioned costs result for the negative amount since a lower rate was paid. The total over payment is \$92 as follows:

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$119,335

Condition, Continued:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Hourly Rate per Register</u>	<u>Hourly Rate per NOPA</u>	<u>Variance</u>	<u>Hours Worked</u>	<u>Over (Under) Payment</u>
11989	01/29/11	\$ 20.87	\$ 22.60	\$ (1.73)	80	\$ (138)
12427	05/07/11	\$ 6.06	\$ 5.64	\$ 0.42	80	\$ 34
9151	02/26/11	\$ 6.78	\$ 6.53	\$ 0.25	80	\$ 20
5506	06/18/11	\$ 6.53	\$ 6.06	\$ 0.47	80	\$ 38

9. For seven employees (or 13%), costs were charged to the business unit (BU) for this program; however, such BU is not indicated in the NOPA, which specifies the BU for which the employee is hired to work and to which the employee's time should be charged. Costs should have been charged in accordance with the NOPA, as follows:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Reference Number</u>	<u>Business Unit per General Ledger</u>	<u>Business Unit per NOPA</u>	<u>Employee Gross Pay</u>
9756	06/18/11	5731	1185LE1SPE	100SFSFGES	\$ 1,191
12523	01/01/11	5623	1185LE1SPE	BU not stated	451
9013	06/04/11	5725	1185LE1SPE	BU not stated	1,737
9736	07/16/11	5754	1185LE1SPE	BU not clearly stated	564
5506	06/18/11	5731	1185LE1SPE	BU not clearly stated	522
9013	07/16/11	5758	1185LE1SPE	BU not stated	1,737
5254	07/02/11	5743	1185LE1SPE	BU not stated	<u>1,808</u>
Total					8,010
Less amount already questioned in previous condition for employee #5506					<u>(38)</u>
Questioned costs this finding					<u>\$ 7,972</u>

10. For two employees (or 4%), the effective NOPA for the payroll period selected could not be located in file, as follows:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>Business Unit per General Ledger</u>	<u>Employee Gross Pay</u>
8197	12/18/10	1083SE0SPE	\$ 1,808
2373	08/27/11	1185LE1SPE	<u>745</u>
			<u>\$ 2,553</u>

11. For fifteen employees (or 27%), the information shown in time cards is insufficient to substantiate hours paid per the payroll register. Examples of such insufficient data include illegible copies and incomplete documentation of hours worked per day. No questioned cost is presented at this condition because the payroll register is supported by an approved timesheet summary.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$119,335

Condition, Continued:

12. Corroborative inquiries performed noted that twelve employees (or 24%) did not spend 100% of their time working for the Special Education program, but the entire salaries were charged to the program. No questioned cost is presented at this condition for salaries unrelated to the program since such could not be determined based on available evidence. Details are as follows:

<u>Employee No.</u>	<u>Employee No.</u>	<u>Employee No.</u>
8197	9756	9726
2373	12427	5506
11989	12584	8677
11460	12523	5254

13. For twenty-four employees (or 44%), the time card was not signed by the employee. Documentation that time cards are reviewed and matched with the timesheet is not evident. No questioned cost is presented at this condition because timesheets were approved and payroll costs were allowable.
14. For one employee (or 2%) with gross pay of \$838 (employee no. 6426) for payroll period ended 02/12/11, leave hours approved in the supporting leave request do not agree to leave hours paid per the payroll register. Further, annual leave was taken prior to approval.
15. For one employee (or 2%) (employee no. 13672) annual leave of four hours amounting to \$58 for payroll period ended 01/15/11, was approved on 01/18/11 while the leave was taken on 01/13/11.
16. For twenty-six employees (or 47%), the NOPA was signed or approved in excess of thirty days of the effective date of the NOPA, which does not meet requirements of the PSS Administrative Code. Specifically, PSS Administrative Code Section 60-40-115 states that no contract for personnel services or employment should be approved if it is retroactive for more than 30 days, and Section 60-30.1-410 states that no person shall report to work or receive salary unless an appropriate personnel action has been approved by the Commissioner of Education or authorized representative. No questioned costs are presented for this condition because, unless otherwise indicated in other conditions, the NOPA was signed, approved, and the employees did provide services under the program.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$119,335

Condition, Continued:

17. For fourteen employees (or 25%), payroll distribution reports which reflect the allocation of employee salaries and benefits recorded in the general ledger could not be provided. We were informed that such reports were not printed, maintained or backed up during the year. Further, complete payroll registers covering the entire fiscal year were not available; however, historical payroll registers were generated at our request. A comparison of recorded gross personnel expenditures of the historical payroll register to the general ledger noted the following variances:

<u>Payroll Period</u>	<u>Gross Pay Per GL Posting</u>	<u>Gross Pay Per Historical Payroll Register</u>	<u>Variance</u>
10/09/10	\$ 86,099	\$ 84,846	\$ 1,253
10/09/10	\$ 86,099	\$ 84,846	1,253
01/15/11	\$ 81,777	\$ 81,324	453
03/12/11	\$ 81,466	\$ 81,460	6
06/18/11	\$ 78,529	\$ 78,330	199
02/26/11	\$ 80,998	\$ 80,991	7
01/01/11	\$ 96,090	\$ 96,061	29
01/01/11	\$ 96,090	\$ 96,061	29
01/15/11	\$ 81,777	\$ 81,324	453
06/18/11	\$ 78,529	\$ 78,330	199
01/15/11	\$ 81,777	\$ 81,324	453
07/02/11	\$ 362	\$ -	362
07/02/11	\$ 347	\$ -	347
04/23/11	\$ 79,595	\$ 79,591	4
			<u>\$ 5,047</u>

18. The required semi-annual certifications from employees who work solely on and whose salaries and wages are funded by one program are not documented or available or prepared.

Cause: The cause of the above condition is the lack of documentation to support program expenditures and the lack of policies to maintain contemporaneous records and semi-annual certifications documenting time charged to applicable programs.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed and allowable cost/cost principles and questioned costs of \$119,523. A summary of questioned costs follows:

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$119,335

Effect, Continued:

<u>Condition No.</u>	<u>Questioned Costs</u>
1	\$ 42,758
2	84
3	-
4	50,900
5	8,565
6	-
7	468
8	92
9	7,972
10	2,553
11	-
12	-
13	-
14	838
15	58
16	-
17	5,047
18	-
Total	\$ <u>119,335</u>

Recommendation: We recommend that PSS strengthen procedures to substantiate program expenditures by obtaining and maintaining such documentation as expenditure approvals, authorized NOPAs, time cards, certified timesheets, and the required semi-annual certifications.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Suzanne Lizama, Special Education Program Director and George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 A memo to the Procurement Office dated 04/09/12 requesting ratification for a change order request for contract # 65761-OC was made. Also, SPED has implemented an internal tracking system to track service contracts begin and end dates.
- Condition 2 The Fiscal & Budget Office was examined in the subsidiary account. No supporting document was found.
- Condition 3 This payment will be reclassified as a local prepayment by September 30, 2012.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$119,335

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 4 A memo to the Procurement Office dated 04/09/12 was prepared to indicate that all future RFPs will state the federal funding dollar and percentage descriptions.
- Condition 5 PSS will reclassify to local by September 30, 2012.
- Condition 6 The voucher was submitted within the 15 day requirement (group submission) per PSS travel procedures but not signed by approving officer. PSS will ensure that procedures are adhered to.
- Condition 7 The employee/traveler shows an overdrawn amount on her travel voucher. The employee has other travel vouchers that will be liquidated and the Fiscal & Budget Office will ensure that the above amount (\$52) will be offset.
- Condition 8 PSS agrees. The Human Resources Office (HRO) has processed amendments to the NOPAs reflecting the correct salary rate. HRO will work with the JDE programmer to establish a relational database that will reflect appropriate salaries based on each respective position classification.
- Condition 9 PSS agrees. HRO has processed amendments to the NOPAs with the correct business units. The Director of Finance must ensure that the appropriate business units are entered in the NOPA. HRO will develop a checklist to review that the NOPA fields are completely filled.
- Condition 10 PSS agrees. HRO has completed the NOPAs reflected in the payroll period.
- Condition 11 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.
- Condition 12 See response from SPED Director with attachments from 2011 OMB Circular and IDEA Rules and Regulations.
- Condition 13 PSS disagrees. PSS does not have a regulation requiring timecards to be signed by the employees. The timekeepers are responsible for certifying the timecards. A memo will be released to clarify timecard submission, including signing by employees.
- Condition 14 Documents show that the leave request was approved prior to leave use.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-14, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$119,335

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 15 The employee called in and was given verbal approval for emergency leave on 01/13/11 and upon return to work was instructed to fill out a leave form for supervisor signature and timesheet submission for PPE 01/15/11.
- Condition 16 PSS agrees. HRO will refine its renewal process to prevent the delay of employees submitting the required documents. Renewal has been processed and filed in the respective employee files. HRO has taken a proactive step to ensure that all employees' contracts are processed and filed accordingly. Memos were sent to schools and programs with their listing of all employees and their contract expiration dates on January 23, 2012. An updated listing was also provided at the principal meetings. HRO and Finance will work with the JDE programmer to alert payroll to not pay employees with expired contracts.
- Condition 17 The Fiscal & Budget Office will produce a bi-weekly payroll cost summary to provide checks and balances.
- Condition 18 A memo was sent to all principals on 03/30/12 requesting for all SPED staff to sign the semi-annual certification sheet as required by the grant terms and conditions with a request to return with signatures by 04/20/12. The estimated completion date for certification is 04/30/12.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 13 PSS timecards include a section for employees to certify that hours charged are proper and accurate. Other timecards tested included employee signatures. Further, documentation that timecards are reviewed and matched with the timesheet evidencing certification by the timekeeper is not evident.
- Condition 14 The annual leave form provided by PSS evidenced the leave period from 01/31/11 to 02/09/11, with approval on 02/17/11.
- Condition 15 The PSS personnel manual requires that an annual leave request form be submitted and approved by the employee's immediate supervisor or manager prior to the leave period. There was no documentation in file evidencing that the leave was verbally approved due to an emergency.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-15
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$-0-

Criteria: Applicable level of effort (LOE) requirements state that a State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year.

Condition: PSS did not prepare and submit its LOE calculation for Special Education Grants for fiscal year 2011, and no documentation was provided to demonstrate compliance in prior years. During the week of November 8, 2010, the U.S. Department of Education (ED) visited PSS, and in a letter dated February 8, 2011, ED required that PSS establish level of effort standard operating procedures (SOP). We were informed that PSS began submitting LOE calculations for fiscal year 2012 upon establishment and approval of its SOP in May 2011; however, a copy of such signed LOE submission was not provided. Therefore, we are unable to determine the extent to which any level of effort deficiencies might exist.

Cause: The cause of the above condition is the lack of established policies and procedures to determine compliance with the applicable level of effort requirements.

Effect: The effect of the above condition is noncompliance with applicable level of effort requirements. We are unable to estimate whether PSS met the level of effort requirements as necessary information was not available. Furthermore, it appears ED is aware of the noncompliance and has not imposed adverse action. Therefore, no questioned costs are presented.

Recommendation: We recommend that PSS strengthen its commitment to implement its approved level of effort SOP and adhere to compliance with maintenance of effort requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Suzanne Lizama, Special Education Program Director

Corrective Action: The U.S. Office of Special Education Programs (OSEP) conducted an onsite verification visit the week of November 8, 2010. As a result of the visit, on February 11, 2011, OSEP determined that PSS did not have procedures that are reasonably designed to properly calculate the CNMI's financial support for special education and related services. PSS was required to submit with 90 days:

1. The procedures the CNMI uses to calculate maintenance of financial support for special education and related services including how the CNMI ensures that it will not reduce the amount of state level financial support for special education and related services for children with disabilities or otherwise made available because excess cost of educating those children, below the amount of that support for the preceding year.
2. A copy of the correspondence in which the CNMI has informed its audit office of the need to review the CNMI's compliance with the state financial support requirement.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-15, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

3. A written assurance that the CNMI has utilized the methodology developed in accordance with the item able to calculate state financial support for the provision of special education and related services for fiscal year 2010 consistent with requirements.

On May 11, 2011, PSS submitted required procedures and correspondence to OSEP. In June 2011, PSS received a status table from OSEP with no further action required in these areas.

Proposed Completion Date: Ongoing.

Auditor Response: As noted in the finding, ED has determined in its on-site verification visit that PSS did not have established procedures designed to calculate CNMI's level of effort for special education in its letter dated February 11, 2011; however, although PSS was able to establish SOPs and obtain ED's approval, the level of effort calculation that will demonstrate CNMI's compliance and related documentation of submission for fiscal year 2011 could not be provided. Further, ED also recommended that PSS inform its auditors to test the level of effort calculation; which could not be performed since the calculation is not available.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-16
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Period of Availability of Federal Funds
Questioned Costs: \$1,983

Criteria: Pursuant to the grant agreement and applicable compliance supplement requirements, grantees are authorized to retroactively fund allowable pre-award costs for the period beginning with the date the funds became available for obligation (i.e. the beginning of the federal funding period) through the effective date of the grant award. Grantees must obligate funds during the twenty-seven months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a fifteen-month period of initial availability plus a twelve-month period for carryover.

Condition: Of eighteen nonpayroll expenditures tested totaling \$189,304 of a population of \$1,029,371, rental expense of \$1,983 (document no. PV 185180) was incurred prior to July 1, 2010 but was charged to 2011 Special Education with a beginning federal funding period of July 1, 2010.

Cause: The cause of the above condition is oversight and weak controls over charging expenditures within the grant's period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$1,983 (as projected costs exceeded \$10,000).

Recommendation: We recommend that PSS strengthen monitoring and review procedures over expenditures within the grant's period of availability.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action: PSS agrees. The Fiscal & Budget Office will ensure that proper periods are allocated to grant expenditures.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$6,433

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable local laws, provided that the procurements conform to applicable federal law. Specifically, the PSS Procurement Rules and Regulations state the following:

- Purchases not exceeding \$2,500 may be made without securing bids of price quotations if the Chief of Procurement and Supply (P&S) considers the price to be reasonable.
- A contract may be awarded for supplies, services, instructional materials or construction items without competition when the Chief of P&S determines in writing that there is only one source for the required supplies, services or construction items. The written determination shall be prepared by the official with expenditure authority and shall contain the unique capabilities required and why they are required and the consideration given to alternative sources.

Condition:

1. As noted above, PSS procurement procedures allow for restricted competition for purchases of less than \$2,500. This procedure appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$177,003. As noted below, noncompliance results for those purchases of less than \$2,500.

Of eighteen nonpayroll expenditures tested totaling \$189,304 of a population of \$1,029,371, the following were noted:

2. Price quotations were not obtained for two airfare expenses (or 11%) which qualify under small purchase procedures as follows:

<u>Document Type</u>	<u>Document Number</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	180802	03/16/11	\$ 2,860
PV	188142	09/08/11	<u>2,027</u>
			<u>\$ 4,887</u>

3. For three expenditures (or 17%) procured through the sole source method, there was no documentation on file to indicate how the grantee determined that no other vendor could provide the required psychological services, instructional material, and manual wheelchair.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
 Grant Numbers: H027A100106, H027A090106 and H391A090106
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$6,433

Condition, Continued:

<u>Document Type</u>	<u>Document Number</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	178726	01/27/11	\$ 22,162
PV	177673	12/20/10	796
PV	187049	08/05/11	<u>6,433</u>
Total			29,391
Less amount already questioned in finding 2011-14 for #s 178726 and 177673			<u>(22,958)</u>
Questioned costs this finding			\$ <u>6,433</u>

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the PSS Procurement Rules and Regulations and weak controls over small purchase procedures.

Effect: For conditions 1 and 2, we were forwarded emails by the PSS Federal Programs Officer from Ms. Christine Jackson, Senior Consultant Risk Management, Office of the Deputy Secretary, United States Department of Education (USDOE), and from Ms. Collette Fisher of USDOE, stating that Section 80.36a of EDGAR requires PSS to follow the same policies and procedures it uses for non-federal procurement for federal procurement. They stated that the USDOE General Counsel reiterated that as long as PSS follows its own procurement procedures that USDOE will not sustain the auditors finding on small purchases. Based on these comments we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from USDOE. For condition 3, the effect of the above condition is a lack of full and open competition on federally funded purchases and questioned costs of \$6,433.

Recommendation: We recommend that PSS review its current procurement regulations to conform with applicable federal laws and seek a program determination letter from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold. Further, evidence of compliance with procurement regulations should be adequately documented in procurement files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

Corrective Action:

Condition 1 PSS follows EDGAR Section 80.36 (a) which says “States” will follow their own Procurement Regulations.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,433

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

On April 4, 2012, in an email to the PSS Federal Programs Officer, the DOE Program Attorney was quoted as saying “so long as PSS followed its own procurement procedures with respect to the purchases the auditor has questioned, we would not sustain the auditor’s finding.”

EDGAR Section 80. 36(d)1 states “If small purchase procedures are used, price or rate quotations shall be obtained from adequate number of qualified sources.”

PSS Regulations Section 60-40-210 state at (b) that “Purchases not exceeding \$2,500 may be made without securing bids or price quotations if the Chief of Procurement and Supply considers the price to be reasonable.”

PSS’s explanation for the purchase orders reviewed is that the P&S Chief would not have signed off unless he considered the cost reasonable. Admittedly, there is no documentation/finding of reasonableness in the PSS files.

CNMI Procurement Regulations Section 3-105 states “Bidding is not required for purchases under \$2,500.”

The Federal Acquisition Regulations (FAR 2.101) calls small purchases “Micro-Purchases” purchase not exceeding \$2,500, or in the case of construction, not exceeding \$2,000. FAR Section 13.202 states that Micro-Purchases may be made without soliciting competitive quotes if the contracting officer considers the price to be reasonable (similar to PSS) but continues on to say that “the administrative cost of verifying reasonableness of price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore, action to verify price reasonableness need only be taken if the contracting officer ...suspects or has information to indicate that the price may not be reasonable (e.g. comparison to the previous price paid or personal knowledge of the supply or service, or, purchasing a supply or service for which no comparable pricing information is readily available (e.g.) a supply or service that is not the same as, or is not similar to, other supplies or services that have recently been purchased on a competitive basis.

PSS’s corrective action will be to revise its regulations to mirror the FAR section above with respect to the “reasonableness” requirement, but will retain the \$2,500 limit for both supplies and services and construction. The publication of proposed revisions is June 15, 2012. We are requesting to delete this finding.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,433

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 2 PSS disagrees. Travel vouchers do not contain the final two quotes. Instead, travel quotes are retained with the travel authorization. The Procurement Officer will be preparing a memo by May 15, 2012 to the Director of Finance to establish and retain a two quote process requirement for purchasing of airline tickets. In addition, a special provision will be developed/proposed in June 15, 2012.

Condition 3 Document # 178726 - derives from a change order to contract no. 65761 OC which was executed in 2008 and which contains ample "sole source" justification, i.e. PSS had been issuing RFPs since 2004 for these services in the CNMI and over the years and until now only the selected vendor has responded.

Document # 177673 - sole source justification dated 11/06/09 for "Go Talk 4 Plus" radios for special education students.

Document # 187049 - sole source justification states that the manual wheelchair was built specifically for this particular student and their needs. It is not an "off the shelf" item. To order this wheelchair requires a working relationship with the vendor that takes place before the purchase occurs. This is the only vendor on island that can do this.

Proposed Completion Date: Ongoing.

Auditor Response:

Condition 1 See the "Effect" section of this finding.

Condition 2 The documents provided by PSS did not include any price quotations.

Condition 3 PV 178726 - The sole source justification in file stated that annual request for proposals have been issued for this service since school year 2004-2005 and only one vendor submitted proposals; however, copies of the request for proposals sent, public notices or any documentation that consideration was given to alternative sources, were not provided.

PV 177673 - The sole source justification provided is dated 11/02/09 while the purchase was made on 11/29/10. Further, the justification stated that this is the sole vendor for the items purchased; however, documentation that efforts were made to consider other potential vendors is not evident. The selected vendor is an off-island vendor.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-17, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027/84.391 Special Education Cluster (IDEA)
Grant Numbers: H027A100106, H027A090106 and H391A090106
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,433

Auditor Response, Continued:

PV 187049 - The sole source justification stated the reason for vendor selection; however, documentation that efforts were made to consider other potential vendors is not evident. Further, we are aware that at least two other on-island vendors are available to provide specialized wheelchairs.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-18
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$67,754

Criteria: Expenditures should be recorded when incurred, authorized and supported with documentation evidencing the receipt of goods or services. Additionally, variances between the payroll activity report and the general ledger should be investigated and reconciled.

Condition: Of thirty-one payroll expenditures tested totaling \$719,716, of a population of \$8,302,811, the following were noted:

- Total gross personnel expenditures per the payroll activity report (PAR) for eleven business units (BU) (or 35%) do not agree with gross salary recorded in the general ledger (GL) as follows:

<u>BU No.</u>	<u>Pay Period</u>	<u>Gross Pay per PAR</u>	<u>Gross Pay per GL</u>	<u>Difference</u>	<u>Excess</u>
100SFSF000	04/23/11	\$ 126,887	\$ 128,548	\$ (1,661)	\$ 1,661
100SFSF000	07/02/11	\$ 143,431	\$ 141,301	\$ 2,130	-
100SFSF000	02/26/11	\$ 131,035	\$ 128,446	\$ 2,589	-
100SFSF000	01/29/11	\$ 129,537	\$ 129,351	\$ 186	-
100SFSF000	08/13/11	\$ 117,459	\$ 119,107	\$ (1,648)	1,648
100SFSF000	03/12/11	\$ 126,953	\$ 126,853	\$ 100	-
100SFSF000	08/27/11	\$ 109,725	\$ 111,103	\$ (1,378)	1,378
100SFSFWSR	02/26/11	\$ 52,085	\$ 50,675	\$ 1,410	-
100SFSFWSR	05/21/11	\$ 51,693	\$ 52,884	\$ (1,191)	1,191
100SFSFWSR	07/30/11	\$ 48,253	\$ 49,445	\$ (1,192)	1,192
10GOV0SFSF	10/09/10	\$ 46,395	\$ 47,586	\$ (1,191)	<u>1,191</u>
Total questioned costs					\$ <u>8,261</u>

- For one payroll expenditure (or 3%), the effective date of the PAF is not within the grant budget period. Questioned costs are included in Condition 1 above.

<u>Employee No.</u>	<u>Effective Date of PAF</u>	<u>Budget Period</u>	<u>Gross Pay</u>
9051	08/16/08-07/31/10	10/11/10-09/30/11	\$ 1,606

- For one payroll expenditure (or 3%), retroactive hours paid for a salary adjustment was not within the grant budget period.

<u>Employee No.</u>	<u>Hours Paid</u>	<u>Hours Allowed</u>	<u>Excess</u>	<u>Adjustment Rate</u>	<u>Amount</u>
12567	4,120	1,520	2,600	\$ 0.47	\$ 1,222

- For one payroll expenditure (or 3%), an approved sick leave form was not provided to substantiate payment of hours not worked during the pay period, but charged to the program. No questioned cost is presented at this condition as hours are supported by an approved timesheet summary.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-18, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$67,754

Condition, Continued:

<u>BU No.</u>	<u>Employee No.</u>	<u>Pay Period</u>	<u>Sick Leave Hours</u>	<u>Amount Paid for Sick Leave</u>
100SFSFWSR	13003	05/21/11	8	\$ 138

5. For five payroll expenditures (or 16%), no supporting documents, such as approved payment requests, invoices, or detailed calculations were provided to substantiate payments for employee benefits and other payroll costs.

<u>GL Date</u>	<u>BU No.</u>	<u>Reference No.</u>	<u>GL Amount</u>
09/10/11	100SFSF000	5795	\$ 52,789
05/21/11	100SFSF000	5716	1,606
04/09/11	100SFSF000	5689	138
09/10/11	100SFSFGES	5796	23
12/18/10	100SFSFWSR	5620	<u>3,715</u>
			<u>\$ 58,271</u>

6. For seven payroll expenditures (or 23%), PAFs were approved in excess of thirty days after the effective date. However, Section 60.40.115 Contract Oversight of the PSS Administrative Code states that no contract for personal services or employment shall be approved if it is retroactive for more than thirty days. No questioned cost is presented at this condition as the necessary approval was obtained for the amount charged to the grant.

<u>Employee No.</u>	<u>Effective Date of PAF</u>	<u>Date Approved</u>
6547	08/24/10	04/11/11
9689	08/01/10	12/03/10
2255	08/01/10	10/23/10
5961	01/12/09	03/02/09
6966	01/31/11	03/15/11
3044	11/18/10	01/06/11
2512	08/01/10	10/18/10

7. For one payroll expenditure (or 3%), there was no evidence that the vacation leave form was approved before the date of leave. No questioned cost is presented at this condition as the amount charged to the Program is allowable.

<u>BU No.</u>	<u>Employee No.</u>	<u>Pay Period</u>
100SFSFGES	10419	01/01/11

Cause: The cause of the above condition is the lack of procedures to determine that expenditures are recorded in the correct period, authorized and supported with documentation evidencing the receipt of goods or services.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-18, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Allowable Costs/Cost Principles
Questioned Costs: \$67,754

Effect: The effect of the above condition is noncompliance with the above federal requirement and questioned costs of \$67,754 arising from Conditions 1, 3 and 5.

Recommendation: We recommend that PSS establish procedures to substantiate that expenditures are recorded in the correct period, authorized and supported with documentation evidencing the receipt of goods or services. Further, variances between schedules and the general ledger should be investigated and reconciled. Additionally, we recommend that PSS establish procedures to verify that PAFs are updated on a timely basis, employees' hours are correctly reflected on their time cards, and timesheets and payroll registers are reviewed and filed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 PSS agrees. The Fiscal & Budget Office will take proactive measures to report and electronically save the payroll summary.
- Condition 2 PSS agrees. The Fiscal & Budget Office will process a journal entry to reclassify from federal expenditures to local expenditures.
- Condition 3 PSS agrees. The Fiscal & Budget Office will process a journal entry to reclassify from federal expenditures to local expenditures.
- Condition 4 PSS agrees. PSS will henceforth ensure that all leave forms are attached to timecards.
- Condition 5 PSS agrees. The Fiscal & Budget Office will take proactive measures to report and electronically save the payroll summary.
- Condition 6 PSS agrees. HRO will refine its renewal process to prevent the delay of employees submitting the required documents. Renewal has been processed and filed in the respective employee files. HRO has taken a proactive step to ensure that all employees' contracts are processed and filed accordingly. Memos were sent to schools and programs with their listing of all employees and their contract expiration dates on January 23, 2012. An updated listing was also provided at the principal meetings. HRO and Finance will work with the JDE programmer to alert payroll to not pay employees with expired contracts.
- Condition 7 PSS agrees. PSS will henceforth ensure that all leave forms are attached to timecards.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,993

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Situations considered to be restrictive of competition include specifying only a “brand name” product instead of allowing “an equal” product to be offered. Grantees and subgrantees will use their own procurement procedures, which reflect applicable local laws, provided that the procurements conform to applicable federal law. Specifically, the PSS Procurement Rules and Regulations state the following:

- Purchases not exceeding \$2,500 may be made without securing bids of price quotations if the Chief of P&S considers the price to be reasonable.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Price quotations from at least three vendors must be obtained and the selection documented based on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Chief of P&S for approval.
- A contract may be awarded for supplies, services, instructional materials or construction items without competition when the Chief of P&S determines in writing that there is only one source for the required supplies, services or construction items. The written determination shall be prepared by the official with expenditure authority and shall contain the unique capabilities required and why they are required and the consideration given to alternative sources.
- Adequate public notice of the invitation for bids shall be for a reasonable time prior to the date set for the opening of bids. Publication of notice in a newspaper of general circulation in the CNMI once each week over a period of thirty calendar days shall be deemed adequate.
- A bidding time of at least thirty calendar days shall be provided, unless the Chief of P&S determines a shorter period is reasonable and necessary.
- Bids shall be received prior to the time set for opening and shall be remain sealed in a locked receptacle at the P&S Office.
- Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the invitation for bids.
- When the Commissioner of Education determines in writing, upon the advice of legal counsel, that the use of competitive sealed bidding is either not practical or not advantageous, a contract may be entered into by competitive sealed proposals.

Condition: Of forty-seven nonpayroll expenditures tested aggregating \$4,540,107, of a population of \$12,204,671, the following were noted:

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$6,993

Condition, Continued:

1. Price quotations for two purchases (or 4%) were not obtained for the following items which qualify under small purchase procedures:

<u>GL Date</u>	<u>APV No.</u>	<u>GL Amount</u>
04/07/11	181867	\$ 2,410
07/14/11	186050	<u>2,400</u>
		\$ <u>4,810</u>

As noted in the criteria above, PSS procurement procedures allow for restricted competition for purchases of less than \$2,500. This allowance appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$321,909. As noted above, noncompliance results for those purchases of less than \$2,500.

2. For one purchase (or 2%), a specific brand name was requested without requesting an equivalent.

<u>GL Date</u>	<u>APV No.</u>	<u>GL Amount</u>
03/17/11	180873	\$ 6,993

3. The bidding time for eight (or 17%) invitations for bid was less than thirty days. There was no evidence that the Chief of P&S determined that a shorter period is reasonable and necessary. Additionally, there was no evidence that the opening of bid documents was witnessed by at least one person. No questioned cost is presented at this condition as a sufficient number of vendors were able to respond during the shortened period.

<u>GL Date</u>	<u>IFB/IFP No.</u>	<u>APV No.</u>	<u>GL Amount</u>
12/02/10	PSS-IFB-10-042	176385	\$ 44,009
02/04/11	PSS-IFB-10-042	179087	43,387
04/06/11	PSS-IFB-10-038	181743	21,062
05/23/11	PSS-IFB-10-043	183838	14,369
05/31/11	PSS-IFB-10-040	184177	86,328
06/13/11	PSS-IFB-10-043	184750	5,296
06/13/11	PSS-IFB-10-043	184750	65,326
09/21/11	PSS-IFB-10-041	186437	<u>68,400</u>
			\$ <u>348,177</u>

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$6,993

Condition, Continued:

4. For five transactions (or 11%), PSS used competitive sealed proposals instead of competitive sealed bidding. However, use of competitive sealed proposals may be used only when the Commissioner of Education determines in writing, upon the advice of legal counsel, that the use of competitive sealed bidding is either not practical or not advantageous. Neither written justification from the Commissioner of Education nor documentation of legal counsel's advice was provided to substantiate the use of competitive sealed proposals over competitive sealed bidding. Therefore, it appears a restriction of competition exists. No questioned cost is presented for this condition as a sufficient number of vendors were able to respond and the most responsive bidder was selected.

<u>GL Date</u>	<u>RFP No.</u>	<u>APV No.</u>	<u>GL Amount</u>	<u>Contract Amount</u>
01/27/11	RFP 10-013	178699	\$ 267,000	\$ 345,900
01/27/11	RFP 10-016	178700	\$ 400,000	\$ 810,600
04/19/11	RFP 10-016	182267	\$ 200,000	\$ 810,600
09/02/11	RFP 10-016	187913	\$ 200,000	\$ 810,600
09/30/11	RFP 11-067	188841	\$ 55,825	\$ 83,050

Cause: The cause of the above condition is failure to comply with applicable procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: For condition 1, we were forwarded emails by the PSS Federal Programs Officer from Ms. Christine Jackson, Senior Consultant Risk Management, Office of the Deputy Secretary, United States Department of Education (USDOE), and from Ms. Collette Fisher of USDOE, stating that Section 80.36a of EDGAR requires PSS to follow the same policies and procedures it uses for non-federal procurement for federal procurement. They stated that the USDOE General Counsel reiterated that as long as PSS follows its own procurement procedures that USDOE will not sustain the auditors finding on small purchases. Based on these comments we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from USDOE. For condition 2, the effect of the above condition is noncompliance with procurement regulations and questioned costs of \$6,993.

Recommendation: We recommend that PSS review its current procurement regulations to conform with applicable federal laws and seek a program determination letter from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold. Further, evidence of compliance with procurement regulations should be adequately documented in procurement files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-19, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,993

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

- Condition 1 PSS disagrees. Travel vouchers do not contain the final two quotes. Instead, travel quotes are retained with the travel authorization. The Procurement Officer will be preparing a memo by May 15, 2012 to the Director of Finance to establish and retain a two quote process requirement for purchasing of airline tickets. In addition, a special provision will be developed/proposed in June 15, 2012.
- Condition 2 PSS agrees that the procurement should have specified "Brand Name or Equal" but three bids were received for the same brand name product and awarded to the lowest bidder.
- Condition 3 PSS Procurement has begun documenting any and all bid times of less than thirty calendar days for reasonableness and necessity. Documentation of bid times is located in the file.
- Condition 4 The choice of the Request for Proposals procurement method for the procurements mentioned is clearly appropriate. In each instance, it is evident from the evaluation factors used to select the contractors that an RFP was properly used because cost was not the only factor to be considered. If cost were, an IFB would have been utilized where cost is the sole factor to be considered.

Admittedly, the PSS Procurement Regulations (Section 60-40-225 (a)) requirement that "when the Commissioner determines in writing, upon the advice of legal counsel, that the use of competitive sealed bidding is neither practical nor advantageous, a contract may be entered into by competitive sealed proposals" was not met.

In retrospect, rather than making sure we meet these cumbersome pre-conditions to the use of RFPs which are everyday business in PSS procurements, we will revise our regulations to mirror what the CNMI Central Government does to justify the use of RFPs as the procurement method to be employed in a particular procurement. CNMI regulations dealing with the use of RFPs are more realistic and practical comparatively speaking. If the CNMI used PSS's regulations for RFPs, the Governor would have to make a determination in each case, upon the advice of the Attorney General, that the use of an RFP is appropriate. PSS is revising its RFP regulations to mirror the CNMI's (Section 3-103 (1)).

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-19, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Procurement and Suspension and Debarment
Questioned Costs: \$6,993

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The PSS revision will say that “When the Expenditure Authority determines in writing that the use of competitive sealed bidding is neither practical nor advantageous to PSS, and receives the approval of the PSS Procurement Officer, a contract may be obtained by competitive sealed proposals”. PSS will also revise and expand the definition of Expenditure Authority, which at 60-40-040 (I) actually describes the Commissioner of Education (the Chief State Officer) who may commit public funds under Public Law 3-68, to include all PSS Principals and Program Managers.

PSS will ratify the procurement in the five transactions identified wherein the Commissioner of Education will sign off upon the advice of PSS Legal Counsel to conform to PSS Procurement Regulations. Additionally, PSS will follow these procedures until such time as it amends its regulations following the CNMI model for processing RFPs. It should also be noted that these were ARRA contracts which the CNMI Governor “ratified” for “payment”. PSS considers such ratification to have extended acceptance/approval of the entire PSS contracting process, not just the payment obligation with the exception of Contract #105994 OC which came afterward and for which procurement the Governor’s Memorandum says did not require ratification.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 1 The documents provided by PSS did not include any price quotations.
- Condition 2 Specifying a brand name restricts competition. There could have been other vendors who would have submitted bids if the brand name restriction was not present; therefore, the finding and questioned cost remains.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-20
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with the applicable sub-grant agreement, the sub-grantor requires the sub-grantee to submit financial reports with original signatures on a quarterly basis. Financial reports are due thirty calendar days after the conclusion of the quarter.

Condition: The Program failed to submit financial reports to the sub-grantor on a quarterly basis. No questioned cost is presented as expenditures recorded in the general ledger agree with drawdown requests submitted to the sub-grantor.

Cause: The cause of the above condition is the lack of established procedures to monitor compliance with sub-grant agreement requirements.

Effect: The effect of the above condition is noncompliance with sub-grant reporting requirements.

Recommendation: We recommend that PSS monitor compliance and adhere to sub-grant reporting requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Tim Thornburgh, Federal Programs Officer

Corrective Action: The sub-grant agreement was not developed until year two of the two year SFSF grant. PSS developed and implemented from day one of the SFSF a weekly financial report signed by the Commissioner of Education that showed expenditures, draws and the balance of funds available as well as a biweekly report showing the same activity for all ARRA accounts. Accordingly, the reporting format that we used exceeded the quarterly report and provided the same information.

Proposed Completion Date: Ongoing.

Auditor Response: The sub-grant agreement was completed and signed on 10/01/10. PSS failed to submit quarterly financial reports to the CNMI after this date.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-21
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
 Grant Numbers: S402A090001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$52,831

Criteria: Expenditures should be supported by invoices and other relevant documents and be reasonable and necessary for the performance and administration of federal programs. Further, distribution of payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that the work was performed.

Condition: Of thirty-seven nonpayroll expenditures tested aggregating \$1,173,867, of a population of \$1,915,451, we noted the following:

- For two expenditures (or 8%), commute forms, boarding passes, or other such supporting documents were not provided as follows:

<u>Business Unit</u>	<u>Document No.</u>	<u>Commute Form No.</u>	<u>Amount</u>
109ACG0TAP	16061 JE	105418 OT	\$ 219
109AYP0OES	176594 PV	69749 OT	<u>219</u>
			<u>\$ 438</u>

- For three expenditures (or 8%), the invoice was provided; however, there was no receiving report or other evidence to substantiate receipt of the acquired merchandise or services for the following:

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
109TAL0SAS	177711 PV	99883 OC	\$ 10,000
109TAL0SAS	188476 PV	99883 OC	29,992
109TAL0RHS	178698 PV	68970 OC	<u>12,000</u>
			<u>\$ 51,992</u>

Of four payroll expenditures tested aggregating \$23,579, of a population of \$132,999, we noted the following:

- For one payroll expenditure (or 25%), the time card was not signed by the summer intern. No questioned cost is presented at this condition because the timesheet was approved by the supervisor.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Amount</u>
109ASR0PSS	14654	07/16/11	\$ 366

- For one payroll expenditure (or 25%), the after school time sheet was not provided.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Amount</u>
109ASR0PSS	8109	08/13/11	\$ 400

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-21, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
Grant Numbers: S402A090001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$52,831

Condition, Continued:

5. The indirect cost charged to the program exceeds the 4.3% indirect cost limit by \$1.

Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting expenditures and the lack of adherence to applicable federal requirements.

Effect: The effect of the above conditions, except Condition 3, is questioned costs of \$52,831.

Recommendation: We recommend that PSS maintain all supporting invoices, commute forms and other relevant documents in file and comply with applicable federal requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 Documents could not be located due to the move of the Fiscal & Budget Office. However, commute forms were provided to the auditors at an earlier time.
- Condition 2 The three were for services provided. Receipt of merchandise is documented with receiving reports; however, PSS needs to develop a certification for receipt of services to authorize payment to be made.
- Condition 3 PSS disagrees. PSS does not have a regulation requiring timecards to be signed by the employees. The timekeepers are responsible in certifying the timecards.
- Condition 4 PSS agrees. The Fiscal & Budget Office will ensure that all timesheets are submitted with the afterschool sign-in sheets.
- Condition 5 PSS disagrees. This is a rounding issue.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 3 PSS timecards include a section for employees to certify that hours charged are proper and accurate. Other timecards tested included employee signatures. Further, documentation that timecards are reviewed and matched with the timesheet evidencing certification by the timekeeper is not evident.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-21, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
Grant Numbers: S402A090001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$52,831

Auditor Response, Continued:

Condition 5 Projected costs exceeding \$10,000 for each compliance requirement are required to be reported.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-22
Federal Agency: U.S. Department of Education
CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
Grant Numbers: S402A090001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$7,081

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable local laws, provided that the procurements conform to applicable federal law. Specifically, the PSS Procurement Rules and Regulations state the following:

- Purchases not exceeding \$2,500 may be made without securing bids of price quotations if the Chief of P&S considers the price to be reasonable.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Price quotations from at least three vendors must be obtained and the selection documented based on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Chief of P&S for approval.
- Under competitive sealed proposals, awards shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to PSS taking into consideration price and evaluation factors set forth in the request for proposals.
- A contract may be awarded for supplies, services, instructional materials or construction items without competition when the Chief of P&S determines in writing that there is only one source for the required supplies, services or construction items. The written determination shall be prepared by the official with expenditure authority and shall contain the unique capabilities required and why they are required and the consideration given to alternative sources.
- Adequate public notice of the invitation for bids shall be for a reasonable time prior to the date set for the opening of bids. Publication of notice in a newspaper of general circulation in the CNMI once each week over a period of thirty calendar days shall be deemed adequate.
- A bidding time of at least thirty calendar days shall be provided, unless the Chief of P&S determines a shorter period is reasonable and necessary.
- When the Commissioner of Education determines in writing, upon the advice of legal counsel, that the use of competitive sealed bidding is either not practical or not advantageous, a contract may be entered into by competitive sealed proposals.

Condition: Of thirty-seven nonpayroll expenditures tested aggregating \$1,173,867, of a population of \$1,915,451, we noted the following:

1. For nine expenditures (or 24%), price quotations were not obtained for the following small purchases:

CNMI PUBLIC SCHOOL SYSTEM

**Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011**

Finding No.: 2011-22, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
 Grant Numbers: S402A090001
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$7,081

Condition, Continued:

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
109ACG0TAP	16061	105418 OT	\$ 219*
109AYP0KES	185680 PV	102912 OL	2,200*
109AYP0OES	176594	69749 OT	219*
109LEA0CEA	187835 PV	104789 OL	1,936*
109ACG0TAP	184506 PV	103122 ON	2,416*
109LEA0PEP	175787 PV	99420 OL	1,750*
109LEA0PEP	175794 PV	100297 OL	1,750*
109SEA0ADM	187461	104856 OT	2,376
109TALOKHS	184763 PV	101369 OP	<u>7,081</u>
		Total	19,947
		Less amount already questioned in finding 2011-21 for the first and third items above	<u>(438)</u>
			\$ <u>19,509</u>

* See below.

As noted in the Criteria above, PSS procurement procedures allow for restricted competition for purchases of less than \$2,500. This allowance appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$310,249. As denoted by asterisks in the table above, noncompliance results for those purchases of less than \$2,500. Questioned costs result for the expenditure of \$7,081.

2. For five of eleven contracts tested (or 45%), the public notice was less than thirty days as follows:

<u>Contract No.</u>	<u>IFB/RFP No.</u>	<u>Date of Actual Public Notice</u>	<u>Bid Opening Date</u>
100149 OC	RFP 10-092	08/12/10	08/27/10
104843 OC	RFP 11-012	01/04/11	01/28/11
99757 OC	RFP 10-087	07/19/10	08/10/10
102562 OC	RFP 11-038	03/17/11	04/05/11
104845 OC	IFB 11-062	06/24/11	07/11/11

No questioned cost is presented at this condition as we noted competitive procurement (i.e., PSS received bids from multiple qualified sources).

Cause: The cause of the above condition is failure to enforce adherence to established PSS procurement regulations and the absence of competitive procurement for items less than \$2,500.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-22, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.402 ARRA - Consolidated Grants to the Outlying Areas, Recovery Act
Grant Numbers: S402A090001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$7,081

Effect: For condition 1, we were forwarded emails by the PSS Federal Programs Officer from Ms. Christine Jackson, Senior Consultant Risk Management, Office of the Deputy Secretary, United States Department of Education (USDOE), and from Ms. Collette Fisher of USDOE, stating that Section 80.36a of EDGAR requires PSS to follow the same policies and procedures it uses for non-federal procurement for federal procurement. They stated that the USDOE General Counsel reiterated that as long as PSS follows its own procurement procedures that USDOE will not sustain the auditors finding on small purchases. Based on these comments we have not questioned costs (other than the expenditure of \$7,081) related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from USDOE. For condition 2, the effect of the above condition is noncompliance with procurement regulations.

Recommendation: We recommend that PSS review its current procurement regulations to conform with applicable federal laws and seek a program determination letter from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold. Further, evidence of compliance with procurement regulations should be adequately documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

Corrective Action:

Condition 1 See corrective action for Condition 1 at Finding No. 2011-17.

Condition 2 PSS Procurement has begun documenting any and all bid times of less than thirty calendar days for reasonableness and necessity. Documentation of bid times is located in the file.

Proposed Completion Date: Ongoing.

Auditor Response:

Condition 1 See the "Effect" section of this finding.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$39,461

Criteria: Expenditures should be supported by invoices and other relevant documents and be reasonable and necessary for the performance and administration of federal programs. Further, distribution of payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that the work was performed. Charges for work performed on federal programs during all or any portion of such period are allowable at the base salary rate.

Condition: Of fifty-seven nonpayroll expenditures tested aggregating \$896,367, of a population of \$6,349,653, we noted the following:

- For one expenditure (or 2%), passenger's travel authorization/commute form and travel voucher containing trip reports, boarding passes and supporting receipts were not provided, as follows:

<u>Business Unit</u>	<u>Document No.</u>	<u>TA/Commute Form No.</u>	<u>Amount</u>
102LEA0SCP	181568 PV	101548 OT	\$ 210

- For three expenditures (or 5%), travel vouchers containing trip reports, boarding passes and supporting receipts were not provided as follows:

<u>Business Unit</u>	<u>Document No.</u>	<u>TA/Commute Form No.</u>	<u>Amount</u>
112LEA1SCP	184016 PV	102647 OT	\$ 1,699
112LEA1SCP	183080 PV	103228 OT	54
113IAP1PDP	186739 PV	104810 OT	<u>908</u>
			\$ <u>2,661</u>

- For one expenditure (or 2%), a car rental receipt was not provided:

<u>Business Unit</u>	<u>Document No.</u>	<u>Commute Form No.</u>	<u>Amount</u>	<u>Questioned Costs</u>
110AAP1TRG	184541 PV	104027 OT	\$ 206	\$ 69

- For one expenditure (or 2%) (i.e., document no. 174686 PV, amounting to \$30,628), the referenced purchase order to a communications provider specified only a six-hour plan; however, the invoice included extraneous charges, as follows:

<u>Particulars</u>	<u>Amount</u>
Cost of phone units	\$ 1,554
Phone billings prior to purchase order date	2,680
Excess charges outside the plan	4,602
Unidentified/unsupported invoice amounts	<u>4,789</u>
	\$ <u>13,625</u>

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$39,461

Condition, Continued:

Of thirty-two payroll expenditures tested aggregating \$125,187, of a population of \$3,145,299, we noted the following:

5. Of three employees tested, one employee (or 33%) was incorrectly paid 160 hours for one pay period as follows:

<u>Business Unit No.</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Gross Pay</u>	<u>Questioned Costs</u>
114IAP1RRT	2818	08/13/11	\$ 3,616	\$ 733

6. Of seven employees tested, one employee (or 14%) resigned, effective 02/26/11, and was paid accrued annual leave of 428 hours. However, this benefit is not specified in budgets included in the approved grant application/state plan, and there is no written assessment to determine appropriate allocations between program funds and non-program funds.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Amount</u>
114IAP1CSR	5213	02/26/11	\$ 9,287

7. For one employee (or 3%), a time card was not provided. A questioned cost is not presented at this condition because hours are supported by an approved timesheet summary.
8. For twenty-two employees (or 69%) the time card was not signed by the employee. No questioned cost is presented at this condition because the timesheet was approved by the supervisor.
9. For two employees (or 6%) time inputs on time cards were not readable. No questioned cost is presented at this condition because the timesheet was approved by the supervisor.
10. For two employees (or 6%), time charges per time cards were deficient to substantiate time charges per the payroll register. No questioned cost is presented at this condition because approved timesheets support the payroll register.
11. For three employees (or 9%), the information shown in the time cards is insufficient to substantiate hours paid per the payroll register. The time cards provide incomplete documentation of hours worked per day and no timesheet summary was provided.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Questioned Costs</u>
114IAP1CSR	2986	01/29/11	\$ 1,808
114IAP1CSR	6868	06/04/11	1,737
114IAP1CSR	2879	06/04/11	<u>1,670</u>
			\$ <u>5,215</u>

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$39,461

Condition, Continued:

12. For one employee (or 3%) an approved leave form was not provided to substantiate the payment of hours not worked during the pay period, but charged to the program. No questioned cost is presented at this condition because the timesheet was approved by the supervisor.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Amount Tested</u>
101AAP0PER	2515	10/23/10	\$ 327

13. For one employee (or 3%), absent without leave (AWOL) hours were changed to annual leave hours and charged to the program.

<u>Business Unit No.</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Amount Tested</u>	<u>Questioned Costs</u>
114IAP1CSR	6605	06/18/11	\$ 1,670	\$ 42

14. For one employee (or 3%) (employee no. 3061), supporting overtime forms for differential pay for the pay period ended 05/07/11 were not provided. No questioned cost is presented at this condition because the timesheet was approved by the supervisor.

15. For one employee (or 3%) the hourly pay rate per the NOPA differs from the hourly pay rate per the payroll register.

<u>Business Unit No.</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Amount</u>	<u>Pay Rate Per Payroll Register</u>	<u>Pay Per NOPA</u>	<u>Questioned Costs</u>
114IAP1CSR	7500	08/13/11	\$ 1,606	\$ 20.070	\$ 17.230	\$ 5,907

16. For twelve employees (or 38%) the business unit code on the NOPA differs from the business unit code per the general ledger (GL) and the payroll register.

<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Business Unit Per GL/Payroll Register</u>	<u>Business Unit Per NOPA</u>
5900	04/23/11	104IAP0RRT	101026
3061	05/07/11	111AAP1PER	61196
6868	06/04/11	114IAP1CSR	101035
5499	06/18/11	114IAP1CSR	None listed
12200	08/13/11	112LEA1SSP	0841AP8CSR
11792	10/09/10	104IAP0CSR	None listed
2515	10/23/10	101AAP0PER	091SAS9SAP
2875	12/18/10	114IAP1CSR	None Listed
7500	08/13/11	114IAP1CSR	None Listed
2515	06/04/11	111AAP1PER	091SAS9SAP
5255	09/24/11	114IAP1RRT	None listed
12200	08/13/11	112LEA1SSP	None listed

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$39,461

Condition, Continued:

No questioned cost is presented at this condition as the employees were confirmed to be working on the projects under the program.

17. For fourteen employees (or 44%) the business unit code on the NOPA was not updated.

<u>Business Unit Per GL/Payroll Register</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Business Unit Per NOPA</u>
104IAP0TFT	11785	10/09/10	084IAP8TFT
114IAP1TFT	12562	12/18/10	0811IAP8TFT
114IAP1TFT	13322	12/18/10	094IAP9TFT
114IAP1CSR	2986	01/29/11	084IAP8CSR
114IAP1CSR	9649	02/26/11	084IAP1CSR
114IAP1TFT	4875	03/26/11	104IAP0TFT
114IAP1TFT	11127	04/09/11	084IAP8TFT
114IAP1CSR	6607	05/07/11	104IAP0CSR
114IAP1CSR	6605	06/18/11	104IAP0CSR
114IAP1RRT	8402	08/27/11	094IAP9RRT
114IAP1RRT	5255	09/24/11	094IAP9RRT
114IAP1TFT	10975	06/04/11	104IAP0TFT
114IAP1CSR	2879	06/04/11	104IAP0CSR
114IAP1CSR	5889	06/04/11	064IAP6CSR

No questioned cost is presented at this condition as the employees were verified through direct interview or confirmation of the school principal to be working on program projects.

18. We noted variances for three pay periods between expenditures of the general ledger and the payroll register for which no reconciliation was provided.

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Per GL</u>	<u>Per Payroll Register</u>	<u>Variance</u>
114IAP1TFT	12/18/2010	\$ 28,967	\$ 27,258	\$ 1,709
111AAP1PER	05/7/2011	\$ 7,492	\$ 7,743	\$ (251)
114IAP1CSR	06/18/2011	\$ 36,109	\$ 39,281	\$ (3,172)

Questioned costs were raised on Business Unit No. 114IAP1TFT as charges to the program exceeded the supporting payroll register by \$1,709.

19. The indirect cost charged to the program exceeds the 4.3% indirect cost limit by \$3.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above condition is questioned costs of \$39,461. A summary of questioned costs follows:

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$39,461

Condition, Continued:

<u>Condition No.</u>	<u>Questioned Costs</u>
1	\$ 210
2	2,661
3	69
4	13,625
5	733
6	9,287
7	-
8	-
9	-
10	-
11	5,215
12	-
13	42
14	-
15	5,907
16	-
17	-
18	1,709
19	<u>3</u>
Total	\$ <u>39,461</u>

Recommendation: We recommend that PSS maintain all supporting invoices, commute forms and other relevant documents in file and comply with applicable federal requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 The travel voucher was submitted by the traveler (#101548 OT); however, their file could not be located. PSS only paid for the airfare and no stipend was issued.
- Condition 2 PSS agrees. The Fiscal & Budget Office will ensure that supporting documents are submitted for all travel outside the CNMI.
- Condition 3 The employee/traveler had an overdrawn amount on her voucher. The Fiscal & Budget Office will liquidate other vouchers and will offset the amount to clear the outstanding amount of \$69.
- Condition 4 The Fiscal & Budget Office will record a journal voucher reclassifying the expenditure to a local account and collect from employees for the excess charges.
- Condition 5 Documents are available. The Fiscal & Budget Office already collected the money from the employee.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
Grant Numbers: S403A100001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$39,461

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 6 The payment has been determined by USDOE as an appropriate expenditure.
- Condition 7 A memo will be sent out informing timekeepers that timecards are required.
- Condition 8 PSS disagrees. PSS does not have a regulation requiring timecards to be signed by the employees. The timekeepers are responsible in certifying the timecards.
- Condition 9 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.
- Condition 10 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.
- Condition 11 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.
- Condition 12 The Fiscal & Budget Office will ensure that leave forms are attached to timecards.
- Condition 13 The principal has the authority to change the AWOL to annual leave.
- Condition 14 PSS will ensure that overtime forms for differential pay are submitted.
- Condition 15 One of three employees has the salary reflected per the NOPA and payroll register. HRO has processed the amendment to the NOPAs with the hourly rate per the payroll register.
- Condition 16 PSS agrees. HRO has processed the amendment to the NOPAs reflecting the correct business units.
- Condition 17 PSS agrees. HRO has processed the amendment to the NOPAs reflecting the correct business units.
- Condition 18 Payroll will investigate the general ledger and payroll register variances.
- Condition 19 This is a rounding issue and the amount is immaterial.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-23, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
Grant Numbers: S403A100001
Area: Allowable Costs/Cost Principles
Questioned Costs: \$39,461

Auditor Response:

- Condition 8 PSS timecards include a section for employees to certify that hours charged are proper and accurate. Other timecards tested included employee signatures. Further, documentation that timecards are reviewed and matched with the timesheet evidencing certification by the timekeeper is not evident.
- Condition 19 Projected costs exceeding \$10,000 for each compliance requirement are required to be reported.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24
Federal Agency: U.S. Department of Education
CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
Grant Numbers: S403A100001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$67,047

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Situations considered to be restrictive of competition include specifying only a “brand name” product instead of allowing “an equal” product to be offered. Grantees and subgrantees will use their own procurement procedures, which reflect applicable local laws, provided that the procurements conform to applicable federal law. Specifically, the PSS Procurement Rules and Regulations state the following:

- Purchases not exceeding \$2,500 may be made without securing bids of price quotations if the Chief of P&S considers the price to be reasonable.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Price quotations from at least three vendors must be obtained and the selection documented based on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Chief of P&S for approval.
- A contract may be awarded for supplies, services, instructional materials or construction items without competition when the Chief of P&S determines in writing that there is only one source for the required supplies, services or construction items. The written determination shall be prepared by the official with expenditure authority and shall contain the unique capabilities required and why they are required and the consideration given to alternative sources.
- Adequate public notice of the invitation for bids shall be for a reasonable time prior to the date set for the opening of bids. Publication of notice in a newspaper of general circulation in the CNMI once each week over a period of thirty calendar days shall be deemed adequate.
- A bidding time of at least thirty calendar days shall be provided, unless the Chief of P&S determines a shorter period is reasonable and necessary.
- Under competitive sealed proposals, awards shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to PSS taking into consideration price and evaluation factors set forth in the request for proposals.

Condition:

1. As noted above, PSS procurement procedures allow for restricted competition for purchases of less than \$2,500. This allowance appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$833,096. As noted below, noncompliance results for those purchases of less than \$2,500.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$67,047

Condition, Continued:

Of thirty-seven nonpayroll expenditures tested totaling \$1,173,867, of a population of \$6,349,653, we noted the following:

2. For four expenditures (or 11%), price quotations were not obtained although the items qualify under small purchase procedures:

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
103PUB0GES	183111 PV	102262 OL	\$ 948
103PUB0OES	175015 PV	99656 OL	1,458
103PVT0BSM	187180 PV	101381 OL	124
113PVT1HAC	188039 PV	105345 OL	<u>2,500</u>
			<u>\$ 5,030</u>

3. For one expenditure (or 3%), shipping services in excess of \$10,000 were not subjected to competitive procurement procedures. According to the procurement officer, shipping services are rotated among three shipping vendors, effective November 30, 2010; however, we noted total program expenditures in FY 2011 were \$111,084 to one vendor, \$53,736 to another vendor, and \$-0- to the third vendor. No questioned costs result as the two vendors provided shipping services to PSS.

<u>Business Unit</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Amount Tested</u>	<u>Expenditures Under Contract</u>
103PUB0SAS	182828 PV	45730 OC	\$ 1,368	\$ 72,161

4. Applicable procurement rules and regulations require awards to be made to the responsible offeror, taking into consideration price and evaluation factors. However, for two contracts (or 14%) of the fourteen contracts tested, it appears that cost was not considered in the evaluation process. Procurement documentation indicates the selection was based on the preference of the department head for these services:

<u>Contract No.</u>	<u>Amount Tested</u>	<u>Expenditures Under Contract</u>
70301 OC	\$ 9,440	\$ 175,605
70239 OC	12,474	<u>590,872</u>
		<u>\$ 766,477</u>

Selection of the lowest proposal may have resulted in estimated savings of \$36,617 based on the price difference of the two proposals and as such, this amount will be questioned.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$67,047

Condition, Continued:

5. For two expenditures (or 5%), solicitation for quotes requested a specified brand name and did not specify "or equivalent" which restricts full and open competition.

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
113PUB1MHS	180138 PV	101070 OP	\$ 7,448
103PVT0GCS	181964 PV	102431 OC	<u>16,590</u>
			<u>\$ 24,038</u>

6. For three expenditures (or 8%), documentation of procurement and source selection were not provided.

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
102LEA0SCP	181568 PV	101548 OP	\$ 210
110AAP1DMS	184601 PV	104067 OP	3,025
113PUB1KES	180381 PV	101349 OL	<u>1,367</u>
		Total	4,602
		Less amount already questioned in finding 2011-23 for the first item above	<u>(210)</u>
			<u>\$ 4,392</u>

7. For two expenditures (or 5%), quotations were not obtained for the purchase of airline tickets:

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
112LEA1SCP	184016 JE	102647 OT	\$ 1,699
113SCP1PVT	15945 JE	103879 OT	<u>1,904</u>
		Total	3,603
		Less amount already questioned in finding 2011-23	<u>(1,699)</u>
			<u>\$ 1,904</u>

8. For one expenditure (or 3%), the sole source justification does not demonstrate the unique capabilities of the vendor selected to provide training services. The total contract price exceeded \$2,500, but contract expenditures during the fiscal year are as follows:

<u>Business Unit</u>	<u>Document No.</u>	<u>Obligating Document No.</u>	<u>Amount</u>
113PUB1SAS	187815 PV	105630 PV	\$ 2,000

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
 Grant Numbers: S403A100001
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$67,047

Condition, Continued:

9. For eleven of fourteen contracts tested (or 79%), the public notice was less than the thirty days required by PSS Procurement Regulations:

<u>Contract No.</u>	<u>IFB/RFP No.</u>	<u>Date of Actual Public Notice</u>	<u>Bid Opening Date</u>
101970 OC	IFB 11-023	01/21/11	02/04/11
102607 OC	IFB 11-036	03/15/11	04/04/11
102261 OC	IFB 11-022	01/24/11	02/07/11
102606 OC	IFB 11-040	03/23/11	04/06/11
104310 OC	IFB 11-056	05/18/11	06/01/11
70239 OC	RFP 10-025	04/30/10	05/18/10
104845 OC	IFB 11-062	06/24/11	07/11/11
100541 OC	IFB 10-104	09/15/10	09/30/10
100188 OC	IFB 10-103	09/14/10	09/28/10
99572 OC	IFB 10-080	06/25/10	07/07/10
70301 OC	RFP 10-025	04/30/10	05/18/10

Except for contract nos. 70239 OC and 70301 OC as shown in condition 4 above, no questioned cost is presented at this condition as we noted competitive procurement (i.e., PSS received bids from multiple qualified sources).

Cause: The cause of the above condition is the failure to enforce adherence to established PSS procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: For conditions 1, 2 and 7, we were forwarded emails by the PSS Federal Programs Officer from Ms. Christine Jackson, Senior Consultant Risk Management, Office of the Deputy Secretary, United States Department of Education (USDOE), and from Ms. Collette Fisher of USDOE, stating that Section 80.36a of EDGAR requires PSS to follow the same policies and procedures it uses for non-federal procurement for federal procurement. They stated that the USDOE General Counsel reiterated that as long as PSS follows its own procurement procedures that USDOE will not sustain the auditors finding on small purchases. Based on these comments we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from USDOE. For conditions 4, 5, 6 and 8, the effect of the above condition is noncompliance with procurement regulations and questioned costs of \$67,047.

Recommendation: We recommend that PSS review its current procurement regulations to conform with applicable federal laws and seek a program determination letter from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold. Further, evidence of compliance with the procurement regulations should be adequately documented in procurement files.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
Grant Numbers: S403A100001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$67,047

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

Corrective Action:

- Condition 1 See corrective action for Condition 1 at Finding No. 2011-17.
- Condition 2 All were done under small purchase procedures. See corrective action for Condition 1 at Finding No. 2011-17.
- Condition 3 PSS will competitively bid out Shipping Services. We did use two shipping service companies and the third decided not to participate this year.
- Condition 4 Cost was not the deciding factor, rather the Principal's or Program's preference for the company providing copier network printer services was and is part of a 5-year lease that was competitively awarded through an RFP. The decision was basically whether to stay with the company currently providing service, or to switch to the other company.
- Condition 5 PSS agrees that the phrase "Brand Name or Equal" should have been used; however, for contract no. 102431 OC, four bids were received. One was generic, two were "Think Centre" brand, and one was Dell Vostro brand, so this should not be a questioned cost. For PO # 101070 OP for \$7,448, three quotes were obtained and so this should not be a questioned cost.
- Condition 6 The P&S Officer was not made aware of failure to provide referenced documents to the auditor. No request was received for the documents requested.
- Condition 7 The Procurement Officer will be preparing a memo by May 15, 2012 to the Director of Finance to establish a two quote process requirement for purchasing of airline tickets. In addition, a special provision will be developed/proposed in June 15, 2012.
- Condition 8 See corrective action for Condition 1 at Finding No. 2011-17.
- Condition 9 PSS Procurement has begun documenting any and all bid times of less than thirty calendar days for reasonableness and necessity. Documentation of bid times is located in the file.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-24, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.403 Consolidated Grants to the Outlying Areas
Grant Numbers: S403A100001
Area: Procurement and Suspension and Debarment
Questioned Costs: \$67,047

Auditor Response:

- Condition 1 See the "Effect" section of this finding.
- Condition 2 See the "Effect" section of this finding.
- Condition 3 All procurement transactions shall provide for full and open competition.
- Condition 4 PSS should take into consideration the price and evaluation factors set forth in the request for proposals.
- Condition 5 Specifying a brand name restricts full and open competition. There could have been other vendors who would have submitted bids if the brand name restriction was not present; therefore, the finding and questioned cost remains.
- Condition 6 The request for procurement documents was provided to the Federal Grants Coordinator on December 21, 2011.
- Condition 8 See the "Effect" section of this finding.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.410 ARRA - Education Jobs Fund
 Grant Numbers: S410A100054
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$38,078

Criteria: Expenditures should be authorized, supported and approved prior to incurrence. Further, payroll costs should be supported by authorized NOPAs and time cards, certified timesheets and/or equivalent time and effort documentation.

Moreover, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

Condition: Of eighty-nine program expenditures tested totaling \$2,092,893, of a population of \$5,730,125, the following were noted:

1. One \$34,040 item tested (or 1%) (reference number JE no. 16213) related to deficient retirement costs which are not allowable. No questioned costs are presented since PSS subsequently prepared journal entries to remove deficient retirement costs from program expenditures and charged other allowable, locally-funded teachers' salaries for the same amount. However, the finding remains as such corrective action occurred as a result of our fieldwork.
2. The NOPA, supporting salaries for one employee (or 1%) (employee no. 14197), was not provided. Gross salaries paid during fiscal year 2011 to this employee totaled \$2,147 and is a questioned cost.
3. Employee time cards were not provided for four employees (or 4%). No questioned cost is presented at this condition as supporting timesheet summaries were approved.
4. Time cards for thirty-eight (or 69%) of fifty-five payroll items tested were not signed by the employees. Documentation that time cards are reviewed and matched with the timesheet is not evident. No questioned cost is presented at this condition as timesheets are approved by employee department head.
5. The NOPA effective for the payroll period selected could not be located in file to substantiate payroll charges for twelve employees (or 13%).

<u>Employee No.</u>	<u>Payroll Period</u>	<u>BU per GL</u>	<u>Employee Gross Pay</u>
11692	10/09/10	10EJFOCEJF	\$ 1,486
11763	12/18/10	10EJFOCEJF	737
12822	06/04/11	10EJFOCEJF	1,074
2194	09/10/11	10EJFOCEJF	660
13057	10/09/10	10EJFOCEJF	522
13998	06/04/11	10EJFOCEJF	1,191
12823	10/09/10	10EJFOCEJF	451
13974	06/04/11	10EJFOCEJF	1,191
12618	09/10/11	10EJFOCEJF	1,191
12577	10/09/10	10EJFOCEJF	1,074
6555	09/10/11	10EJFOCEJF	1,737

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.410 ARRA - Education Jobs Fund
 Grant Numbers: S410A100054
 Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
 Questioned Costs: \$38,078

Condition, Continued:

<u>Employee No.</u>	<u>Payroll Period</u>	<u>BU per GL</u>	<u>Employee Gross Pay</u>
2014	09/24/11	10EJF0CEJF	<u>2,308</u>
			\$ <u>13,622</u>

6. Our tests of five employee NOPAs (or 6%) noted that the NOPA in file does not indicate the employee salary rate and there is no documentation in file to support the military instructor pay paid for the periods selected.

<u>Employee No.</u>	<u>Payroll Period</u>	<u>BU per GL</u>	<u>Employee Gross Pay</u>
13309	01/01/11	10EJF0CEJF	\$ 2,717
2500	01/01/11	10EJF0CEJF	3,110
4917	12/18/10	10EJF0CEJF	2,648
11711	01/01/11	10EJF0CEJF	2,381
10835	01/01/11	10EJF0CEJF	<u>1,818</u>
		Questioned costs this finding	\$ <u>12,674</u>

7. Our tests of four leave request forms (or 4%) noted deficiencies, such as annual leave was taken prior to approval (i.e. leave period is prior to approval date), approval (i.e. signature or checked box) of the leave request is not evident, and the approval date was not indicated. No questioned cost is presented at this condition as the supporting timesheet summary was approved.
8. Employee time cards provided contain insufficient documentation to substantiate hours paid per the payroll register for nineteen items (or 21%). No questioned cost is presented at this condition as the supporting timesheet summary was approved.
9. Historical payroll registers or distribution reports from which selections were to be made could not be provided for four items (or 4%).

<u>Reference No.</u>	<u>Payroll Period</u>	<u>BU per GL</u>	<u>GL Amount</u>
5595	10/09/10	10EJF0CEJF	\$ 1,112
5624	01/01/11	10EJF0CEJF	7,123
15122	12/18/10	10EJF0CEJF	642
5624	01/01/11	10EJF0CEJF	<u>758</u>
			\$ <u>9,635</u>

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.410 ARRA - Education Jobs Fund
Grant Numbers: S410A100054
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$38,078

Condition, Continued:

10. An annual leave lump sum payout of \$4,999 for 360 hours was made to one employee (employee no. 2134); however, the employee worked for the program for only two pay periods and the supporting calculation of leave payout was not available. Further, retroactive salary adjustment payments totaling \$6,523 were made to two employees (employee nos. 11361 and 13881); however, the employees worked for the program only for six pay periods and the supporting calculation of retroactive adjustment was not provided. No questioned cost is presented at this condition as PSS subsequently prepared a journal entry to reverse the annual leave costs and charged other locally-funded teachers' salaries for the same amount.
11. For fifty-two employees (or 58%), the NOPA was signed or approved in excess of thirty days of the effective date of the NOPA, which does not meet requirements of the PSS Administrative Code. Specifically, PSS Administrative Code Section 60-40-115 states that no contract for personnel services or employment should be approved if it is retroactive for more than 30 days, and Section 60-30.1-410 states that no person shall report to work or receive salary unless an appropriate personnel action has been approved by the Commissioner of Education or authorized representative. No questioned costs are presented at this condition because, unless otherwise indicated in other conditions, the NOPA was signed approved, and the employees did provide services under the program.
12. The required semi-annual certifications from employees who work solely on and whose salaries and wages are funded by one program are not documented or available or prepared.

Cause: The cause of the above condition is the lack of documentation to support program expenditures.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed and allowable costs/cost principles and questioned costs of \$38,078, resulting from conditions 2, 5, 6 and 9. No questioned costs are presented for all other conditions, as described therein.

Recommendation: We recommend that PSS strengthen procedures to determine that documentation supporting program expenditures is maintained and that the filing and maintenance system is improved. Specifically, we recommend that PSS consider the following:

- All original payroll documentation including time cards should be forwarded to the Central Office for filing and maintenance.
- Policies on payroll reports and documentation filing and back up must be established.
- Human Resources should strictly implement timely processing and completion of NOPAs as per policy.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.410 ARRA - Education Jobs Fund
Grant Numbers: S410A100054
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$38,078

Recommendation, Continued:

- Required semi-annual certifications should be documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: George Palican, Acting Director of Finance

Corrective Action:

- Condition 1 A journal entry has reclassified this expenditure to local funding.
- Condition 2 The NOPA in question was processed prior to the audit and is available for review and verification.
- Condition 3 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.
- Condition 4 PSS disagrees. PSS does not have a regulation requiring timecards to be signed by the employees. The timekeepers are responsible in certifying the timecards.
- Condition 5 PSS disagrees. NOPAs have been overlooked and are available for review. Renewals have been processed and are filed in the respective employee files. HRO has taken a proactive step to ensure that all employees' contracts are processed and filed accordingly. Memos were sent to schools and programs with their listing of all employees and their contract expiration dates on January 23, 2012. An updated listing was also provided at the principal meetings. HRO and Finance will work with the JDE programmer to alert payroll to not pay employees with expired contracts.
- Condition 6 PSS disagrees. Salaries are reflected in the NOPAs and four others reflect military instructor pay (MIP). MIP factors in the COLA so stipulating a salary in the NOPA based on PSS contribution will not be in alignment with MIP. MIP salary is controlled by the U.S. Department of Defense and there is an agreement with the DOF and PSS on MIP. MIP is subject to change at any time.
- Condition 7 Leave forms will be provided with the summary timesheet. In addition, all timekeepers have been reminded to ensure completeness of the forms prior to submitting to payroll.
- Condition 8 A memo will be sent informing program managers, school administrators and timekeepers that original timecards are required to be sent to the payroll office.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-25, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.410 ARRA - Education Jobs Fund
Grant Numbers: S410A100054
Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs: \$38,078

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 9 The Payroll Distribution Report is now being processed and stored in the system to help in this reconciliation. It was not done previously.
- Condition 10 PSS has corrected this issue as noted in the condition.
- Condition 11 PSS agrees. HRO will refine its renewal process to prevent the delay of employees submitting the required documents. Renewal has been processed and filed in respective employee files. HRO has taken a proactive step to ensure that all employees' contracts are processed and filed accordingly. Memos were sent to schools and programs with their listing of all employees and their contract expiration dates on January 23, 2012. An updated listing was also provided at the principal meetings. HRO and Finance will work with the JDE programmer to alert payroll to not pay employees with expired contracts.
- Condition 12 The required semi-annual certifications are being signed by the employees.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 2 Three NOPAs provided for this employee indicated effective dates of 09/21/11, 09/26/11 and 10/05/11 which were all subsequent to the payroll period tested of 06/04/11.
- Condition 4 PSS timecards include a section for employees to certify that hours charged are proper and accurate. Other timecards tested included employee signatures. Further, documentation that timecards are reviewed and matched with the timesheet evidencing certification by the timekeeper is not evident.
- Condition 5 Ten of the additional NOPAs provided either did not cover the period tested, did not indicate BU number or BU indicated does not relate to ED Jobs.
- Condition 6 Five of the additional NOPAs provided did not include documentation of the military instructor pay calculation for the period selected and BUs indicated did not relate to the grant.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600/93.708 Head Start Cluster
 Grant Numbers: 09CH0249/22 and 09CH0249/23
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$23,747

Criteria: Employee's personnel charges should be supported by an authorized NOPA which documents the correct employee pay rate, position, effective starting and end dates, and the correct account number to be charged. Furthermore, documentation such as invoices, purchase orders, and receiving reports should be maintained on file to substantiate nonpayroll expenditures.

Moreover, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

Condition: Of twenty-five nonpayroll expenditures tested totaling \$181,949, of a population of \$975,967, the following was noted:

1. There was no attendant support for one item (or 4%) (JE #15858 in the amount of \$12,166), resulting in questioned costs of \$12,166.

Of twenty-nine payroll expenditures tested totaling \$35,505, of a population of \$895,715, the following were noted:

2. For one employee (or 3%), payroll costs were incurred without an effective NOPA in existence. PSS Administrative Code Section 60-30.1-410 states that no person shall report to work or receive salary unless an appropriate personnel action has been approved by the Commissioner of Education or authorized representative. Therefore, questioned costs exist, as follows:

<u>Employee #</u>	<u>Description</u>	<u>Pay Period Questioned</u>	<u>Amount</u>
11764	No NOPA after 04/10/11	04/11/11 to 09/30/11	\$ 10,071

3. For one employee (or 3%) (i.e., #11569), the NOPA specified an hourly pay rate of \$6.531 for pay periods after July 23, 2011; however, for those four remaining pay periods in FY 2011, the employee was paid at an hourly rate of \$8.937. Therefore, a questioned cost of \$770 exists, as follows:

	<u>Expenditures</u>
Four pay periods at \$8.937/hour	\$ 2,860
Four pay periods at \$6.531/hour	<u>2,090</u>
Costs not supported by NOPA	\$ <u>770</u>

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Numbers: 09CH0249/22 and 09CH0249/23
Area: Allowable Costs/Cost Principles
Questioned Costs: \$23,747

Condition, Continued:

4. We noted one payroll item for health and life insurance which was not supported with any documentation such as approved payment requests or invoices.

<u>GL Date</u>	<u>Object Acct.</u>	<u>Amount</u>	<u>Questioned Costs</u>
11/20/10	4121	\$740	\$740

5. For six employees (or 21%) the information shown in time cards is insufficient to substantiate hours paid per the payroll register. No questioned cost is presented at this condition as the payroll register is supported by approved timesheets.

6. The required semi-annual certifications from employees who work solely on and whose salaries and wages are funded by one program are not documented or available or prepared.

Cause: The cause of the above condition is the lack of a systematic entry system to keep track of NOPAs that are expiring and failure to review on a timely basis effective dates and account numbers of the program to be charged. Moreover, there is a lack of policies and procedures to obtain and maintain the required semi-annual certifications.

Effect: The effect of the above condition is questioned costs of \$23,747.

Recommendation: We recommend that PSS strengthen controls to update and review for accuracy NOPAs on a timely basis. Furthermore, such supporting documents as invoices, purchase orders, receiving reports, and required semi-annual certifications should be maintained on file to substantiate expenditures.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melissa Palacios, Head Start Coordinator

Corrective Action:

- Condition 1 Supporting documents were submitted for review and this finding was going to be removed.
- Condition 2 For employee # 11764, a copy of the NOPA dated 07/29/11 has been provided; however, PSS agrees there was no NOPA between 04/11/11 to 07/28/11.
- Condition 3 PSS agrees. HRO processed the amendment to the NOPA reflecting the correct salary rate per pay period. HRO will ensure that the salary rate in JDE reflect the actual pay on the NOPA.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-26, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Numbers: 09CH0249/22 and 09CH0249/23
Area: Allowable Costs/Cost Principles
Questioned Costs: \$23,747

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- Condition 4 Health and life insurance are not invoiced for every expenditure, only on initial employee contract.
- Condition 5 The hours as noted in the payroll register are correct.
- Condition 6 We will complete the semi-annual certifications for all staff and ensure documentation. We will develop and implement policies and procedures to obtain and maintain required semi-annual certifications.

Proposed Completion Date: Ongoing.

Auditor Response:

- Condition 1 For JE #15858, we requested and were not provided documentation to support the nature of the reclassified accounts. Of \$19,147 related to the journal voucher transfer, only \$6,981 was supported.
- Condition 4 We were not provided documentation which supported the tested entries. Our requests were emailed to the Federal Grants Coordinator on December 1 and December 27, 2011.
- Condition 5 The information reported in the timecards is insufficient to substantiate hours paid per the payroll register.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600/93.708 Head Start Cluster
 Grant Numbers: 09CH0249/22 and 09CH0249/23
 Area: Eligibility
 Questioned Costs: \$4,078

Criteria: Head Start Program Performance Standards require that the Enrollment application form, the Family Membership Information form, the Head Start Selection Criteria Worksheet, and the Eligibility Verification form be filled out to determine eligibility.

Condition: Our tests of sixty-one enrollees, of a population of four hundred sixty-two, or 13%, determined that sections of forms [i.e., Family Membership Information (FMI), Eligibility Verification Sheet (EVS), Selection Criteria Worksheet (SCW), and/or Enrollment Application Form (EAF)] were not filled out, were left blank, or were not on file for twenty enrollees (or 31%) as follows:

<u>Selection No.</u>	<u>Code</u>	<u>Description</u>
3	JCN1225	Verification & income source left blank
4	CJO0310	Verification & income source left blank
9	LAN0802	Income verification left blank
12	WJO1119	Verification & income source left blank
22	DLL1130	Income verification left blank
24	RDDK0906	Child's name and date of birth left blank
25	JBDS0419	Income verification left blank
28	DN1120	Income verification left blank
31	JP1225	Verification & income source left blank
31	JP1225	Not on file
33	SA0723	Income verification left blank
34	KN0811	Income source left blank
39	DJM1030	Parent/Guardian did not sign enrollment form
48	CIR0328	Verification & income source left blank
52	TJH1020	Income verification left blank
55	CSN0824	Verification & income source left blank
56	PJM0125	Form was not dated
57	GSC1111	Income verification left blank
59	EADB0817	Income source left blank
61	KMC0925	Verification & income source left blank

Furthermore, we noted one enrollee (or 2%) (sel. #61) for which the FMI form was not signed by the Head Start official certifying that the child is income-eligible. Further, Head Start staff did not sign and date the Member Information form. As the enrollee may not be eligible for benefits, the per student cost of \$4,078 (determined based on total expenditures and student counts) is questioned.

Cause: The cause of the above condition is the failure of eligibility staff members to review forms for completeness.

Effect: The effect of the above condition is noncompliance with eligibility requirements and a questioned cost of \$4,078. Although the known questioned cost is below \$10,000, the projected questioned cost exceeds the threshold; therefore, this finding is considered reportable.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-27, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Numbers: 09CH0249/22 and 09CH0249/23
Area: Eligibility
Questioned Costs: \$4,078

Recommendation: We recommend that Head Start strengthen controls to ensure form completeness.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melissa Palacios, Head Start Coordinator

Corrective Action: The Ongoing Monitoring Checklist #9 has been updated to ensure all these items are monitored. Controls will be strengthened to ensure form completeness; including enrollees who are returning, sections will be completely fill out. We will ensure that the Eligibility Reviewer & Certifier (ERSEA Manager) reviews all selected/enrolled children/family application records. The Grantee (Internal Auditor) and Federal Programs Monitor will be involved in the Ongoing Monitoring Checklist # 9.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-28
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600/93.708 Head Start Cluster
 Grant Numbers: 09CH0249/22 and 09CH0249/23
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$-0-

Criteria: Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Situations considered to be restrictive of competition include specifying only a “brand name” product instead of allowing “an equal” product to be offered. Grantees and subgrantees will use their own procurement procedures, which reflect applicable local laws, provided that the procurements conform to applicable federal law. Specifically, the PSS Procurement Rules and Regulations state the following:

- Purchases not exceeding \$2,500 may be made without securing bids of price quotations if the Chief of P&S considers the price to be reasonable.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Price quotations from at least three vendors must be obtained and the selection documented based on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Chief of P&S for approval.
- A contract may be awarded for supplies, services, instructional materials or construction items without competition when the Chief of P&S determines in writing that there is only one source for the required supplies, services or construction items. The written determination shall be prepared by the official with expenditure authority and shall contain the unique capabilities required and why they are required and the consideration given to alternative sources.

Condition:

As noted above, PSS procurement procedures allow for restricted competition for purchases of less than \$2,500. This allowance appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2011 for purchases of less than \$2,500 totaled \$460,052. As noted below, noncompliance results for those purchases of less than \$2,500.

Of twenty-five nonpayroll expenditures tested totaling \$181,949, of a population of \$975,967, twelve price or rate quotations (or 12%) were not obtained from at least three qualified sources, ranging from one to two vendors. We noted one item (Document No. 175020) where the solicitation specifically described a brand name. Further, we noted one item (Document No. 178029) which was sole sourced.

<u>Document Type</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	175020	10/15/10	\$ 1,544
PV	184474	06/03/11	1,815
PV	185462	07/01/11	2,105
PV	185653	07/11/11	2,364

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-28, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600/93.708 Head Start Cluster
 Grant Numbers: 09CH0249/22 and 09CH0249/23
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$-0-

Condition, Continued:

<u>Document Type</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
PV	175366	10/29/10	2,028
PV	182938	05/06/11	619
PV	176113	11/30/10	2,325
PV	186045	07/14/11	2,331
PV	180111	03/04/11	96
PV	186280	07/18/11	2,000
PV	188169	09/09/11	2,300
PV	178029	01/05/11	<u>2,470</u>
			\$ <u>21,997</u>

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the PSS Procurement Rules and Regulations and weak controls over small purchase procedures.

Effect: We were forwarded emails by the PSS Federal Programs Officer from Ms. Christine Jackson, Senior Consultant Risk Management, Office of the Deputy Secretary, United States Department of Education (USDOE), and from Ms. Collette Fisher of USDOE, stating that Section 80.36a of EDGAR requires PSS to follow the same policies and procedures it uses for non-federal procurement for federal procurement. They stated that the USDOE General Counsel reiterated that as long as PSS follows its own procurement procedures that USDOE will not sustain the auditors finding on small purchases. Based on these comments we have not questioned costs related to small purchases; however, we have maintained the finding so that an official program determination letter can be obtained from U.S. Department of Health and Human Services.

Recommendation: We recommend that PSS review its current procurement regulations to conform with applicable federal laws and seek a program determination letter from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold. Further, evidence of compliance with the procurement regulations should be adequately documented in procurement files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

Corrective Action: See corrective action plan for Condition 1 at Finding 2011-17.

Proposed Completion Date: Ongoing.

Auditor Response: See the "Effect" section of this finding.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-29
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600/93.708 Head Start Cluster
Grant Numbers: 09CH0249/22 and 09CH0249/23
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: In accordance with applicable subrecipient monitoring requirements per OMB Circular A-133 Compliance Supplement for Head Start, grantees must establish and implement procedures for the ongoing monitoring of their own Head Start and Early Head Start operations, to ensure that these operations effectively implement Federal regulations.

Condition: PSS has not established procedures for ongoing monitoring of their Head Start operations.

Cause: The cause of the above condition is the failure to establish and implement procedures.

Effect: The effect of the above condition is the lack of compliance with Head Start monitoring requirements.

Recommendation: We recommend that PSS comply with requirements for monitoring its Head Start operations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melissa Palacios, Head Start Coordinator

Corrective Action: Procedures for the ongoing monitoring of program operations exist to ensure that the program effectively implements Federal regulations. In addition, the Director of Finance provides monthly financial reports to the HDST Policy Council and the Board. The Federal Program Officer reviews and approves all HDST program expenditures.

Proposed Completion Date: Ongoing.

Auditor Response: We have been advised by the Federal Programs Eligibility Monitor Coordinator that written monitoring procedures for Head Start have not been established by PSS.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30
CFDA Program: DOT 20.507 Federal Transit Formula Grants
CFDA Program: ED 84.027/84.391 Special Education Cluster (IDEA)
CFDA Program: ED 84.394/84.397 State Fiscal Stabilization Fund Cluster
CFDA Program: HHS 93.600/93.708 Head Start Cluster
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

- Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of the equipment, including the award number, whether title vests in the recipient or the Federal Government, the acquisition date and cost of the property, percentage of Federal participation in the cost of the equipment, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years.

In addition, the PSS Property Management and Accountability Manual requires that an annual physical inventory of fixed assets be taken.

Condition: Tests of equipment and real property noted the following:

1. There is no documentation that a complete physical inventory of equipment and property and a reconciliation with Procurement and Supply records were performed over the last two fiscal years. Based on our inquiries, the last physical inventory was performed during June 2009.
2. Property records maintained at the Program office have missing information or did not include some of the required information, such as serial or identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property.
3. Regarding the Special Education Cluster, property records maintained at the Program office included total acquisition costs of \$149,299, while property records provided by Procurement and Supply noted total acquisition costs of \$415,038, resulting in an unreconciled variance of \$265,739.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

Effect: The effect of the above condition is noncompliance with the applicable equipment management requirements. No questioned cost is presented at this finding due to our inability to assess the cumulative dollar amount of property and equipment acquired with program grant funds.

CNMI PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-30, Continued
CFDA Program: DOT 20.507 Federal Transit Formula Grants
CFDA Program: ED 84.027/84.391 Special Education Cluster (IDEA)
CFDA Program: ED 84.394/84.397 State Fiscal Stabilization Fund Cluster
CFDA Program: HHS 93.600/93.708 Head Start Cluster
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect, Continued:

For major programs with property and equipment acquisitions during the year, amounts are summarized below:

<u>CFDA #/Cluster</u>	<u>Amount</u>
Federal Transit Formula Grants	\$ 289,071
Special Education Cluster	\$ 14,838
SFSF Cluster	\$ 569,876
Head Start Cluster	\$ 71,970

Recommendation: We recommend that PSS maintain complete records of property and equipment acquired with grant funds, perform physical inventories, and comply with applicable property management policies and procedures.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Florian, Procurement & Supply Officer

Corrective Action: The various property management issues identified are being resolved. PSS is well aware of this situation and recently entered into a contract with AMX International Corporation of Rexburg, Idaho, to provide PSS with a state of the art comprehensive JD Edwards Property Management System which we have loaded into the JD Edwards system.

Proposed Completion Date: Ongoing.

CNMI PUBLIC SCHOOL SYSTEM

Unresolved Prior Year Comments
Year Ended September 30, 2011

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2011:

Questioned costs as previously reported	\$ 687,017
Questioned costs resolved during the year ended September 30, 2011: Program Determination Letter, September 13, 2012 Audit Control Numbers: 09-09-010684 and 09-10-110798	<u>(547,476)</u>
	139,541
Questioned costs of fiscal year 2011 Single Audit	<u>434,821</u>
Unresolved questioned costs at September 30, 2011	\$ <u><u>574,362</u></u>



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

STATE BOARD OF EDUCATION
PUBLIC SCHOOL SYSTEM
P.O. BOX 501370
SAIPAN, MP 96950



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coe.ras@cnmipss.org

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2010.

FINANCIAL STATEMENT FINDINGS

Finding No. 10-01 - Not corrected. See corrective action plan to Finding No. 2011-03.

Finding No. 10-02 - Corrective action was taken.

Finding No. 10-03 - Not corrected. See corrective action plan to Finding No. 2011-13.

Finding No. 10-04 - Corrective action was taken.

Finding No. 10-05 - Corrective action was taken.

Finding No. 10-06 - Not corrected. See corrective action plan to Finding No. 2011-11.

Finding No. 10-07 - Corrective action was taken.

Finding No. 10-08 - Corrective action was taken.

Finding No. 10-09 - Corrective action was taken.

Finding No. 10-10 - Corrective action was taken.

Finding No. 10-11 - Corrective action was taken.

Finding No. 10-12 - Not corrected. See corrective action plan to Finding No. 2011-01.

Finding No. 10-13 - Not corrected. See corrective action plan to Finding No. 2011-01.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 10-14 - Not corrected. See corrective action plan to Finding Nos. 2011-14 and 2011-23.

Finding No. 10-15 - Corrective action was taken.