

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

PUBLIC SCHOOL SYSTEM

REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS
IN ACCORDANCE WITH
OMB CIRCULAR A-133

Year Ended September 30, 2002

PUBLIC SCHOOL SYSTEM
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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August 11, 2003

To: Members of the Board of Education
Citizens of the Commonwealth of the Northern Mariana Islands:

The Comprehensive Annual Financial Report of the Public School System (PSS) of the Commonwealth of the Northern Mariana Islands (CNMI) for the year ended September 30, 2002, is hereby submitted as mandated by both local ordinances and territorial statutes. These ordinances and statutes require that the PSS issue annually a report on its financial position and activity and that an independent firm of certified public accountants will audit this report. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and account groups of the PSS. All disclosures necessary to enable the reader to gain an understanding of the PSS' activities have been included. The comprehensive annual financial report is presented in three sections: introductory, financial, and single audit. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, a list of the PSS' principal elected and appointed officials. The financial section includes the general-purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules.

The PSS is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the Commonwealth of the Northern Mariana Islands Single Audit Implementation Act. Information related to this single audit, including a schedule of expenditures of federal awards, the report on compliance and on internal control, reports on compliance with requirements applicable to each major federal program, and a schedule of findings and questioned costs are included in the single audit section of the comprehensive annual financial report.

The financial reporting entity includes all the funds and account groups of the Public School System. The members of the Board are elected by the public and have decision-making authority. Although the CNMI collects all taxes, the Board determines how the school system will spend the funds generated for schools. The CNMI cannot modify the school system's budget nor is the CNMI entitled to share in any surpluses or required to finance any deficits of the school system. For these reasons, the Public School System is not fiscally dependent on the CNMI and therefore is recognized as a primary government, as defined by the Governmental Accounting Standards Board. The school system also receives funding from federal government sources and must comply with the concomitant requirements of the Federal government.

FINANCIAL STATEMENTS

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (pages 3-9), which focuses on current activities, accounting changes and currently known facts.

In October 2001, the PSS elected to implement change in governmental financial reporting in accordance with GASB 34 and the Government of the Commonwealth of the Northern Mariana Islands. The format and purpose of these changes are addressed in the notes to the financial statements, reflect on and explain the effects and results of these changes. We believe this new presentation will provide better information to the user of the Comprehensive Annual Financial Report (CAFR) of Public School System.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION, AND OUTLOOK

The Commonwealth of the Northern Mariana Islands Public School System is one comprehensive school district serving the entire Commonwealth; including the islands of Saipan, Rota, and Tinian. The system was created through the enactment of Public Law 6-10 in January 1988. For school year 2001-2002, it is serving over 10,000 students from pre-school through 12th grade in 12 elementary schools, 4 middle schools, 5 high schools, and 12 Headstart Centers.

At the helm of the school system are the CNMI Board of Education and the Commissioner. The Board consists of five voting members and one appointed non-voting member, three members from Saipan, one member from Rota, and one member from Tinian. The public elects the voting members, who serve four-year terms, on an island wide basis. The Commissioner is selected by the Board and serves as Chief Executive Officer of the system. The Board is responsible for setting policy, while the Commissioner and the administrative team are charged with managing the operations of the school system.

A principal is charged with the responsibility of the total school operations, and administers each individual school. Appropriate instructional and support personnel, based on pupil enrollment, staff the schools. The school principal and faculty work cooperatively with instructional specialists and central administrative staff in developing and implementing effective instructional programs.

The school system has over 1,000 full-time and over 150 part-time employees and is the largest employer in the government sector. The system has nearly 550 regular classroom teachers, not including media specialists, counselors, psychologists, etc., and allots regular classroom teachers at a teacher/student ratio of 1:20 for kindergarten, grades 1,2,3; 1:25 for grades 4,5,6; 1:30 for grades 7-12. Most students are assigned to and attend their "in zone school" -- the school assigned is based on the parent's or guardian's home address. In some instances, an 'out of zone' school may be assigned due to over enrollment at the "in zone" school. Transportation is provided for students living at least 1 mile from the assigned school.

The indigenous people of the CNMI are the Chamorro and Carolinian. The official languages of the CNMI are Chamorro, Carolinian, and English. English is the primary language of instruction in the Public School System of the CNMI. Chamorro and Carolinian are taught in the Public School System as part of a bilingual program.

The indigenous people were conquered by the Spanish in the 16th Century, sold to the Germans in the early 20th Century, taken by Japan in 1914 to 1944, administered as a UN Trust territory until 1976. In 1976, the indigenous people voted to become of the United States.

The Commonwealth has one of the best climates in the world, and the purest air of any first world country. The temperature ranges from 74 degrees to 88 degrees all year round. It also boasts the most attractive tax structure of a U.S. possession. The islands are lush with tropical jungles and scenic beaches and dive locations. There are numerous golf courses where a local can golf for a fourth of the cost on the Mainland.

The economy of the area is stabilized by the presence of a fairly large garment-manufacturing complex. Tourism from Japan is also a major source of revenue for the CNMI. The government of the CNMI is the largest employer on the islands. With the coming changes in 2005 of the trade treaties, it is not known what effect these treaties will have on the economy of the CNMI. Since Japan has been in a prolonged economic slump, the tourist industry has also been in a slump.

The quantity and quality of the instructional programs of the school system are directly dependent on the funding provided and on effective management and efficient use of those funds. We recognize the important trust and responsibility we are given in the management of public resources and continue to be vigilant and trustworthy in fulfilling that responsibility. During the course of 2001-2002, we aggressively pursued ways to reduce costs and improve efficiency by eliminating administrative overtime and out-of-system travel, moving purchasing deadlines to earlier dates, and restricting special projects that cross fiscal years. Such efforts have allowed the school system to end the fiscal year 2001-2002 with a strong financial position.

We believe that continuation of these financial management practices coupled with appropriate planning should result in continued strong financial position and provide appropriate fiscal accountability to the public and continued improvement of programs.

PUBLIC SCHOOL SYSTEM MISSION AND GOAL

The Public School System has adopted a mission for the school system and goals and strategies to achieve the mission. Reaching these high standards involves concentrated effort and determination by all employees of the school system. The following list provides the mission, goal, strategies and measurements.

Mission: The CNMI Public School System will educate each student to be a responsible and productive citizen who can effectively manage future challenges.

Goal: By 2008, 80% of all students at Kindergarten through 8th grade will be at or above grade level as measured by CNMI Standards Based Assessment and nationally by the Stanford Achievement Test, 10th Edition.

Strategy: Reduce the achievement gap between all students' actual achievement and their potential achievement.

Use the Baldrige system of continuous improvement to insure that decision-making processes are data driven and student focused.

Redefine the magnet program so that it becomes a vehicle to help attain this strategy.

Support the use of technology to aid student learning and create additional time for instruction.

Measurement: Percentage of students in under-performing groups at or above grade level will increase.

Strategy: Improve the district's ability to recruit and retain a high quality workforce.

Recruit and retain quality teachers whose vision, potential and abilities support leaving no child behind.

Strive to provide an adequate compensation package for all employees.

Ensure that the school system has an adequate proof of substitute teachers.

Develop a systematic process for getting feedback from staff about job satisfaction, working conditions, and support systems.

Develop strategies to make more time available for teachers to teach and to grow professionally.

Offer training for staff that builds their capacity to improve the achievement of all students (i.e., diversity/poverty training; use of data; assessment training).

Support and expand the recruitment and training of mentors.

Measurement: Decrease in turnover.

Strategy: Improve the internal and external communications within the district.

Develop a system-wide strategic communications plan.

Develop a process for communicating to teachers and other employees about system initiatives.

Measurement: Community survey of school system's publics.

Building Program

The school system's building program has been a high priority of the Board of Education with over 15,000 students expected by 2010. The CNMI government approved a \$30 million bond in 1999. Two high schools and one middle school were finished in fiscal year 2002. These schools added capacity for an additional 2,200 students. Modernization plans for Rota and Tinian schools are on an on-going basis and they are expected to be completed in calendar year 2003.

The cost of public education in the CNMI is financed primarily by the Gross Receipts Tax of business owners and the Chapter II Tax of the individual. The CNMI has a centralized tax system, and not a localized property tax system, the CNMI Public School System allocates its \$36.084 million on a per student ratio for non-personnel expenditures. In conjunction with the \$4 million federal funds, the CNMI allocates its Personnel budget on an impartial preset staffing pattern. The local funding level for the Public School System has remained flat since 1999.

The students enrolled in the Public School System have increased from 9,500 in 1998 to 10,500 in 2002. This represents a 10.5% increase in four years. The teachers have increased from 464 in 1998 to 512 in 2002. Teachers funded by federal funds increased from 37 teachers in 1998 to 74 teachers in 2002. The federal funds in 2002 paid for 86 teacher aides as opposed to 51 teacher aides in 1998. As can be seen, the increased payroll for the additional teachers and teacher aides has been financed by additional federal funds. The Central Office staff was reduced, and additional federal funds were obtained to finance the growth of the Public School System.

The management of the school system is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the school system are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and local financial assistance, the school system is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management.

The CNMI Public School Budget and Fiscal Control Act mandates the adoption of an annual balanced budget resolution by July 1 each year. If the Budget is not passed by the Legislature and the Governor, PSS operates its budgets on a continuing resolution from fiscal year 1999. Fiscal year 2002, which begins on October 1st, 2001 and ends on September 30, 2002 was a budget on the Continuing Resolution from 1999. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget and in funds provided by the federal, state, and local governments. The final budget, as continued from the fiscal year 1999, is reflected in the financial section.

The school system also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts do not lapse at year-end, they continue as outstanding encumbrances until exhausted.

As demonstrated by the statements and schedules included in the financial section of this report, the school system continues to meet its responsibility for sound financial management.

General Government Functions and General Fund Balance

The following schedule presents a summary of the budgets, using the modified accrual basis, of the Commonwealth funds and PSS funds for the fiscal years ended September 30, 1997 thru September 30, 2002.

Primary factors contributing to the total increase in the local and federal funds were salaries and the related benefit costs. Positions were added to accommodate the continued growth in enrollment. Central support costs decreased as a percent of the total by continued reduction of costs.

Other instructional costs increased primarily due to the expansion of the Advanced Development Institute and Headstart, and other similar programs, established to assist all students in reaching the goals set for the school system.

Capital Projects Fund

Capital Projects were financed by the issuance of a \$15,000,000 Bond, and the matching funds of \$15,000,000 by the CNMI government. The schools finished in fiscal year 2002 consisted of one middle school and one high school. In 2001, two elementary schools and one high school were finished. The remainder of the \$30 million is for modernization of Rota, Tinian, and Saipan physical plants.

The capital projects are projected on a seven-year cycle. PSS is projecting that a new elementary school be built in the As-Matuis area. Also contemplated is a secondary school for the Marpi area. Additional classrooms will also have to be built in the Kagman area. In addition to these major improvements, additional classrooms will have to be added in most of the Saipan schools. Rota and Tinian and the Northern Islands are also expected to have additional buildings. This comprehensive building program is only in the planning stage at this time. No funds for these projects have been identified at this time. The estimated time for the completion of these projects is fiscal year 2013.

Cash Management Policies and Practices

PSS requests drawdowns from the Federal government as the funds are expended. PSS does earn interest income on its Federal drawdowns on the transfer delay from Bank of Hawaii to Bank of Guam. Bank of Hawaii offers the best earnings potential for short-term deposits. Bank of Guam is used as the bank for transactions due to its banking relationship with the CNMI government. The payroll for the Public School System is processed by the CNMI Finance Department.

The statutes authorize the Board to invest in obligations of the United States; obligations of any agency of the United States if payment of interest and principal of such obligations is fully guaranteed by the United States; that the investment is fully insured by the United States or an agency thereof or by any mutual deposit guaranty association authorized by the state; certain other federal agencies; and any form of investment allowed by law to the state treasurer.

Risk Management

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason the government does not maintain any insurance on its buildings, or employees. At some future date, the Public School System may insure some of its assets, as an autonomous agency it is not required to follow the CNMI's government of self-insurance.

PSS does require performance bonds on all its building projects financed by the government bonds.

Other Information

Independent Audit Commonwealth statutes and Federal statutes require an annual audit to be performed by independent certified public accountants. The firm of J. Scott Magliari & Company was selected by the Board of Education. In addition to meeting the requirements set forth in Commonwealth statutes, the audit was designed to meet the requirements of the Federal Single Audit Act Amendments of 1996, as required by U. S. Office of Management and Budget's Circular A-133. The auditors used the generally accepted auditing standards of the United States and the government auditing standards as set forth in the Government Accounting Office's Government Auditing Standards. The auditor's report on the general-purpose financial statements and combining and individual fund statements and schedules are included in the financial section of this report.

Acknowledgments

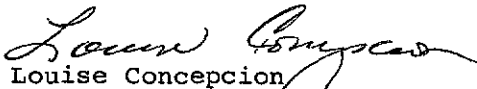
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report and to the Board's independent certified public accountants, J. Scott Magliari & Company, for their assistance. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards that we have set for ourselves.

We would also like to express our appreciation to the members of the Board of Education for their interest and support in planning and conducting the financial affairs of the school system in a responsible and dedicated manner.

Respectfully submitted,



Rita Hocog Inos, Ed. D.
Commissioner



Louise Concepcion
Deputy Commissioner
Administration



Richard Waldo, CPA
Director of Finance

PUBLIC SCHOOL SYSTEM

PRINCIPAL OFFICIALS

Year ended September 30, 2002

BOARD OF EDUCATION

	<u>Position</u>	<u>Term Expires</u>
Mr. Herman T. Guerrero	Chairperson	2006
Mr. Roman C. Benavent	Vice Chairman	2004
Ms. Esther S. Fleming	Secretary/Treasurer	2004
Ms. Marja Lee Taitano	Member	2004
Ms. Frances Diaz	Member	2006
Mr. Scott Norman	Member	2006

OFFICERS OF THE SCHOOL SYSTEM

Rita Hocog Inos, Ed. D.	Commissioner of Education
Ms. Louise S. Concepcion	Deputy Commissioner for Administration
Ms. Rita A. Sablan	Acting Associate Commissioner for Secondary Education
Mr. Richard Waldo	Director of Finance
Mr. William P. Matson	Federal Programs Officer
Mr. Charley Kenty	Human Resources Officer

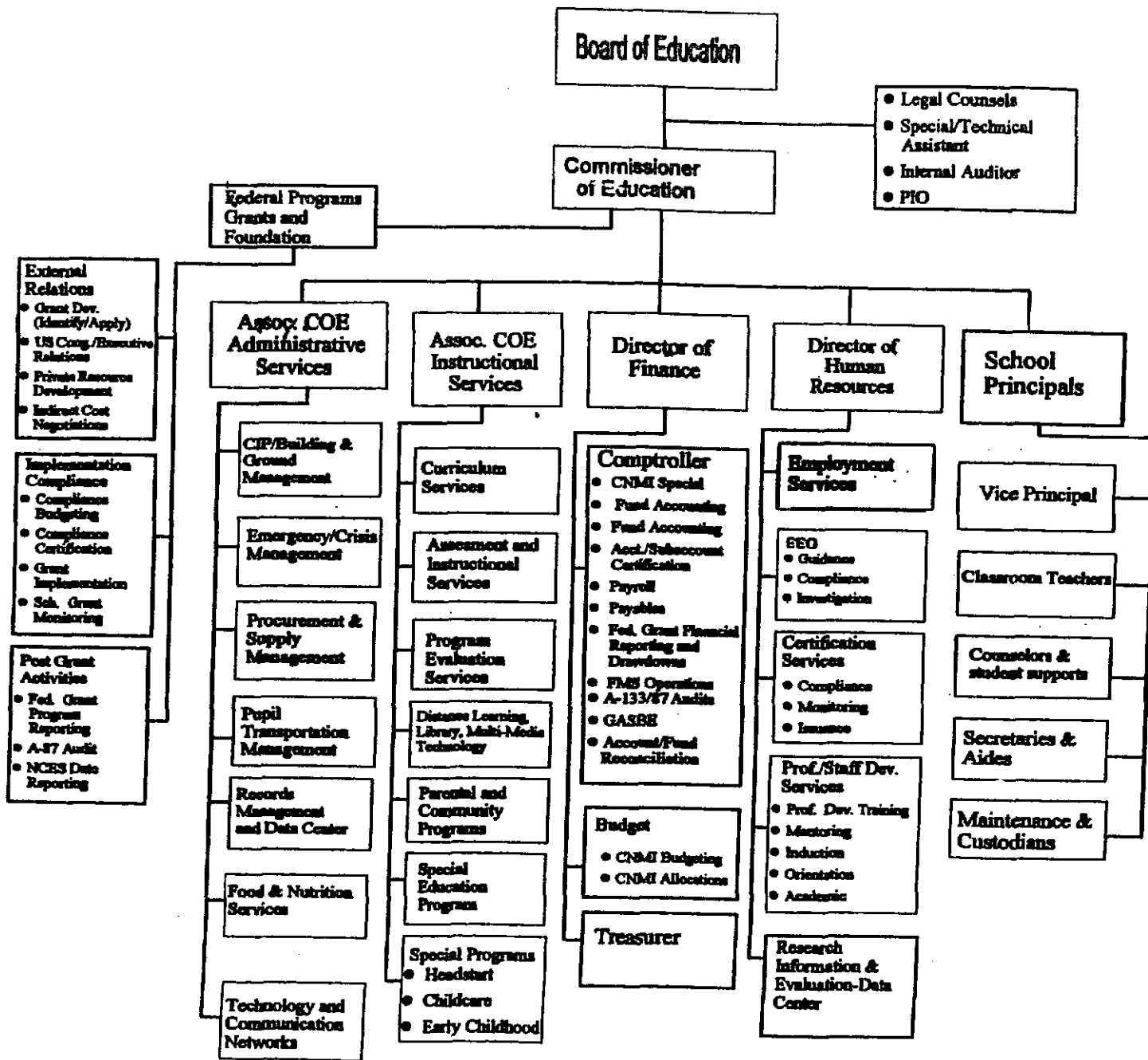
OFFICIALS ISSUING REPORT

Mr. Richard Waldo, CPA	Director of Finance
Ms. Lori Grizzard	Acting Controller

DIVISION ISSUING REPORT

Finance

Public School System Organizational Chart



Approved By:

Herman T. Guerrero
 Herman T. Guerrero
 Chair, Board of Education

XII

Date:

14 Feb 2002

PUBLIC SCHOOL SYSTEM

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

Year Ended September 30, 2002

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

The Board of Education
Public School System

I have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregating fund information of the Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2002, and for the year then ended. These financial statements are the responsibility of PSS' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type activities, each major fund, and the aggregating fund information of PSS as of September 30, 2002, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to financial statements, the Board adopted Governmental Accounting Standards Board (GASB) Statement 34 on October 1, 2001.

The *Management's Discussion and Analysis (MD & A)* on pages 3 to 9 is not a required part of the basic financial statements but is supplementary information required by the GASB. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PSS' basic financial statements. The introductory section and the combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining individual non-major fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

In accordance with *Government Auditing Standards*, I have also issued a report dated July 11, 2003 on my consideration of the PSS' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

J Scott Magliari & Company
Commonwealth of the Northern Mariana Islands
July 11, 2003

Management's Discussion and Analysis

This section of the CNMI Public School System financial report represents our discussion and analysis of the financial performance of the Public School System for the year ended September 30, 2002. This information should be read in conjunction with the audited financial statements included in this report (pages 10 to 13).

Financial Highlights

- . The Board enjoyed an increased enrollment of 518 students (or 5%) from the previous year.
- . The assets of the school system exceeded its liabilities at the close of the fiscal year by \$5,346,961.
- . The government's total net assets increased by \$1,818,180 primarily due to the increased net assets of the General Fund.
- . As of the close of the current fiscal year, the school system's governmental funds reported combined ending fund balances of \$23,233,103. Approximately 75.72 % of this total amount, or \$17,591,416, is available for spending at the government's discretion.

Overview of the Financial Statements

The annual report of the Public School System consists of three components: They are as follows: *Management's Discussion and Analysis and Basic Financial Statements* and *Required Supplemental Section*.

The basic financial statements include two types of statements that present different views of the School System's finances. The first are the government-wide (also called district-wide) statements. The district-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities. The statement of net assets includes all of the CNMI Public School System assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the school system's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The statement of activities summarizes the school system's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second type of statement included in the basic financial statements are the fund financial statements, which are presented for the school system's governmental funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The fund financial statements focus on the school system's most significant funds. Because a different basis of accounting is used in the district-wide statements, reconciliation from the governmental fund financial statements to the district-wide statements is required. The district-wide statements provide information about the school system as an economic unit, while the fund financial statements provide information on the financial resources of the school system's major funds.

The two district-wide statements report the school system's net assets and how they have changed.

Net assets - the difference between the school system's assets and liabilities is one way to measure the district's financial health or position.

- Over time, increases or decreases in the school system's net assets are an indicator of whether its financial position is improving or deteriorating.

The district's activities are divided into two categories in the district-wide statements:

- Governmental activities: Most of the school system's basic services are included here, such as regular and special education, transportation, and administration. Local funding and federal aid finance most of these activities.
- Business-type activities: This accounts for the food service program within the school system.

Fund Financial Statements

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

The Public Schools System Board of Education has two types of funds:

Governmental funds: Most of the public school system's basic services are included in the governmental funds, which generally focus on two things - how cash and other assets can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements, in the form of a reconciliation, explains the relationship (or differences) between them.

Proprietary Funds: The Food and Nutrition Assistance Program granted by the United States Department of Agriculture is reported in the proprietary funds. The proprietary fund statement is reported on the same basis of accounting as the government-wide statements - full accrual. The Public Schools System has two proprietary funds - all enterprise funds - the Federal Program Income Fund and the Food Nutrition Assistance Program of the Special Revenue Fund.

Financial Analysis of the School System as a Whole

Net assets is an indicator of the fiscal health of the School System. Assets for governmental activities exceeded liabilities by approximately \$88,857,114 as of September 30, 2002. The largest component of net assets is invested in capital assets disclosing an amount of \$74,998,775 at fiscal year-end, which comprises 84% of the total net assets.

Following is a summary of the Statement of Net Assets:

Condensed Statement of Net Assets
September 30, 2002

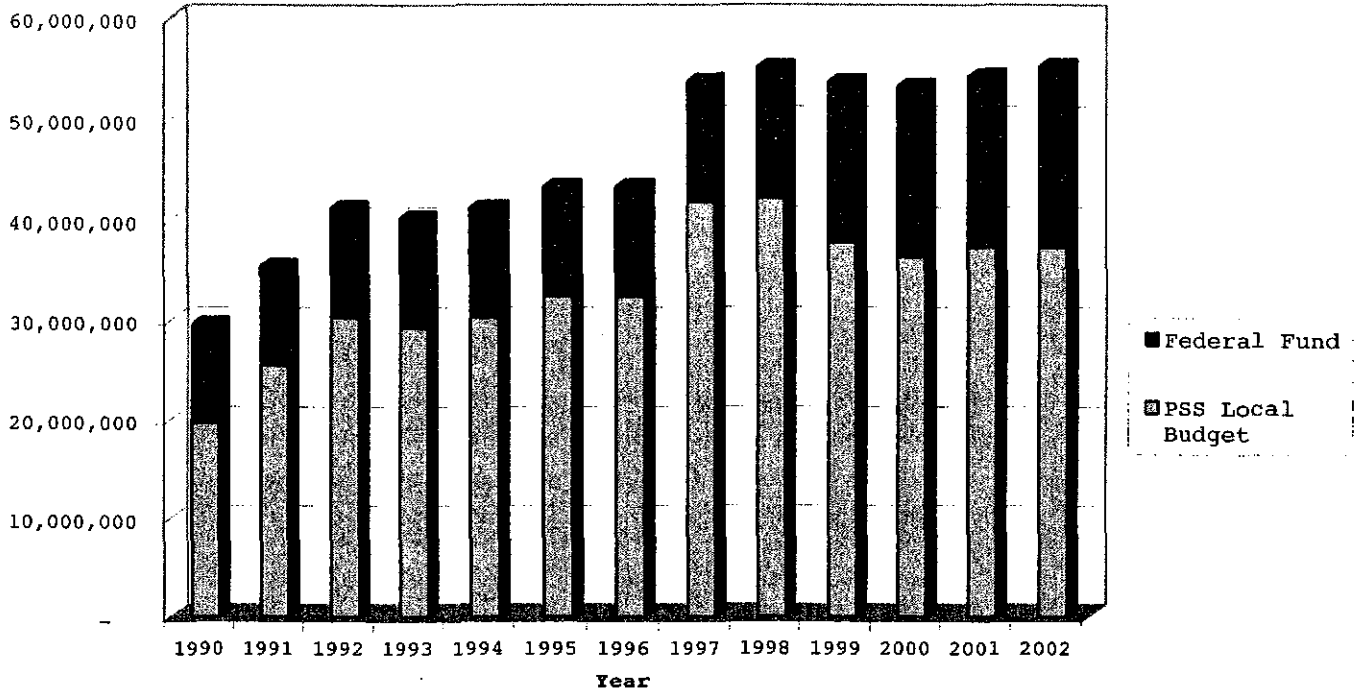
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	8,385,435	172,233	8,557,668
Amount to be provided for the retirement of long-term debt	3,733,077	-	3,733,077
Capital improvement projects in progress	8,538,825	-	8,538,825
Capital assets, net of accumulated Depreciation	<u>74,998,775</u>	<u>-</u>	<u>74,998,775</u>
TOTAL ASSETS	<u>\$ 95,656,112</u>	<u>\$ 172,233</u>	<u>\$ 95,828,345</u>
Current and other liabilities	3,065,921	179,562	3,245,483
Accrued leave liability	<u>3,733,077</u>	<u>-</u>	<u>3,733,077</u>
TOTAL LIABILITIES	<u>6,798,998</u>	<u>179,562</u>	<u>6,978,560</u>
Investment in capital assets	74,998,775		74,998,775
Restricted for:			-
Encumbrances	4,784,396	-	4,784,396
Capital improvement projects in progress	8,511,378		8,511,378
Unrestricted	<u>562,565</u>	<u>(7,329)</u>	<u>555,236</u>
TOTAL NET ASSETS	<u>88,857,114</u>	<u>(7,329)</u>	<u>88,849,785</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 95,656,112</u>	<u>\$ 172,233</u>	<u>\$ 95,828,345</u>

As this is the first year of implementation under the GASB 34 reporting model, prior year data is not available to provide a more complete analysis. In subsequent years, this discussion will include prior year data and a more detailed analysis of the changes in assets, liabilities and net assets from one year to the next.

Federal and Local Budget Review

Exhibit I

Total Local & Federal Funding



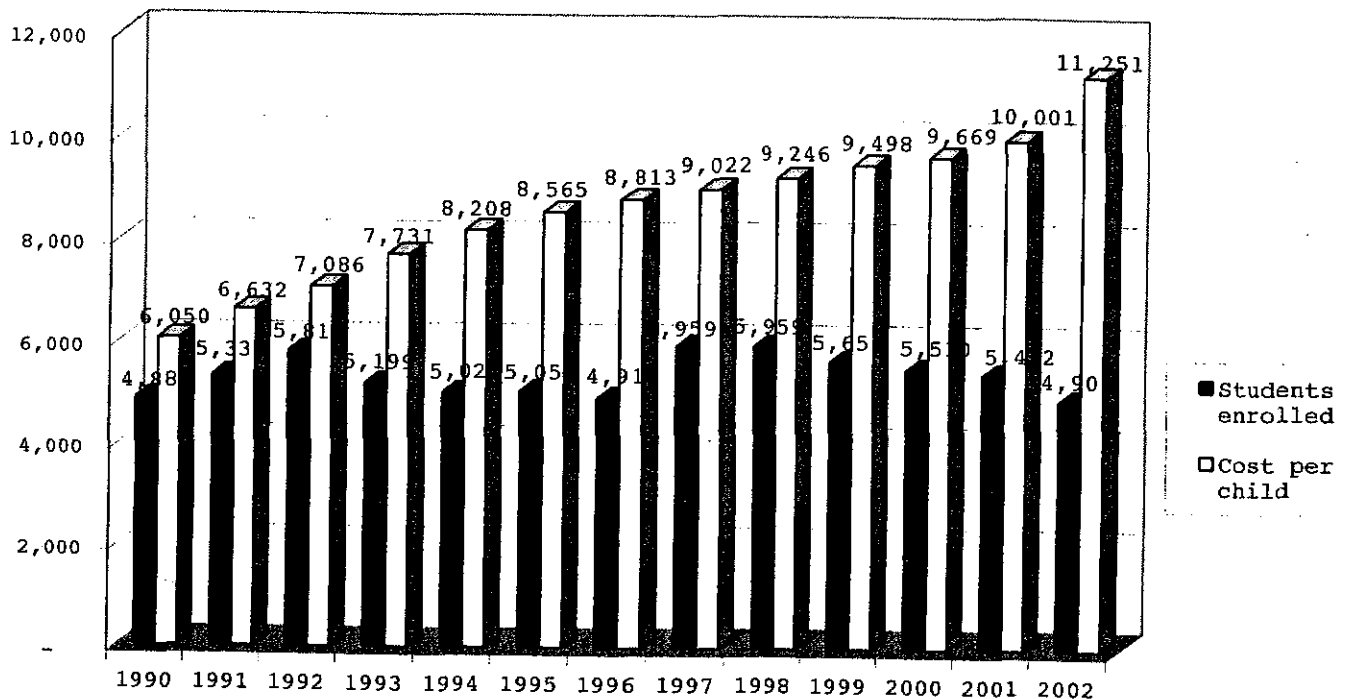
As can be seen by a review of the graphs presented above, Federal funding increased from \$13 million in 1998 to \$18 million in 2002. The Local funds dropped from \$42 million in 1998 to \$37 million in 2002. Total funding Federal and Local combined has remained flat for four years while the student growth jumped from 9,246 students in 1998 to 10,522 students in 2002. This represents a 14% increase in student enrollment. This was accomplished by cutting back employees in the Central Office.

<u>Year</u>	<u>Total Funding</u>	<u>Federal Funding</u>		<u>Local Funding</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1990	\$29,555,215	\$10,000,000	34%	\$19,555,215	66%
1991	35,407,990	10,000,000	28%	25,407,990	72%
1992	41,214,621	11,000,000	27%	30,214,621	73%
1993	40,194,355	11,000,000	27%	29,194,355	73%
1994	41,214,621	11,000,000	27%	30,214,621	73%
1995	43,320,500	11,000,000	25%	32,320,500	75%
1996	43,320,500	11,000,000	25%	32,320,500	75%
1997	53,763,700	12,000,000	22%	41,763,700	78%
1998	55,100,000	13,000,000	24%	42,100,000	76%
1999	53,730,342	16,000,000	30%	37,730,342	70%
2000	53,280,342	17,000,000	32%	36,280,342	68%
2001	54,230,342	17,000,000	31%	37,230,342	69%
2002	55,230,342	18,000,000	33%	37,230,342	67%

The contribution of Local funding to the total funding has varied between 66% to 75% for the 12 year period from 1990 to 2002. The CNMI government has performed very well in the maintenance of Local funding for education in the difficult economic times from 1998 to 2002.

Exhibit II

COST PER CHILD



PSS has actually lowered its education cost from \$5,959 per child in 1997 to \$4,909 per child in 2002. The cost per child in 1990 was \$4,885 compared to \$4,909 in 2002. This cost per child was lowered by elimination of support staff while the number of teachers and teacher aides increased as well as their salaries.

Total governmental activities generated revenues of \$12.8 million while expenses in this category totaled \$12.3 million. The increase in net assets stands at \$.5 million. Business-type activities generated revenue of \$4.1 million and had expenses of \$4.08 million. Net assets increase in the business-type activities was \$.02 million.

Most of PSS Capital Assets are paid for with the exception of the schools financed in the prior five years. These schools are Dandan Elementary, Kagman Elementary and High Schools, Sinapalo Elementary, ChaCha Middle School, Saipan Southern High School.

These schools received their budgets from existing schools. Many of the teachers were transferred in from other schools. However, all the general and administration costs of these schools were financed by reducing Central Office and other existing schools budgets. Some of the teacher costs of these new schools were financed by reallocating Federal funds. Under the new

budget rules passed by the legislature, the Commissioner of Education is responsible spending authority. This flexibility has enabled the Public School System to respond to any school's needs without the permission of the CNMI government. The emergency repairs and maintenance of all schools is handled by the Commissioner's Office. An urgent request for a new teacher is handled by Local transfer from another school, or by requesting the Federal Programs Office to provide the necessary funds.

The Public School System has increased its requirements for its teaching staff. Except for a few vocational teachers, all teachers have Bachelor degrees. PSS is working with Northern Marianas College to provide specific endorsements for all teachers teaching out of their field. In approximately five years, all teachers in the system will be teaching in their specialized field.

With the passage of the "No Child Left Behind" act (the largest educational act ever passed in the USA), the Public School System will respond by continuously upgrading all its staff and facilities and equipment.

The Headstart Program of the CNMI has been generously supported by Local funds. New sites for Headstart Centers are donated by the CNMI government. The majority of the operating and training costs have been supplied by Federal funds. Headstart has been upgrading its support and teaching staff to comply with Federal policies.

The Special Education costs are primarily funded with Federal funds, however Local funds have been provided for teachers and teacher aides. The Special Education Program is solvent, and provides the CNMI with the necessary teachers and in addition provides the program with highly trained specialists such as psychologists, audiologist, speech therapist, occupational and physical therapists. Unfortunately, the retention rate for the related specialists has not been favorable. This is due to the nationwide shortage of the various specialists. The Public School System has requested the legislature to allow PSS to hire non-US citizens to fill these positions.

Debt Outstanding

The Public School System does not record the debt associated with the Bond on its balance sheet therefore, PSS has no Long-term debt, and it relies on the CNMI government to finance any major Capital Expenditures.

Economic Factors

The Board anticipates an increased enrollment over the next several years and will need continued increases in classroom space, teachers, and equipment. Local funding is a major source of income for the Board therefore the CNMI economic outlook directly affects that of the school system. The Commonwealth two major industries, textiles and tourism have been facing major challenges since 1998. The CNMI government has maintained and exceeded its constitutional requirement of 15% of its total budget. It is impossible to predict the economic outlook of the CNMI, but the Public School System has weathered a particularly bad storm over the last five years without the massive layoffs and deficits of many of the states in the Mainland. It has significantly increased its physical plant in spite of the poor economy. It has continued to teach more students with the same total payroll. Granted the Federal funds have helped. However, the local funds provide \$33 million

and the Federal provides approximately \$5 million. The Board, the Commissioner and the staff are aware of the economic pitfalls, and are confident they will be able to navigate through these pitfalls for the foreseeable future.

All of these factors, as well as the Commonwealth's budget difficulties, were considered in preparing the Board's budget for the 2003 fiscal year. The Board's budget was created to maintain status quo by cutting expenditures and reducing or eliminating services, while attempting to protect core instructional programs and the personnel associated with them. The Board took a proactive approach to the negative economic factors in the last quarter of the 2002 fiscal year by freezing certain groups of expenditures, such as travel and non-teaching personnel.

Requests for Information

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

PUBLIC SCHOOL SYSTEM

Statement of Net Assets
September 30, 2002

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,555,807	\$ -	\$ 2,555,807
Receivables from CNMI	4,275,497	-	4,275,497
Receivables from Federal	988,066	172,233	1,160,299
Other receivables	145,290	-	145,290
Advances, net	425,935	-	425,935
Due from other funds	2,575,767	-	2,575,767
Total current assets	10,966,362	172,233	11,138,595
Noncurrent assets:			
Capital improvement projects in progress	8,538,825	-	8,538,825
Capital assets, net of accumulated depreciation	74,998,775	-	74,998,775
TOTAL ASSETS	\$ 94,503,962	\$ 172,233	\$ 94,676,195
LIABILITIES			
Current liabilities:			
Accrued payroll and others	\$ 2,832,905	\$ 4,085	\$ 2,836,990
Vouchers payable	75,023	-	75,023
Deferred revenue	130,833	172,233	303,066
Due to other funds	2,572,523	3,244	2,575,767
Due to other agencies	35,564	-	35,564
Total current liabilities	5,646,848	179,562	5,826,410
Noncurrent liabilities:			
Accrued leave liability	3,733,077	-	3,733,077
TOTAL LIABILITIES	9,379,925	179,562	9,559,487
NET ASSETS			
Investment in capital assets	74,998,775	-	74,998,775
Restricted for:			
Encumbrances	4,784,396	-	4,784,396
Capital improvement projects in progress	8,511,378	-	8,511,378
Unrestricted	(3,170,512)	(7,329)	(3,177,841)
TOTAL NET ASSETS	85,124,037	(7,329)	85,116,708
TOTAL LIABILITIES & NET ASSETS	\$ 94,503,962	\$ 172,233	\$ 94,676,195

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Activities
For the Year Ended September 30, 2002

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Government Activities	Business Type Activities	Total
Governmental activities:						
Instruction:						
Regular	\$ 27,088,692	\$ -	\$ -	\$ (27,088,692)		\$ (27,088,692)
Special education	7,087,927	-	3,899,296	(3,188,631)		(3,188,631)
Co-curricular	725,301	-	255,718	(469,583)		(469,583)
Student services	4,445,784	-	4,445,784	-		-
Total instruction	39,347,704	-	8,600,798	(30,746,906)		(30,746,906)
Support services:						
General administration	2,104,993	-	1,575,182	(529,811)		(529,811)
School administration	4,820,095	-	690,948	(4,129,147)		(4,129,147)
Other support	1,520,305	-	-	(1,520,305)		(1,520,305)
Community	1,842,867	-	1,908,291	65,424		65,424
Individual programs	899,792	-	-	(899,792)		(899,792)
Depreciation - unallocated	1,142,118	-	-	(1,142,118)		(1,142,118)
Total support services	12,330,170	-	4,174,421	(8,155,749)		(8,155,749)
Total governmental activities	51,677,874	-	12,775,219	(38,902,655)		(38,902,655)
Business-type activities:						
Food services						
Total business-type activities	4,082,732	60,685	4,073,537	-	51,490	51,490
Total school district	\$ 55,760,606	\$ 60,685	\$ 16,848,756	(38,902,655)	51,490	(38,851,165)
Unrestricted CNMI appropriations - ope				36,830,342	-	36,830,342
Miscellaneous, unrestricted				943,255	-	943,255
Subtotal, general revenues				37,773,597	-	37,773,597
Changes in Net Assets				(1,129,058)	51,490	(1,077,568)
Net assets - beginning				86,253,095	(58,819)	86,194,276
Net assets - ending				\$ 85,124,037	\$ (7,329)	\$ 85,116,708

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Balance Sheet
Governmental Funds
September 31, 2002

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 2,555,807	\$ -	\$ -	\$ 2,555,807
Receivables from CNMI	4,260,758	-	14,739	4,275,497
Receivables from Federal	-	-	988,066	988,066
Other receivables	145,212	-	78	145,290
Advances, net	195,762	-	230,173	425,935
Due from other funds	504,414	-	2,071,353	2,575,767
	<u>7,661,953</u>	<u>-</u>	<u>3,304,409</u>	<u>10,966,362</u>
Capital improvement projects in progress	-	8,538,825	-	8,538,825
	<u>-</u>	<u>8,538,825</u>	<u>-</u>	<u>8,538,825</u>
TOTAL ASSETS	\$ 7,661,953	\$ 8,538,825	\$ 3,304,409	\$ 19,505,187
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued payroll and others	\$ 2,832,905	\$ -	\$ -	\$ 2,832,905
Vouchers payable	-	27,447	47,576	75,023
Deferred revenues	67,025	-	63,808	130,833
Due to other funds	2,071,353	-	501,170	2,572,523
Due to other agencies	35,564	-	-	35,564
	<u>5,006,847</u>	<u>27,447</u>	<u>612,554</u>	<u>5,646,848</u>
TOTAL LIABILITIES	5,006,847	27,447	612,554	5,646,848
FUND BALANCES (DEFICIT):				
Reserved for:				
Encumbrances	950,322	-	3,661,841	4,612,163
Capital Improvement projects	-	8,511,378	-	8,511,378
Unreserved:				
Undesignated	1,704,784	-	(969,986)	734,798
	<u>2,655,106</u>	<u>8,511,378</u>	<u>2,691,855</u>	<u>13,858,339</u>
TOTAL FUND BALANCES	2,655,106	8,511,378	2,691,855	13,858,339
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,661,953	\$ 8,538,825	\$ 3,304,409	

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

The cost of capital assets is 79,645,635
Accumulated depreciation is 4,646,860 74,998,775

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

Long-term at year-end pertains to:
Annual leave liability (3,733,077)

Total net assets - governmental activities \$ 85,124,037

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2002

	General Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
REVENUES:				
Federal	\$ -	\$ -	\$ 11,508,126	\$ 11,508,126
Other Local	943,255	-	1,257,900	2,201,155
TOTAL REVENUES	<u>943,255</u>	<u>-</u>	<u>12,766,026</u>	<u>13,709,281</u>
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	27,088,692	-	-	27,088,692
Special	3,188,631	-	3,899,296	7,087,927
Co-curricular	469,583	-	255,718	725,301
Student services	-	-	4,445,784	4,445,784
	<u>30,746,906</u>	<u>-</u>	<u>8,600,798</u>	<u>39,347,704</u>
Supporting services:				
General administration	763,906	-	1,331,892	2,095,798
School administration	4,129,147	-	690,948	4,820,095
Individual programs	899,792	-	-	899,792
Other	1,520,307	-	-	1,520,307
	<u>7,313,152</u>	<u>-</u>	<u>2,022,840</u>	<u>9,335,992</u>
Community services	-	-	1,842,867	1,842,867
Capital Outlay:				
Equipment & Vehicles	-	840,195	-	840,195
TOTAL EXPENDITURES	<u>38,060,058</u>	<u>840,195</u>	<u>12,466,505</u>	<u>51,366,758</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,116,803)	(840,195)	299,521	(37,657,477)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	36,830,342	-	-	36,830,342
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(286,461)	(840,195)	299,521	(827,135)
DECREASE IN RESERVE FOR ENCUMBRANCES	16,020	-	222,206	238,226
FUND BALANCE, beginning of year	2,925,547	9,351,573	2,170,128	14,447,248
FUND BALANCE, end of year	\$ <u>2,655,106</u>	\$ <u>8,511,378</u>	\$ <u>2,691,855</u>	\$ <u>13,858,339</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
And Changes in Fund Balance with the District-wide Statement of Activities
For the Year Ended September 30, 2002

Total net change in fund balances - governmental funds \$ (827,135)

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

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

Capital outlays	\$ 840,195	
Depreciation expense	<u>(1,142,118)</u>	<u>(301,923)</u>

Changes in net assets of governmental activities \$ (1,129,058)

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenditures
and Changes in Fund Balance
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2002

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES	\$ -	\$ 943,255	\$ (943,255)
Total revenues	<u>-</u>	<u>943,255</u>	<u>(943,255)</u>
EXPENDITURES:			
Current operations:			
Instructional programs:			
Regular	25,638,715	27,088,692	(1,449,977)
Special	3,029,572	3,188,631	(159,059)
Co-curricular	452,260	469,583	(17,323)
Supporting services:			
General administration	826,706	763,906	62,800
School administration	5,658,176	4,129,147	1,529,029
Individual programs	591,544	899,792	(308,248)
Other	956,084	1,520,307	(564,223)
Total expenditures	<u>37,153,057</u>	<u>38,060,058</u>	<u>(907,001)</u>
Excess (deficiency) of revenues over expenditures	(37,153,057)	(37,116,803)	(36,254)
Other financing sources (uses):			
Operating transfers in	<u>37,153,057</u>	<u>36,830,342</u>	<u>322,715</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(286,461)	286,461
Other changes in fund balance:			
Reserve for encumbrances	-	16,020	(16,020)
Reserve for annual leave liability			
FUND BALANCE, beginning of year	<u>-</u>	<u>6,658,624</u>	<u>(6,658,624)</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ 6,388,183</u>	<u>\$ (6,388,183)</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended September 30, 2002

(With Comparative Actual Amounts for the fiscal year ended September 30, 2001)

	2002		Variance Favorable (Unfavorable)	2001
	Budget	Actual		Actual
REVENUES	\$ -	\$ 943,255	\$ (943,255)	\$ 2,846
Total revenues	-	943,255	(943,255)	2,846
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	25,638,715	27,088,692	(1,449,977)	27,320,365
Special	3,029,572	3,188,631	(159,059)	2,885,930
Co-curricular	452,260	469,583	(17,323)	420,325
Supporting services:				
General administration	826,706	763,906	62,800	-
School administration	5,658,176	4,129,147	1,529,029	5,629,885
Individual programs	591,544	899,792	(308,248)	716,736
Other	956,084	1,520,307	(564,223)	561,654
Total expenditures	37,153,057	38,060,058	(907,001)	37,534,895
Excess (deficiency) of revenues over expenditures	(37,153,057)	(37,116,803)	(36,254)	(37,532,049)
Other financing sources (uses):				
Operating transfers in	37,153,057	36,830,342	322,715	37,384,806
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(286,461)	286,461	(147,243)
Other changes in fund balance:				
Reserve for encumbrances	-	16,020	(16,020)	711,498
FUND BALANCE, beginning of year	-	6,658,624	(6,658,624)	6,094,369
FUND BALANCE, end of year	\$ -	\$ 6,388,183	\$ (6,388,183)	\$ 6,658,624

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Net Assets
Enterprise Funds - Food and Nutrition Program
September 30, 2002

ASSETS

Current assets:

Due from grantor agencies	\$	172,233
Due from other governments		<u>-</u>

Total current assets		<u>172,233</u>
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TOTAL ASSETS	\$	<u>172,233</u>
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LIABILITIES

Current liabilities:

Accrued payroll and others	\$	4,085
Deferred Revenue		172,233
Due to other funds		<u>3,244</u>

Total current liabilities		<u>179,562</u>
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TOTAL LIABILITIES		<u>179,562</u>
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NET ASSETS

Unrestricted		<u>(7,329)</u>
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TOTAL LIABILITIES AND NET ASSETS	\$	<u>172,233</u>
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See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Enterprise Funds - Food and Nutrition Program
 For the Year Ended September 30, 2002

OPERATING REVENUES	
Food sales	\$ -
TOTAL OPERATING REVENUES	<u>-</u>
OPERATING EXPENSES:	
Business supporting services:	
Salaries	339,778
Supplies	252,962
Contractual services	<u>3,343,769</u>
	<u>3,936,509</u>
Other supporting services:	
Employee benefits	90,657
Indirect costs	<u>55,566</u>
	<u>146,223</u>
TOTAL OPERATING EXPENSES	<u>4,082,732</u>
OPERATING LOSS	<u>(4,082,732)</u>
NON-OPERATING REVENUES:	
Federal regular USDA grants	4,073,537
Miscellaneous	<u>60,685</u>
TOTAL NON-OPERATING REVENUES	<u>4,134,222</u>
NET INCOME	51,490
NET ASSETS, beginning of year	<u>(58,819)</u>
NET ASSETS, end of year	<u>\$ (7,329)</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Cash flows
Enterprise Funds - Food and Nutrition Program
For the Year Ended September 30, 2002

Cash flows from operating activities:	
Payments to employees for services	\$ (339,778)
Payments to suppliers for goods and services	(3,596,731)
Payments for other operating expenses	<u>(197,713)</u>
Net cash used in operating activities	<u>(4,134,222)</u>
Cash flows from non-capital financing activities:	
Federal regular USDA grants	<u>4,073,537</u>
Net cash provided by non-capital financing activities	<u>4,073,537</u>
Cash flows from investing activities:	
Interest income	<u>60,685</u>
Net cash provided by investing activities	<u>60,685</u>
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>

See accompanying notes to financial statements

PUBLIC SCHOOL SYSTEM

Combining Balance Sheet - Non-major Funds
September 30, 2002

<u>ASSETS</u>	Federal Grants Fund	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	Total
Accounts receivable	\$ -	\$ -	\$ 14,739	\$ -	\$ 14,739
Other receivables	230,173	78	-	-	230,251
Due from grantor agencies	918,839	17,064	-	52,163	988,066
Due from other funds	-	530,833	247,588	1,292,932	2,071,353
	<u>\$ 1,149,012</u>	<u>\$ 547,975</u>	<u>\$ 262,327</u>	<u>\$ 1,345,095</u>	<u>\$ 3,304,409</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Vouchers payable	\$ 47,576	\$ -	\$ -	\$ -	\$ 47,576
Deferred Revenue	-	63,808	-	-	63,808
Due to other funds	501,170	-	-	-	501,170
Total liabilities	<u>548,746</u>	<u>63,808</u>	<u>-</u>	<u>-</u>	<u>612,554</u>
Fund balances (deficit):					
Reserved for encumbrances	3,661,841	-	-	-	3,661,841
Unreserved	(3,061,575)	484,167	262,327	1,345,095	(969,986)
Total fund balances	<u>600,266</u>	<u>484,167</u>	<u>262,327</u>	<u>1,345,095</u>	<u>2,691,855</u>
	<u>\$ 1,149,012</u>	<u>\$ 547,975</u>	<u>\$ 262,327</u>	<u>\$ 1,345,095</u>	<u>\$ 3,304,409</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Non-major funds
 For the Year Ended September 30, 2002

	Federal Grants Fund	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	Total Non-major funds
REVENUES:					
Federal	\$ 11,517,321	\$ -	\$ -	\$ -	\$ 11,517,321
Other Local	-	479,159	-	778,741	1,257,900
TOTAL REVENUES	<u>11,517,321</u>	<u>479,159</u>	<u>-</u>	<u>778,741</u>	<u>12,775,221</u>
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	-	-	-	-	-
Special	3,899,296	-	-	-	3,899,296
Co-curricular	255,718	-	-	-	255,718
Student services	4,445,784	-	-	-	4,445,784
	<u>8,600,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,600,798</u>
Supporting services:					
General administration	317,282	428,175	-	586,435	1,331,892
School administration	690,948	-	-	-	690,948
Individual programs	-	-	-	-	-
Other	-	-	-	-	-
	<u>1,008,230</u>	<u>428,175</u>	<u>-</u>	<u>586,435</u>	<u>2,022,840</u>
Community services	1,842,867	-	-	-	1,842,867
Capital Outlay:					
Equipment & Vehicles	-	-	-	-	-
TOTAL EXPENDITURES	<u>11,451,895</u>	<u>428,175</u>	<u>-</u>	<u>586,435</u>	<u>12,466,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	65,426	50,984	-	192,306	308,716
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	65,426	50,984	-	192,306	308,716
DECREASE IN RESERVE FOR ENCUMBRANCES	222,206	-	-	-	222,206
FUND BALANCE, beginning of year	<u>312,634</u>	<u>433,183</u>	<u>262,327</u>	<u>1,152,789</u>	<u>2,160,933</u>
FUND BALANCE, end of year	<u>\$ 600,266</u>	<u>\$ 484,167</u>	<u>\$ 262,327</u>	<u>\$ 1,345,095</u>	<u>\$ 2,691,855</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies

The Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was established as a public non-profit corporation by the CNMI Public Law 6-10 (The Education Act of 1988), effective October 25, 1988, and began operations on October 1, 1988.

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

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 1. A Management Discussion and Analysis (MD&A) section providing an analysis of the PSS' overall financial position and results of operations.
 2. Financial statements prepared using full accrual accounting for all of the School System's activities, including infrastructure.
- A change in the fund financial statements to focus on the major funds.

A. Reporting Entity

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

Pursuant to CNMI Constitutional Amendment 38, the public education school system is guaranteed an annual budget of not less than fifteen percent of the general revenues of the CNMI. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for reappropriation.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Assets and Statement of Activities present information about the PSS. These statements include the overall financial activities of the school system. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

These statements distinguish between the governmental and business-type activities of the PSS. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions.

Business type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the PSS and for each function of the PSS' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

PSS uses funds and an account group to report on its financial position and the results of its operations in conformity with standards of fund basis accounting for local governments promulgated by the Governmental Accounting Standards Board (GASB).

Fund Financial Statements: A fund is defined as an independent fiscal and accounting entity, with a self-balancing sets of accounts, recording cash and/or other financial resources together with all related liabilities and residual equities and balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. The fund financial statements provide information about the PSS funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

PSS reports the following major governmental funds:

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

Capital Project Fund - Accounts for financial resources to be used for the acquisition or construction of all major governmental projects.

Non-major Funds - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. This was previously reported as Special Revenue Funds.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

The Commissioner of Education has directed that indirect costs of the general fund expended for federal grant activity be accounted for in non-major fund and be used for particular programs and activities.

The PSS reports the following major enterprise fund:

Food and Nutrition Assistance Program – The Food and Nutrition Program is used to account for the food service program within the school system.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements

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

Government Fund Financial Statements

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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

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

All governmental and business-type activities and enterprise funds of the Board follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The PSS has implemented GASB Statement No. 34, *Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the annual appropriation act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds.

E. Assets, Liabilities, and Fund Equity

1. Cash and cash equivalents

The PSS pools money from several funds to facilitate disbursement and investments to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

2. Capital Assets

PSS' capital assets are recorded at original cost. Donated assets are recorded at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

2. Capital Assets, Continued

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

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

Buildings	20-50 years
Others	8 years

3. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

4. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2002 is \$3,733,077. No expenditure is reported for these amounts. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

5. Net Assets/Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of federal agencies, or imposed by law through state statute.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

5. Net Assets/Fund Balances, Continued

In the governmental fund financial statements, reservations or restrictions of fund balance represents amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.

Unreserved - portion of total fund balance available for appropriation, which is uncommitted at year-end.

(2) Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$ 71,265,698 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column) less accumulated depreciation	\$ 79,645,635 <u>(4,646,860)</u>
Net capital assets	74,998,775
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements: Annual leave liability	 <u>(3,733,077)</u>
Total adjustment	 <u>\$ 71,265,698</u>

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(2) Reconciliation of Government-wide and Fund Financial Statements,
Continued

B. Explanation of certain differences between the governmental fund
statement of revenues, expenditures, and changes in fund balance and the
government-wide statement of activities

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The total adjustment of \$301,923 pertains to the following:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the Statement of activities.	\$ 840,195
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	<u>(1,142,118)</u>
Total adjustments	<u><u>(\$ 301,923)</u></u>

(3) Detail Notes on all Funds

Cash

For purposes of the balance sheets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired. As of the total amounts deposited with FDIC banks of approximately \$2,555,807, \$663,893 is subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(3) Detail Notes on all Funds, Continued

Accounts Receivable

Accounts receivable are amounts due primarily from the CNMI government and from Federal grantor agencies.

Receivables at the government-wide level at September 30, 2002, were as follows:

	<u>Due from other Funds (internal Balances)</u>	<u>Accounts Receivable</u>	<u>Other</u>
Governmental activities:			
General Fund			
Other governmental activities	\$ 2,575,767	\$ 4,260,758	\$ 1,002,805
	<u>8,538,825</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,114,592</u>	<u>\$ 4,260,758</u>	<u>\$ 1,002,805</u>
Business-type activities:			
School Food services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,233</u>

Travel Advances

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

Travel advances are reported net of an allowance for doubtful accounts of \$119,219 at September 30, 2002.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activity for the year ended September 30, 2002, was as follows:

<u>Governmental activities</u>	<u>Beginning balances</u>	<u>Increases</u>	<u>Retirement</u>	<u>Ending balances</u>
Capital asset not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated:	<u>36,647,850</u>	-	-	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings	14,229,050	25,138,234	-	39,367,284
Others	<u>2,790,306</u>	<u>840,195</u>	-	<u>3,630,501</u>
Total capital assets being depreciated	<u>17,019,356</u>	<u>25,978,429</u>	-	<u>42,997,785</u>
Less accumulated depreciation for:				
Buildings	2,561,229	787,346	-	3,348,575
Others	<u>943,513</u>	<u>354,772</u>	-	<u>1,298,285</u>
Total accumulated depreciation	<u>3,504,742</u>	<u>1,142,118</u>	-	<u>4,646,860</u>
Total capital assets being depreciated, net	<u>13,514,614</u>			<u>38,350,925</u>
Governmental activity capital assets, net	<u>\$50,162,464</u>			<u>\$74,998,775</u>

Retirement Plan

PSS contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI. NMIRF provides retirement, security and other benefits to employees of the CNMI government and CNMI agencies, instrumentalities and public corporations, and to their spouses and dependents. Benefits are based on the average annual salary over the term of credited service. Generally, benefits vest after three years of credited service. For early retirement, after 10 years of vesting service and members is at least 52 years of age. Members, who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

As a result of the Fund's actuarial valuation report (as of October 1, 2000), it has been determined that for the year ended September 30, 2001, the funding requirement for employer is 34.6% of covered payroll, and funding requirements for employees are 6.5% and 9.0% of covered payroll for Class I and Class II members, respectively.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

3. Detail Notes on all Funds, Continued

Retirement Plan, Continued

The funding requirement is calculated as that percentage of total payroll, which is necessary to accumulate sufficient assets to pay benefits when due. The Fund uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 1980. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

The Fund utilizes the actuarial cost method termed "entry age normal cost" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 5% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

Required contributions and the percentage actually contributed for the current year and for the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Contributed</u>
9/30/02	\$ 6,090,507	100%
9/30/01	7,261,530	100%
9/30/00	7,248,747	100%

Medical and life insurance benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the NMIRF. PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and retired CNMI government employees who retire as a result of length of service, disability or age, as well as their dependents. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll or pension benefit withholdings.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

3. Detail Notes on all Funds, Continued

Grants

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

Transfer in from CNMI Government

In accordance with Public Law 10-34, the CNMI government appropriated \$37,230,342 for PSS's operational use for the year ended September 30, 2002. The amount actually received in cash and/or services was \$36,830,342 and \$4,260,758 was receivable at September 30, 2002.

Non-major funds

Specific revenues earmarked to finance particular program and activities of the Public School System are accounted for in Special Revenue Funds. A summary of PSS's Non-major Funds as of September 30, 2002 follows:

Federal Grants Fund - This fund accounts for activities pertaining to federal operations grants. The primary revenue source of this fund is grant awards from various federal agencies.

Local Donations Fund - This fund accounts for activities pertaining to local donations received for specific purposes. The primary revenue source of this fund is donations from private individuals or organizations.

CNMI Grants Fund - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law 8-2.

Indirect Costs Fund - This fund, established through directive of the PSS Commissioner of Education, accounts for indirect cost of PSS related to federal grants.

(4) Contingencies

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2002

(4) Contingencies, Continued

As of September 30, 2002, expenditures in the amount of \$121,628 and various amounts for which a value cannot be determined have been questioned as a result of Single Audits in fiscal years 1997 through 1998.

Disallowances and sanctions as a result of these audits may become liabilities of the PSS and the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

PSS is a defendant in a several legal lawsuits that pertains to the following:

1. Tano Group Inc v. the Public School System

This is a construction dispute over Tano's construction of the Sinapalo elementary school on the island of Rota. A summary judgement was issued against the Public School System but no decision has yet been issued on the amount. Both parties are negotiating a final dollar amount. The financial terms of the settlement are subject to a confidentiality agreement, however, the settlement will not have a material effect on PSS' financial condition or results of operations. More than half of the settlement amount will be paid by federal and bond funds already designated for the project.

2. Darcie Duenas v. Myung B. Chua and the Public School System

This is a personal injury case filed by a student injured by a car at San Antonio elementary school. This case was filed against PSS in September 2003. An assessment is not yet complete. PSS intends to vigorously defend itself in the case, but if settlement is reached, the reasonable estimate of the loss is not expected to have a material effect on PSS' financial statements.

3. Century Insurance Company v. Guerrero Brothers, Inc and PSS.

This is a construction lawsuit regarding Guerrero Brothers construction of the Tinian High School. An assessment by the current PSS Legal Counsel of the liability surrounding the case is not complete. PSS will vigorously contest liability to any of the remaining parties and believes the likelihood of loss is remote.

(5) Commitments

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 shall be 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 11-14. The liability relating to these bonds will be recorded by the CNMI Government.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2002

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2002

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
U.S. Department of Education							
Direct Programs							
CFDA# 84.330A							
Advance Placement Program	0156	\$ 107,460	\$ 244	\$ (244)	\$ -	\$ -	\$ -
Advance Placement Program	0157	-	(3,933)	3,934	(19,364)	19,364	1
Advance Placement Program	0257APP2	-	-	1	(19,340)	19,340	1
Subtotal CFDA# 84.330A		\$ 107,460	\$ (3,689)	\$ 3,691	\$ (38,704)	\$ 38,704	\$ 2
CFDA# 84.194Q							
Bilingual Data - SEA	0072	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -
Technical Assistant Section 11	0073	-	(7,205)	7,205	-	-	-
Bilingual Data - SEA	0172	-	7,726	(7,726)	-	-	-
Technical Assistant Section 11	0173	-	3,195	(3,195)	(14,804)	14,804	-
Bilingual Data - SEA	0272BILL2	-	-	(293)	(23,246)	23,246	(293)
Technical Assistant Section 11	0273BILL2	-	-	3,640	(76,754)	76,754	3,640
Subtotal CFDA# 84.194Q		\$ 100,000	\$ 3,716	\$ (369)	\$ (114,804)	\$ 114,804	\$ 3,347
CFDA# 84.318X							
Technology SEA	0058	\$ -	\$ (500)	\$ 500	\$ -	\$ -	\$ -
Technology LEA	0059	-	-	-	(11,810)	11,810	-
Technology LEA	0059AC01	-	-	-	(3,775)	3,775	-
Technology LEA	0059AC02	-	-	-	(12,200)	12,200	-
Technology SEA	0059AD01	-	-	5,438	-	-	5,438
Technology LEA	0059BM01	-	-	-	(10,000)	10,000	-
Technology LEA	0059BM02	-	-	-	(10,000)	10,000	-
Technology LEA	0059FC01	-	-	-	(13,000)	13,000	-
Technology LEA	0059GS01	-	-	-	(6,260)	6,260	-
Technology LEA	0059JS01	-	-	-	(13,800)	13,800	-
Technology SEA	0059JS02	-	-	-	(10,830)	10,830	-
Technology LEA	0059JV01	-	-	-	(14,500)	14,500	-
Technology LEA	0059JV02	-	-	-	(14,500)	14,500	-
Technology LEA	0059JV03	-	-	-	(14,697)	14,697	-
Technology LEA	0059KP01	-	-	-	(6,260)	6,260	-
Technology LEA	0059MM01	-	-	-	(13,800)	13,800	-
Technology LEA	0059MY01	-	-	-	(12,440)	12,440	-
Technology LEA	0059RS01	-	-	-	(4,820)	4,820	-
Technology LEA	0059SG01	-	-	-	(13,800)	13,800	-
Technology LEA	0059TB01	-	-	-	(13,800)	13,800	-
Technology LEA	0059VG01	-	-	-	(6,260)	6,260	-
Technology SEA	0158	-	-	(798)	(11,884)	11,884	(798)
Technology LEA	0159	-	-	(5,844)	(6,906)	6,906	(5,844)
Technology LEA	0159AL01	-	-	631	(9,400)	9,400	631
Technology LEA	0159AS01	-	-	558	(10,720)	10,720	558
Technology LEA	0159AS02	-	-	16	(9,566)	9,566	16
Technology LEA	0159DB01	-	-	-	(2,934)	2,934	-
Technology LEA	0159DH01	-	-	-	(7,000)	7,000	-
Technology LEA	0159EH01	-	5,371	(5,371)	-	-	-
Technology LEA	0159EH02	-	-	11,797	(13,696)	13,696	11,797
Technology LEA	0159JM02	-	-	-	(11,420)	11,420	-
Technology LEA	0159JV01	-	-	-	(4,540)	4,540	-
Technology LEA	0159JS01	-	-	-	(14,472)	14,472	-
Technology LEA	0159JS02	-	-	-	(41,412)	41,412	-
Technology LEA	0159MC01	-	-	-	(3,945)	3,945	-
Technology LEA	0159RL01	-	-	4,112	(4,736)	4,736	4,112
Technology LEA	0159SM01	-	-	-	(10,950)	10,950	-
Technology LEA	0159TS01	-	-	-	(10,000)	10,000	-
Subtotal CFDA# 84.318X		\$ -	\$ 4,871	\$ 11,039	\$ (380,133)	\$ 380,133	\$ 15,910

PUBLIC SCHOOL SYSTEM

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Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
U.S. Department of Education							
Direct Programs							
CFDA# 84.276A							
Goals 2000-1	2762	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goals 2000-2	2763	-	(3,874)	3,874	-	-	-
Goals 2000-1 SEA	2962	-	3,089	(2,922)	-	-	167
Goals 2000 - LEA	2963	-	24,206	(24,206)	(4,854)	4,854	-
Goals 2000 - LEA	2963AL	-	-	-	(1,778)	1,778	-
Goals 2000 - LEA	2963EW2	-	299	-	-	-	299
Goals 2000 - LEA	2963FU	-	724	(724)	-	-	-
Goals 2000 - LEA	2963KB	-	-	-	(6,300)	6,300	-
Goals 2000 - LEA	2963PF	-	(6,423)	-	-	-	(6,423)
Goals 2000 - LEA	2963EM	-	2,135	-	-	-	2,135
Goals 2000 - LEA	2963LB1	-	-	-	(4,251)	4,251	-
Goals 2000 - LEA	2963MS1	-	-	-	(6,113)	6,113	-
Goals 2000 - LEA	2963PT2	-	3,822	-	-	-	3,822
Goals 2000 - LEA	2963TT1	-	-	-	(7,100)	7,100	-
Goals 2000-1 SEA	0062	-	-	565	(9,217)	9,217	565
Goals 2000 - LEA	0063	-	-	2,189	(2,189)	2,189	2,189
Goals 2000 - LEA	0063EO1	-	-	2,174	(31,285)	31,285	2,174
Goals 2000 - LEA	0063FH1	-	-	178	(2,652)	2,652	178
Goals 2000 - LEA	0063FT1	-	-	475	(7,075)	7,075	475
Goals 2000 - LEA	0063GB1	-	-	7,321	(7,321)	7,321	7,321
Goals 2000 - LEA	0063HM1	-	-	7,600	(7,600)	7,600	7,600
Goals 2000 - LEA	0063JV1	-	(5,715)	13,938	(15,843)	15,843	8,223
Goals 2000 - LEA	0063KP1	-	-	130	(1,941)	1,941	130
Goals 2000 - LEA	0063LB1	-	-	1,373	(20,448)	20,448	1,373
Goals 2000 - LEA	0063NG1	-	-	287	(4,272)	4,272	287
Goals 2000 - LEA	0063NN1	-	(7,100)	7,262	(2,408)	2,408	162
Goals 2000 - LEA	0063TS1	-	-	40	(589)	589	40
Subtotal CFDA# 84.276A		\$ -	\$ 11,163	\$ 19,554	\$ (143,236)	\$ 143,236	\$ 30,717
CFDA# 84.922A							
Strategies 1	5901	\$ 4,868,486	\$ 1	\$ (1)	\$ -	\$ -	\$ -
Strategies 2	5902	-	16,384	(16,384)	-	-	-
Strategies 3	5903	-	1	(1)	-	-	-
Strategies 4	5904	-	2,405	(2,405)	-	-	-
Strategies 5	5905	-	56	(56)	-	-	-
Drug Free	5907	-	1	(1)	-	-	-
Consolidated EIE	5909	-	17,143	(17,143)	-	-	-
Consolidated Personnel	5919	-	(1)	1	-	-	-
EIE - Dandan Elementary School	5909A1	-	(149)	149	-	-	-
EIE - Grace Christian Academy	5909B2	-	(6,617)	6,617	-	-	-
EIE - Joshua Generation Academy	5909B4	-	(6,439)	6,439	-	-	-
EIE - Mount Carmel School	5909B6	-	(906)	906	-	-	-
EIE - Saipan Community School	5909B7	-	(399)	399	-	-	-
EIE - San Francisco De Borja	5909B8	-	(1,050)	1,050	-	-	-
EIE - Saipan International School	5909B10	-	(655)	655	-	-	-
EIE - Whispering Palms School	5909B12	-	(928)	928	-	-	-
EIE - PSS	5909PSS	-	(2)	2	-	-	-
Strategies 4 - San Vicente School	5904SVS	-	(2,460)	2,460	-	-	-
Strategies 1 - SE	0001SE	-	485	(485)	-	-	-
Strategies 5 - CSA	0005CSA	-	629	(629)	-	-	-
DF - Hopwood High School	0007A4	-	5,139	(5,139)	-	-	-
DF - Koblerville Elementary School	0007A5	-	(538)	538	-	-	-
DF - Marianas High School	0007A6	-	-	-	(25,191)	25,191	-
EIE - Garapan Elementary School	0009A2	-	-	-	(1,042)	1,042	-
EIE - Hopwood Junior High School	0009A4	-	-	-	(21,965)	21,965	-
EIE - Koblerville Elementary School	0009A5	-	385	(385)	-	-	-
EIE - Grace Christian Saipan	0009B3	-	83	(83)	-	-	-
EIE - Grace Christian Tinian	0009B5	-	6,600	(6,600)	-	-	-
EIE - PSS	0009PSS	-	11,865	(11,865)	(28,246)	28,246	-
EIE - CIA	0009C2	-	-	-	(56,595)	56,595	-

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Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
U.S. Department of Education							
Direct Programs							
Balance forwarded:		\$ 4,868,486	\$ 41,033	\$ (41,033)	\$ (133,039)	\$ 133,039	\$ -
CG - T6 Grace Christian Saipan	0012B3	-	1,924	(1,924)	(2,500)	2,500	-
CG - T6 Grace Christian Tinian	0012B5	-	7,368	(7,368)	-	-	-
CG - T6 Northern Marianas Academy	0012B9	-	(9)	-	-	-	(9)
Strategies 1 - SE	0101SE	-	1,798	(1,797)	(1,453)	1,453	1
Strategies 1 - SF	0101SF	-	(1,873)	248,111	(309,691)	309,691	246,238
Strategies 1 - PI	0103PI	-	-	1	(6,099)	6,099	1
Strategies 4 - Staff Development	0104SD	-	3,217	(3,218)	4,011	(4,011)	(1)
Strategies 5 - CSA	0105CS	-	2,639	(2,639)	(2,351)	2,351	-
DF - Dandan Elementary School	0107A01	-	-	1	(8,470)	8,470	1
DF - Garapan Elementary School	0107A02	-	4,252	(4,253)	(12,422)	12,422	(1)
DF - Hopwood High School	0107A04	-	4,114	(4,036)	(1,275)	1,275	78
DF - Marianas High School	0107A06	-	-	1	(39,673)	39,673	1
DF - Oleai Elementary School	0107A07	-	-	-	(10,006)	10,006	-
DF - San Antonio Elementary School	0107A10	-	621	(620)	(2,232)	2,232	1
DF - San Vicente Elementary School	0107A11	-	7,728	(7,727)	(4,565)	4,565	1
DF - Kagman Elementary School	0107A17	-	9,746	(9,747)	(1,400)	1,400	(1)
EIE - Garapan Elementary School	0109A02	-	(3,414)	3,413	(5,066)	5,066	(1)
EIE - Hopwood Junior High School	0109A04	-	-	-	(1,581)	1,581	-
EIE - Koblerville Elementary School	0109A05	-	2,222	(2,222)	(2,603)	2,603	-
EIE - Marianas High School	0109A06	-	17,007	(17,007)	(5,954)	5,954	-
EIE - Oleai Elementary School	0109A07	-	-	533	(607)	607	533
EIE - San Antonio Elementary School	0109A10	-	-	-	(6,540)	6,540	-
EIE - San Vicente Elementary School	0109A11	-	-	71	(2,723)	2,723	71
EIE - Tinian Elementary School	0109A13	-	8,892	(8,892)	-	-	-
EIE - Eucon International School	0109B02	-	-	1	(1,427)	1,427	1
EIE - Grace Christian Tinian	0109B05	-	-	750	(6,774)	6,774	750
EIE - Joshua Generation Academy	0109B06	-	1,005	(1,005)	(3,521)	3,521	-
EIE - Mount Carmel School	0109B08	-	1,154	(1,153)	(3,666)	3,666	1
EIE - Seventh Day Adventist	0109B13	-	5,900	(5,900)	-	-	-
EIE - Saipan International School	0109B15	-	-	8,607	(26,013)	26,013	8,607
EIE - Sister Remedios Pre-School	0109B16	-	921	(921)	-	-	-
EIE - Whispering Palms School	0109B17	-	443	(443)	(4,630)	4,630	-
EIE - Golden Harvest International	0109B18	-	-	1	(425)	425	1
EIE - Curriculum Acquisition	0109C02	-	(3,200)	3,201	(64,978)	64,978	1
EIE - Curriculum Identification	0109C03	-	6,811	(6,803)	(17,796)	17,796	8
EIE - Curriculum Refinement	0109C04	-	2,438	(2,438)	(5,139)	5,139	-
EIE - Public School System	0109PSS	-	-	490,119	(847,118)	847,118	490,119
CG T6 - Eucon International School	0112B02	-	-	-	(17,974)	17,974	-
CG T6 - Grace Christian Saipan	0112B03	-	-	-	(180)	180	-
CG T6 - Grace Christian Rota	0112B04	-	-	(1)	(8,925)	8,925	(1)
CG T6 - Grace Christian Tinian	0112B05	-	-	-	(7,013)	7,013	-
CG T6 - Mount Carmel School	0112B08	-	11,398	(9,988)	(44,945)	44,945	1,410
CG T6 - Northern Marianas Academy	0112B09	-	-	-	(3,543)	3,543	-
CG T6 - NMC Lab School	0112B10	-	-	-	(10,843)	10,843	-
CG T6 - San Francisco De Borja	0112B12	-	-	-	(9,905)	9,905	-
CG T6 - Saipan International School	0112B15	-	1,873	(1,873)	(6,650)	6,650	-
CG T6 - Sister Remedios Pre-School	0112B16	-	-	1	(1,768)	1,768	1
CG T6 - Whispering Palms School	0112B17	-	8,954	(8,954)	-	-	-
CG T6 - Golden Harvest International	0112B18	-	-	-	(5,496)	5,496	-
CG T6 - Brilliant Star Montessori	0112B19	-	670	(670)	(1,932)	1,932	-
Class Size Reduction	0114	-	42,106	48,940	(91,046)	91,046	91,046
CG Personnel T6	0119	-	87,614	1,075,193	(1,163,212)	1,163,212	1,162,807
Strategies 1 - CAS	0201CAS2	-	-	3,681	(23,007)	23,007	3,681
Strategies 1 - WMA	0201WMA2	-	-	(246,238)	-	-	(246,238)
Strategies 1 - SAT	0201SAT2	-	-	1,530	(46,292)	46,292	1,530
Strategies 1 - SEA	0201SEA2	-	-	-	(19,684)	19,684	-
Strategies 4 - SDP	0204SDP2	-	-	-	(16,735)	16,735	-
Strategies 5 - CSA	0205CSA2	-	-	-	(41,660)	41,660	-
DF - Dandan Elementary School	0207A012	-	-	-	(348)	348	-
DF - Marianas High School	0207A062	-	-	2,144	(64,333)	64,333	2,144
DF - Oleai Elementary School	0207A072	-	-	1,322	(3,675)	3,675	1,322
DF - San Antonio Elementary School	0207A102	-	-	-	(5,704)	5,704	-
DF - San Vicente Elementary School	0207A112	-	-	1	(8,888)	8,888	1
DF - WSR Elementary School	0207A152	-	-	2,388	(12,234)	12,234	2,388

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Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
U.S. Department of Education							
Direct Programs							
Balance forwarded:		\$ 4,868,486	\$ 275,352	\$ 1,491,140	\$ (3,153,718)	\$ 2,153,718	\$ 1,766,492
DF - Kagman Elementary School	0207A172	-	-	-	(5,303)	5,303	-
DF - Kagman High School	0207A192	-	-	(1)	(14,371)	14,371	(1)
DF - Eucon International School	0207B022	-	-	1	(1,364)	1,364	1
DF - Northern Marianas Academy	0207B092	-	-	699	(699)	699	699
Drug Free - Administration	0207C012	-	-	1	(3,630)	3,630	1
EIE - Dandan Elementary School	0209A012	-	-	1	(7,825)	7,825	1
EIE - Hopwood Junior High School	0209A042	-	-	1	(25,814)	25,814	1
EIE - Koblerville Elementary School	0209A052	-	155	-	(8,797)	8,797	155
EIE - Marianas High School	0209A062	-	-	-	(31,850)	31,850	-
EIE - Oleai Elementary School	0209A072	-	-	250	(4,583)	4,583	250
EIE - Rota Jr. High School	0209A082	-	-	-	(2,633)	2,633	-
EIE - San Antonio Elementary School	0209A102	-	-	-	(6,035)	6,035	-
EIE - San Vicente Elementary School	0209A112	-	-	-	(13,312)	13,312	-
EIE - Tanapag Elementary School	0209A122	-	-	-	(489)	489	-
EIE - Tinian Elementary School	0209A132	-	410	-	(8,466)	8,466	410
EIE - WSR Elementary School	0209A152	-	-	1	(858)	858	1
EIE - Kagman Elementary School	0209A172	-	-	1	(199)	199	-
EIE - Sinapalo Elementary School	0209A182	-	-	1	(339)	339	1
EIE - Kagman High School	0209A192	-	-	-	(9,040)	9,040	-
EIE - Eucon International School	0209B022	-	-	19,257	(76,232)	76,232	19,257
EIE - Grace Christian Rota	0209B042	-	-	4,454	(8,737)	8,737	4,454
EIE - Joshua Generation Academy	0209B062	-	-	-	(2,266)	2,266	-
EIE - Mount Carmel School	0209B082	-	-	2,266	(19,183)	19,183	2,266
EIE - Northern Marianas Academy	0209B092	-	-	4,786	(16,134)	16,134	4,786
EIE - Saipan Community School	0209B112	-	-	-	(3,859)	3,859	-
EIE - San Francisco De Borja	0209B122	-	-	-	(1,488)	1,488	-
EIE - Saipan International School	0209B152	-	-	5,604	(52,145)	52,145	5,604
EIE - Sister Remedios Pre-School	0209B162	-	-	4,329	(6,118)	6,118	4,329
EIE - Whispering Palms School	0209B172	-	-	3,936	(14,310)	14,310	3,936
EIE - Admin. Prof. Dev. & Service Del.	0209C012	-	-	-	(511)	511	-
EIE - Curriculum Acquisition	0209C022	-	2,068	-	(32,357)	32,357	2,068
EIE - Parental Involvement	0209C032	-	305	-	(13,022)	13,022	305
EIE - Public School System	0209F52	-	-	(255,747)	(6,789)	6,789	(255,747)
CG T6 - Eucon International School	0212B022	-	416	-	(1,426)	1,426	416
CG T6 - Grace Christian Saipan	0212B032	-	608	-	(5,378)	5,378	608
CG T6 - Grace Christian Rota	0212B042	-	523	-	(523)	523	523
CG T6 - Grace Christian Tinian	0212B052	-	1	-	(5,090)	5,090	1
CG T6 - Joshua Generation Academy	0212B062	-	-	-	(4,175)	4,175	-
CG T6 - Mount Carmel School	0212B082	-	620	-	(13,637)	13,637	620
CG T6 - Northern Marianas Academy	0212B092	-	1	-	(13,795)	13,795	1
CG T6 - NMC Lab School	0212B102	-	-	-	(12,024)	12,024	-
CG T6 - San Francisco De Borja	0212B122	-	-	-	(10,158)	10,158	-
CG T6 - Saipan International School	0212B152	-	-	3,319	(19,490)	19,490	3,319
CG T6 - Sister Remedios Pre-School	0212B162	-	25,859	-	(35,846)	35,846	25,859
CG T6 - Whispering Palms School	0212B172	-	1	-	(10,670)	10,670	1
CG T6 - Brilliant Star Montessori	0212B192	-	8,476	-	(8,476)	8,476	8,476
CG T6 - Admin.	0210ADM2	-	1	-	(10,332)	10,332	1
Class Size Reduction	0214CSR2	-	-	(54,682)	(562,291)	562,291	(54,682)
CG T6 - Personnel T6	0219CGP2	-	-	(1,077,238)	(116,514)	116,514	(1,077,238)
CG T6 - CAS	0219CAS2	-	469	-	(15,989)	15,989	469
CG T6 - JDF	0219JDF2	-	-	-	(10,398)	10,398	-
CG T6 - Staff Development	0219ASD2	-	-	2,842	(37,096)	37,096	2,842
Subtotal CFDA# 84.922A		\$ 4,868,486	\$ 275,352	\$ 195,133	\$ (4,445,784)	\$ 4,445,784	\$ 470,485

CFDA# 84.215U

Christa McAuliffe Grant	0045	\$ 24,764	\$ -	\$ -	\$ -	\$ -	\$ -
Christa McAuliffe Grant	0045AO	-	(45)	45	-	-	(0)
Christa McAuliffe Grant	0045CS	-	(578)	-	-	-	(578)
Christa McAuliffe Grant	0045HS	-	(205)	-	-	-	(205)
Christa McAuliffe Grant	0045MA	-	(961)	-	-	-	(961)

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Christa McAulife Grant	0045MR	-	(52)	-	-	-	(52)
U.S. Department of Education							
Direct Programs							
Balance forwarded:		\$ 24,764	\$ (1,841)	\$ 45	\$ -	\$ -	\$ (1,796)
Christa McAulife Grant	0045RA	-	(1,818)	-	-	-	(1,818)
Christa McAulife Grant	0045RF	-	(118)	-	-	-	(118)
Christa McAulife Grant	0045RG	-	(105)	-	-	-	(105)
Christa McAulife Grant	0145	-	(5,000)	-	-	-	(5,000)
Christa McAulife Grant	0145OS1	-	-	2,500	(2,497)	2,497	2,500
Christa McAulife Grant	0145MH1	-	1,500	1,000	(1,000)	1,000	2,500
Christa McAulife Promotion	0146	-	(2,815)	2,815	(2,815)	2,815	-
Christa McAulife Grant	0245BQG2	-	-	-	(234)	234	-
Christa McAulife Grant	0245CMF2	-	(17,498)	17,498	(12,500)	12,500	-
Christa McAulife Grant	0245LBN2	-	-	-	(2,264)	2,264	-
Christa McAulife Grant	0245PRW2	-	-	(133)	(2,367)	2,367	(133)
Subtotal CFDA# 84.215U		\$ 24,764	\$ (27,695)	\$ 23,725	\$ (23,677)	\$ 23,677	\$ (3,970)
CFDA# 84.027							
Handicapped Children	2306	\$ 3,161,954	\$ -	\$ -	\$ -	\$ -	\$ -
SPED Handicapped Children SEA	0083	-	3,196	(3,196)	(10,317)	10,317	-
SPED - Admin	0084	-	7,298	(7,298)	(11,131)	11,131	-
SPED Handicapped Children LEA	0085	-	12,286	(12,286)	(39,348)	39,348	-
SPED Handicapped Children SEA	0183	-	8,478	(8,478)	(288,031)	288,031	-
SPED - Admin	0184	-	2,151	(2,152)	(139,488)	139,488	(1)
SPED Handicapped Children LEA	0185	-	125,337	(125,336)	(347,225)	347,225	1
SPED Pacific Grant	0186	-	11,227	(11,227)	-	-	-
SPED Handicapped Children SEA	0283SPE2	-	-	4,555	(417,010)	417,010	4,555
SPED - Admin	0284SPE2	-	-	6,975	(48,026)	48,026	6,975
SPED Handicapped Children LEA	0285SPE2	-	-	153,476	(1,151,716)	1,151,716	153,476
SPED Pacific Grant	0286SPE2	-	-	37,918	(154,433)	154,433	37,918
Subtotal CFDA# 84.027		\$ 3,161,954	\$ 169,973	\$ 32,951	\$ (2,606,725)	\$ 2,606,725	\$ 202,924
CFDA# 84.181							
SPED Infant & Toddlers	0088	\$ 401,540	\$ (39,299)	\$ 17,578	\$ (1,346)	\$ 1,346	\$ (21,721)
SPED Infant & Toddlers	0188	-	(129,361)	151,082	(151,082)	151,082	21,721
SPED Infant & Toddlers	0288SPE2	-	(57,452)	87,681	(256,937)	256,937	30,229
Subtotal CFDA# 84.181		\$ 401,540	\$ (226,112)	\$ 256,341	\$ (409,365)	\$ 409,365	\$ 30,229
CFDA# 84.000							
NCES Computers	2289	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
Common Core - Data	2652	-	-	(524)	(2,317)	2,317	(524)
NCES Computers	2389	-	(2,627)	2,317	-	-	(310)
Common Core - Data	2552	-	(3,063)	-	-	-	(3,063)
Common Core - Data	2665	-	(1,862)	-	(1,493)	1,493	(1,862)
Common Core - Data	2765	-	(1,510)	1,510	-	-	-
Common Core - Data	2689	-	(412)	-	-	-	(412)
Common Core - Data	2252	-	21,103	-	(670)	670	21,103
Comparability NCES	2789	-	(25,000)	670	(14,721)	14,721	(24,330)
Comparability NCES	2889	-	(14,721)	14,721	(7,282)	7,282	-
Common Core - Data	2865	-	(8,656)	7,282	(20,184)	20,184	(1,374)
Common Core - Data	2965	-	(21,334)	20,184	(4,985)	4,985	(1,150)
Comparability NCES	2989	-	(33,550)	4,985	(11,262)	11,262	(28,565)
Common Core - Data	0065	-	(31,215)	11,262	-	-	(19,953)
Common Core - Data	0165	-	(22,307)	(7,435)	-	-	(29,742)
Data Improvement - NCES	0089	-	(15,000)	-	-	-	(15,000)
Common Core - Data	0265CCP2	-	-	(28,000)	-	-	(28,000)
Comparability NCES	0289NCE2	-	-	(12,500)	-	-	(12,500)

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2002

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
Subtotal CFDA# 84.000		\$ -	\$ (160,154)	\$ 14,473	\$ (62,914)	\$ 62,914	\$ (145,681)
U.S. Department of Education							
Direct Programs							
CFDA# 84.185							
R.C. Byrd School Program	0174	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ -
R.C. Byrd School Program	0274RCB2	-	-	-	(18,245)	18,245	-
R.C. Byrd School Program	0374RB3RCB	-	-	-	(59,755)	59,755	-
Subtotal CFDA# 84.185		\$ 60,000	\$ -	\$ -	\$ (78,000)	\$ 78,000	\$ -
Total U.S. Department of Education		\$ 8,724,204	\$ 47,424	\$ 556,538	\$ (8,303,342)	\$ 8,303,342	\$ 603,962
U.S. Department of Health and Human Services							
Direct Programs							
CFDA# 93.600							
Headstart Basic	0181	\$ 1,578,455	\$ 89,765	\$ (89,765)	\$ (53,820)	\$ 53,820	\$ -
Headstart Training	0182	-	7,092	(7,092)	(445)	445	-
Headstart Basic	0281HDS2	-	-	205,439	(1,195,717)	1,195,717	205,439
Headstart Training	0282HDS2	-	-	27	(42,589)	42,589	27
Subtotal CFDA# 93.600		\$ 1,578,455	\$ 96,857	\$ 108,609	\$ (1,292,571)	\$ 1,292,571	\$ 205,466
CFDA# 93.575							
Child Care Administration	2990	\$ 1,636,489	\$ 1	\$ (1)	\$ -	\$ -	\$ -
Child Care Certificates	2991	-	26,575	(26,575)	-	-	-
CC Before & After School	0094	-	(20)	-	-	-	(20)
Child Care Administration	0190	-	3,444	(1,136)	(45,264)	45,264	2,308
Child Care Certificates	0191	-	35,078	(35,078)	(200,296)	200,296	-
Child Care Quality & Activity	0192	-	-	-	(53,312)	53,312	-
Child Care School Age/R&R	0193	-	-	-	(7,039)	7,039	-
CC Before & After School	0194	-	(113)	112	(9,047)	9,047	(1)
Child Care Infant & Toddler	0195	-	5,153	(5,153)	(62,443)	62,443	-
Child Care Quality Expansion	0196	-	17	(16)	(38,365)	38,365	1
Child Care Administration	0290CCP2	-	-	5,499	(42,473)	42,473	5,499
Child Care Certificates	0291CCP2	-	-	1,713	(329,463)	329,463	1,713
Child Care Quality & Activity	0292CCP2	-	-	1,837	(4,419)	4,419	1,837
Child Care School Age/R&R	0293CCP2	-	-	1	(14,516)	14,516	1
CC Before & After School	0294CCP2	-	-	721	(345,936)	345,936	721
Child Care Infant & Toddler	0295CCP2	-	-	-	(43,793)	43,793	-
Child Care Quality Expansion	0296CCP2	-	-	1,204	(59,822)	59,822	1,204
Subtotal CFDA# 93.575		\$ 1,636,489	\$ 70,135	\$ (56,872)	\$ (1,256,188)	\$ 1,256,188	\$ 13,263
CFDA# 93.938							
Aids-HIV	2961	\$ 160,481	\$ (1)	\$ 1	\$ -	\$ -	\$ -
Aids-HIV	0061	-	253	222	(321)	321	475
Aids-HIV Media	0160	-	682	(804)	(44,242)	44,242	(122)
Aids-HIV	0161	-	(475)	-	(16,775)	16,775	(475)
Aids-HIV	0261HIV2	-	-	4,811	(63,829)	63,829	4,811
Subtotal CFDA# 93.938		160,481	459	4,230	(125,167)	125,167	4,689
Total U. S. Department of Health and Human Services		\$ 3,375,425	\$ 167,451	\$ 55,967	\$ (2,673,926)	\$ 2,673,926	\$ 223,418

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2002

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/01	Adjustments	Cash Receipts FY 02	Expenditures FY 02	Receivable From Grantor (Deferred Revenue) at 09/30/02
U.S. Department of Agriculture							
<u>Direct Programs</u>							
<u>CFDA #10.555</u>							
USDA TEFAP	0175	\$ 4,653,527	\$ -	\$ (2,045)	\$ -	\$ -	\$ (2,045)
FNS Breakfast Lunch Program	0177	-	218,011	(27,397)	(1,377,237)	1,377,237	190,614
FNS State Admin. Expense	0178	-	5,096	(5,098)	(62,420)	62,420	(2)
FNS Nutrition Education	0179	-	2,099	(2,099)	(13,461)	13,461	-
FNS Equip. & Facility Improvement	0180	-	1,222	3,184	(51,591)	51,591	4,406
FNS Breakfast Lunch Program	0277FNS2	-	-	(30,953)	(2,558,615)	2,558,615	(30,953)
FNS State Admin. Expense	0278FNS2	-	-	3,685	(3,685)	3,685	3,685
FNS Equip. & Facility Improvement	0289FNS2	-	-	6,528	(6,528)	6,528	6,528
Total U.S. Department of Agriculture		\$ 4,653,527	\$ 226,428	\$ (54,195)	\$ (4,073,537)	\$ 4,073,537	\$ 172,233
U.S. Department of Transportation							
<u>Direct Programs</u>							
<u>CFDA #20.509</u>							
Federal Transit Bus	0170	\$ 170,265	\$ -	\$ -	\$ (53,042)	\$ 53,042	\$ -
Federal Transit Bus	0270BUS2	-	-	75,833	(75,833)	75,833	75,833
Total U.S. Department of Transportation		\$ 170,265	\$ -	\$ 75,833	\$ (128,875)	\$ 128,875	\$ 75,833
Other							
<u>Direct Programs</u>							
<u>CFDA# 94.006A</u>							
Americorps - Admin.	0238AMC2	\$ 269,269	\$ -	\$ 2,723	\$ (959)	\$ 959	\$ 2,723
Americorps	0239AMC2	-	-	-	(27,511)	27,511	-
Subtotal CFDA# 94.006A		269,269	-	2,723	(28,470)	28,470	2,723
<u>CFDA# 84.352A</u>							
School Facilities Renovation	0141	\$ -	\$ -	\$ 1,943	\$ (1,943)	\$ 1,943	\$ 1,943
SFR - Garapan Elementary School	0141GES	-	-	-	(37,990)	37,990	-
SFR - Gregorio T. Camacho Elem. Sch.	0141GYC	-	-	-	(10,797)	10,797	-
SFR - Hopwood Junior High School	0141HJH	-	-	69,229	(40,994)	40,994	69,229
SFR - Koblerville Elementary School	0141KES	-	-	2,314	(9,882)	9,882	2,314
SFR - Marianas High School	0141MHS	-	-	-	(43,994)	43,994	-
SFR - Oleai Elementary School	0141OES	-	-	304	(34,449)	34,449	304
SFR - San Antonio Elementary School	0141SAS	-	-	861	(36,244)	36,244	861
SFR - San Vicente Elementary School	0141SVS	-	-	554	(37,658)	37,658	554
SFR - Tanapag Elementary School	0141TAN	-	-	6,925	(39,300)	39,300	6,925
SFR - WSR Elementary School	0141WSR	-	-	-	(24,031)	24,031	-
Subtotal CFDA# 84.352A		\$ -	\$ -	\$ 82,130	\$ (317,282)	\$ 317,282	\$ 82,130
Total Other Programs		\$ 269,269	\$ -	\$ 84,853	\$ (345,752)	\$ 345,752	\$ 84,853
Total Federal Grants Fund		\$ 17,192,690	\$ 441,303	\$ 718,996	\$ (15,525,432)	\$ 15,525,432	\$ 1,160,299

PUBLIC SCHOOL SYSTEM

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

(1) Scope of Review

The Public School System was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (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 the Inspector General has been designated as PSS' cognizant agency for 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 accrual 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 a payable to the grantor agency.

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of the Interior for fiscal year 2002. It is applicable to all federal grant programs and was 7.2% of payroll expenditures for the year ended September 30, 2002.

PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

Year Ended September 30, 2002

PUBLIC SCHOOL SYSTEM

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

AND

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Year Ended September 30, 2002

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report
on Compliance and on Internal Control Over
Financial Reporting Based on Audit of Financial Statements
Performed in Accordance With Government Auditing Standards

The Board of Education
Public School System

I have audited the financial statements of the Public School System (PSS), as of and for the year ended September 30, 2002, and have issued my report thereon dated July 11, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether PSS' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered PSS' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect PSS' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 02-1 to 02-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of the management of PSS, the Board of Education, federal awarding agencies, pass-through entities 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.

J Scott Magliari & Company
Commonwealth of the Northern Mariana Islands
July 11, 2003

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**Independent Auditor's Report on
Compliance With Requirements Applicable to
Each Major Federal Award Program and on Internal
Control Over Compliance With OMB Circular A-133 and on
the Schedule of Expenditures of Federal Awards**

The Board of Education
Public School System

Compliance

I have audited the compliance of the Public School System (PSS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2002. The PSS' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 46 through 48). 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. My responsibility is to express an opinion on PSS compliance based on my audit.

I conducted my 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 I 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 major federal program occurred. An audit includes examining, on a test basis, evidence about PSS' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on PSS' compliance with those requirements.

As described in schedule of Finding Nos. 02-3 through 02-22 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding activities allowed or unallowed, eligibility, reporting and special tests and provisions with such requirements is necessary, in my opinion, for PSS to comply with requirements applicable to these programs.

In my opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002.

Internal Control Over Compliance

The management of PSS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered PSS' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect PSS' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs in Finding Nos. 02-3 through 02-22.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider Finding Nos. 02-4 through 02-5, 02-7, 02-9, 02-10, and 02-22 as identified in the accompanying schedule of findings and questioned costs, to be material weaknesses.

Schedule of Expenditures of Federal Awards

I have audited the basic financial statements of PSS as of and for the year ended September 30, 2002, and have issued my report thereon dated July 11, 2003. My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 34 through 40) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This Schedule is the responsibility of the management of PSS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except as described in the aforementioned report, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of PSS, the Board of Education, federal awarding agencies, pass-through entities 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.

J. Scott Maguire & Company
Commonwealth of the Northern Mariana Islands
July 11, 2003

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified not considered to be material weaknesses? yes no

Type of auditor's report issued on compliance for major federal programs: Qualified on all major federal programs

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.922A	Consolidated Grant to Insular Areas	\$ 4,445,784
10.555	Nutrition Assistance Grant	4,073,537
84.027	Special Education Program	2,606,725
93.600	Head Start Program	1,292,571
93.575	Child Care and Development Block Grant	<u>1,256,188</u>
	Total Federal Expenditures-Major Programs	<u>\$13,674,805</u>

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 465,762

3% of the total awards expended

Auditee qualified as low-risk auditee

 yes X no

SECTION II - INDEX TO FINANCIAL STATEMENTS FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Reference Page Number</u>	<u>Questioned Cost</u>
02-1	Travel Advances	49	\$ -
02-2	Financial Statements	50	-
	Total Questioned Costs		<u>\$ -</u>

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - INDEX TO FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>Findings</u>	<u>Reference Page Number</u>	<u>Questioned Cost</u>
02-3	Activities Allowed or Unallowed	51-52	\$ -
02-4 to 5	Eligibility	53-58	-
02-6 to 10	Reporting	59-65	-
02-11 to 22	Special Tests and Provisions	66-85	-
	Total Questioned Costs		<u>\$ -</u>

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances

Finding No. 02-1

Criteria

PSS current policy requires the traveler to submit travel voucher 10 working days after the completion of the travel with supporting documents required under the policy. Payroll deduction will be initiated within 15 working days if the traveler does not submit travel voucher and supporting documents.

Condition

It appears that PSS does not adequately monitor adherence to its travel policies. Following are the results of the examination performed:

- a. 1 out of 7, or 14% travel requests examined was not submitted within ten working days prior to commencement of travel.
- b. 3 out of 7, or 43% travel vouchers examined were not submitted within ten working days upon completion of travel.
- c. 3 out of 7, or 43% samples tested were not automatically deducted the amount due from payroll for untimely liquidation of travel advance.

Cause

There was no strict enforcement as to PSS policies and procedures on collecting unliquidated travel advances.

Effect

Failure to enforce collection on outstanding travel advances will result in understated expenditure, overstated travel advances receivable and significant bad debts. Cash flows are also negatively affected.

Recommendation

PSS should strictly enforce its established policies and procedures in collecting unliquidated travel advances.

Prior Year Status

The above condition has been reported as a finding in fiscal years 1998 through 2001.

Auditee Response and Corrective Action Plan

PSS concurs. With the tremendous efforts the management has already made on the strict implementation of its policies and procedures governing travel advances, this condition is anticipated to be fully resolved in fiscal year 2003.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION II - FINANCIAL STATEMENT FINDINGS

Financial Statements

Finding No. 02-2

Criteria

The accounting system should ensure that the balance sheet is balanced at the end of each fiscal year.

Condition

PSS' balance sheet of general fund as of September 30, 2002 was not balanced. Total liabilities and fund equity exceeded assets by \$9,590. This amount was adjusted to miscellaneous expenses to correct the balance of the financial statements of PSS.

Cause

PSS does not have a system of internal control to ensure that its general ledgers are properly balanced.

Effect

Financial reports are inaccurate and financial decisions could be made based on inaccurate information. However, the amount does not have a material effect on the financial statements.

Recommendation

PSS should consider updating or modifying the design of their current financial management system based on the needs of the organization. This would help the employees on their assigned tasks and generate the desired output for the end users.

Prior Year Status

The above condition has been reported as a finding in fiscal years 2000 and 2001.

Auditee Response and Corrective Action Plan

With the periodic review of the general ledger, PSS ensures that at the end of fiscal year ending 2003, the financial statements would be balanced.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Activities Allowed or Unallowed - Consolidated Grants to Insular Areas

Finding No. 02-3

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> One of the strategies established under this grant is the involvement of parents and the community to help all students meet challenging state standards and promote bottom up reform.</p> <p>PSS is to provide workshop opportunities to parents who will then develop training modules on effective parenting skills, parental involvement or other learned skills. Evaluation of this program is based on the records maintained on the number of meetings held, the number of parents receiving training and type of training provided.</p> <p><u>Condition</u> Expenditures pertaining to this program are well supported but PSS failed to adhere to the requirements of the State Plan. There was no proper monitoring of the activities held during the year, no records were maintained on the number of meetings held, the number of parents receiving the training and type of training provided for the fiscal year 2002.</p> <p><u>Cause</u> PSS lacks monitoring system to properly administer the activities and programs set-up under this grant.</p> <p><u>Effect</u> The effect of this condition is possible disallowed costs.</p> <p><u>Recommendation</u> The State Educational Agency (SEA) should enforce existing internal policies and procedures and comply with the requirements of the State Plan.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in fiscal years 2000 and 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Activities Allowed or Unallowed - Consolidated Grants to Insular Areas

Finding No. 02-3, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Auditee Response and Corrective Action Plan</u> Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.</p>	\$ -

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Nutrition Assistance Grant

Finding No. 02-4

CFDA no.: Findings/Noncompliance

Questioned
Costs

10.555

\$ -

Criteria

The purpose of this grant is to assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs and encourage the domestic consumption of nutritious agricultural commodities.

To be eligible to participate in the Food and Nutrition program, the following criteria must be met pursuant to 7CFR §210.2:

- a. Application.
- b. Reside with a family whose income does not exceed 75% of the State's median income for a family of the same size.

The documentation required to support eligibility should include:

- a. Application form properly filled-up and signed by applicant.
- b. Proof of gross income such as check stub for two-pay periods attached to the application form.
- c. For food stamp recipients, proof of Nutrition Assistance Program (NAP) Recipients form is properly filled-up and signed by applicant.
- d. Photocopy of Food stamp I.D. Card is attached to the NAP recipient form
- e. Student's name included in the summary listing submitted to the federal office.

Condition

- a. 12 or 48% of the participants tested have only one paycheck as proof of income attached to the application form.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Nutrition Assistance Grant

Finding No. 02-4, Continued

CFDA no.: Findings/Noncompliance

Questioned
Costs

10.555

\$ -

Condition, Continued

b. 3 or 12% of the participants, who are food stamp recipients, do not have a photocopy of the Food Stamp I.D. card attached to the NAP recipient form to show independent verification of this number.

For the fiscal year ended September 30, 2002, the Nutrition Assistance Program had total program expenditures of \$4,073,537. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Cause

The cause of the above condition is a lack of administrative oversight and internal monitoring procedures.

Effect

Some participants under the Food and Nutrition Assistance program may not be eligible to receive the free meal and reduced price meal. Lack of necessary documents could question their eligibility as a recipient of the program.

Recommendation

PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Food and Nutrition Assistance Program.

Prior Year Status

Lack of appropriate record retention and filing policies and procedures was reported as a finding in the Single Audits of PSS since 1995 through 2001.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Nutrition Assistance Grant

Finding No. 02-4, Continued

<u>CFDA no.:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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10.555

Auditee Response and Corrective Action Plan
Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Child Care and Development Block Grant

Finding No. 02-5

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Criteria

The purpose of the grant is to increase the availability, affordability, and quality childcare services.

To be eligible to participate in the Childcare program, the following criteria must be met pursuant to 45CFR §98.2:

- a. Child is thirteen years of age.
- b. Reside with a family whose income does not exceed 75% of the State's median income for a family of the same size.
- c. Reside with a parent or parents who are U.S. Citizens and working, that is, gainfully employed 40 hours a week for full-time employment or a fraction thereof for students enrolled in an educational program who are working part-time.

The documentation required to support eligibility should include:

- a. Application for participation is completed, signed, and dated by parent or legal guardian.
- b. Two check stubs attached to the application or proof of fulltime enrollment in an acceptable education institution.
- c. Copy of birth certificate of the child.
- d. Copy of birth certificate of the parent/s.
- e. Certificate and Confirmation form is signed by appropriate agency official.

Condition

- a. 3 out of 25 applicants, or 12% do not have copy of birth certificates or passports to verify their citizenship
- b. 1 out of 25 applicants, or 4% do not have proof of full time enrollment at an acceptable institution on file.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Child Care and Development Block Grant

Finding No. 02-5, Continued

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Condition, Continued

For the fiscal year ended September 30, 2002, the Childcare Development Block Grant had total program expenditures of \$1,256,188. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Cause

The cause of the above condition is that PSS lacks administrative oversight and internal monitoring procedures.

Effect

Some participants under the Childcare and Development Block Grant program may not be eligible to be enrolled on this program. Lack of necessary documents could question their eligibility as a recipient of the program and the potential for a disallowed cost.

Recommendation

PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Childcare Program.

Prior Year Status

Lack of adequate controls to ensure all required documents are submitted by the applicant was reported as a finding in the Single Audits of PSS since fiscal years 1997 through 2001.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Child Care and Development Block Grant

Finding No. 02-5, Continued

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Auditee Response and Corrective Action Plan

Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Consolidated Grants to Insular Areas

Finding No. 02-6

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> As stated in the state plan under the Safe and Drug Free Program, PSS would prepare an annual report detailing the progress towards its goals/objectives. The PSS Public Information Office will prepare a press release on the report and will disseminate the press release to all media outlets (radio, TV, and newspaper). Copies of the report itself will be available when requested by the media, parent groups, government and community leaders or others who would ask for the report.</p> <p><u>Condition</u> PSS does not prepare an annual report that would detail progress toward its goals/objectives.</p> <p><u>Cause</u> The cause of the above condition is the lack of system that will document, monitor, and evaluate the various activities administered by PSS as a grantee agency.</p> <p><u>Effect</u> The effect of this condition is possible disallowed costs and non-compliance with the grant terms and conditions.</p> <p><u>Recommendation</u> PSS should adopt a system that will ensure compliance with the grant terms and conditions.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the 2001 audit report.</p> <p><u>Auditee Response and Corrective Action Plan</u> With the implementation of the internal monitoring program, programs being carried out under this grant will be properly monitored and evaluated to ensure that all federal requirements are being complied to.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Consolidated Grants to Insular Areas

Finding No. 02-7

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> Based on 34 CFR 76.700, "a state shall comply with the state plan and applicable statutes and shall use Federal Funds in accordance with those plans and regulations". As stated in the state plan, PSS is required to submit an end of the year annual report to US Department of Education evaluating the various Title VI programs and activities. In relation to this, the report must contain information covering the programs for which the grant is used and administered.</p> <p><u>Condition</u> PSS failed to submit an annual report to the U.S Department of Education.</p> <p><u>Cause</u> PSS has not adopted any system to monitor how the programs were carried out under the consolidated grant and the enforcement of obligations under the applicable statutes and regulations.</p> <p><u>Effect</u> The effect of this condition is non-compliance with the terms and conditions of the grant.</p> <p><u>Recommendation</u> The SEA should adopt a system that will ensure compliance with the requirements of the State Plan.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.</p> <p><u>Auditee Response and Corrective Action Plan</u> With the implementation of the internal monitoring program, programs being carried out under this grant will be properly monitored and evaluated to ensure that all federal requirements are being complied to.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Nutrition Assistance Grant

Finding No. 02-8

CFDA no.: Findings/Noncompliance

10.555

Questioned
Costs

\$ -

Criteria

As stated in the Memorandum of Understanding, Quarterly Performance Report shall be submitted no later than 30 days after the end of the quarter to which they pertain (that is, January 30, April 30, July 30, and October 30). This report shall be submitted on a quarterly basis in accordance with the indicated timeframes for each fiscal year's grant until the grant is fully expended or recovered by FNS.

Condition

Review of the Quarterly Performance reports concerning submission compliance are noted as follows:

	<u>Date</u> <u>Submitted</u>	<u>No. of</u> <u>days late</u>
Quarter ended December 31, 2001	02/27/02	27 days

Cause

The cause of the above condition is PSS did not maintain and adhere to a schedule of federal reporting deadlines.

Effect

The effect of the above condition is lack of compliance with grant terms and conditions.

Recommendation

I recommend that PSS should adhere to the schedule of federal reporting deadlines.

Prior Year Status

The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Nutrition Assistance Grant

Finding No. 02-8

CFDA no.: Findings/Noncompliance

Questioned
Costs

10.555

\$ -

Auditee Response and Corrective Action Plan

Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Nutrition Assistance Grant

Finding No. 02-9

<u>CFDA no.:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555		\$ -

Criteria

The Article 5 of the Memorandum of Understanding between the Commonwealth of the Northern Mariana Islands (CNMI) and the Food and Nutrition Service (FNS), U.S. Department of Agriculture requires the CNMI to complete and submit to FNS, within six months of fiscal year end, an independent audit (Single Audit) of the Nutrition Assistance Grant funds.

Condition

The CNMI/PSS has not complied within the period required for the submission of annual Single Audit of the Nutrition Assistance Grant for fiscal year 2002.

Cause

The cause of the above condition is PSS did not contract for a Single Audit or close its records in a timely manner.

Effect

The effect of the above condition is a lack of compliance with the Memorandum of Understanding terms and conditions.

Recommendation

I recommend the annual Single Audit be contracted prior to year-end.

Prior Year Status

The above condition has been reported as a finding since fiscal years 1998 through 2001.

Auditee Response and Corrective Action Plan

PSS concurs. With the multi-year Request for Proposal for the Single Audit, PSS would be able to be current in the annual agency audit for fiscal year 2003.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Child Care and Development Block Grant

Finding No. 02-10

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Criteria

In accordance with 45 CFR §98.71, Grantees that receive assistance Block Grant shall prepare and submit an annual report every December 31 of each year.

At a minimum, a grantee's report to the Secretary shall:

- a. Specify the uses for which the Grantee expended funds under §98.50 through 98.52 and the amount of funds expended for such uses, pursuant to §98.13(a)(6).
- b. To the extent data are reasonably available, contain available data on the manner in which the child care needs of families in the area served by the Grantee are being fulfilled, including information concerning:
 1. The number of children being assisted with funds provided under the Block Grant, and under other Federal child care;
 2. The type and number of child care programs, child care providers, caregivers, and support personnel located in the area served by the Grantee;
 3. Salaries and other compensation paid to full and part-time staff who provide child care services; and
 4. Activities to encourage public private partnerships that promote business involvement in meeting child care needs.
- c. Describe the extent to which the affordability and availability of child care services has increased.
- d. If applicable, the findings of the Grantee's review of its licensing and regulatory requirements and policies, pursuant to §98.41, including a description of actions taken by the Grantee in response to such review.
- e. Contain, if applicable, an explanation of any grantee action, which reduces the level of childcare standards.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Child Care and Development Block Grant

Finding No. 02-10, Continued

<u>CFDA no.:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.575	<p><u>Criteria</u> f. Describe the standards and health and safety requirements applicable to child care providers in the State or other area served by the Grantee. g. Any additional information that the Department of Secretary shall require.</p> <p><u>Condition</u> PSS failed to comply with the submission of the annual report.</p> <p><u>Effect</u> This might affect the performance of PSS as both a State Educational Agency (SEA) and Local Educational Agency (LEA).</p> <p><u>Recommendation</u> PSS should comply with the reporting requirements of the Childcare funds.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.</p> <p><u>Auditee Response and Corrective Action Plan</u> PSS agrees with the finding. The implementation of the internal monitoring program would help ensure that the PSS complies with all the federal requirements of this program and that all responsibilities of PSS as both the SEA and LEA are performed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-11

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> Among the various activities under the Technical Assistance Program of PSS as a State Educational Agency is the design of a responsive plan to provide school/PSS site-based opportunities for staff to learn new concepts and methodologies. This program will include special activities (such as monitoring, etc.) for new teachers to assure they have the skills needed to assist schoolchildren in meeting challenging academic standards.</p> <p>As part of the evaluation process for the aforementioned activities, reports will be developed as to how specific staff benefiting from this strategy provided the assistance required to effectively implementing SEA strategies and LEA innovative assistance programs.</p> <p><u>Condition</u> No evaluation is being done for the aforementioned activities.</p> <p><u>Cause</u> PSS lacks a system that will document, monitor, and evaluate its various activities.</p> <p><u>Effect</u> The effect of this condition is possible disallowed costs.</p> <p><u>Recommendation</u> The SEA should enforce existing internal policies and procedures and comply with the requirements of the State Plan.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-11, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<u>Auditee Response and Corrective Action Plan</u> With the combined plan of implementing an internal monitoring program and assigning a staff from the Human Resource Office for Staff Development will help ensure that federal grant requirements are met.	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-12

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> Based on the state plan, under the Comprehensive Student Achievement & Participation Program, students need to be able to participate in CNMI-wide, national and international competitions and programs in order that they may overcome the isolation effects of CNMI's insular existence. Obligation documents on file in the Fiscal Section will indicate the materials purchased and travel completed as it relates to various competitions. Monthly reports will document CNMI-wide or off-island activities.</p> <p><u>Condition</u> Reports are not maintained to document the activities mentioned above.</p> <p><u>Cause</u> PSS lacks a system that will document, monitor, and evaluate its various activities.</p> <p><u>Effect</u> The effect of this condition is possible disallowed costs and non-compliance with the grant terms and conditions.</p> <p><u>Recommendation</u> PSS should adopt a system that will ensure compliance with the grant terms and conditions.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-12, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A		\$ -

Auditee Response and Corrective Action Plan

PSS agrees with the finding. Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-13

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> As stated in 34CFR Part 76.132, the recipient should evaluate the effectiveness of the programs in meeting the purposes and objectives in the authorizing statutes under which programs are used and administered and an interval evaluation of these programs must be conducted in accordance with the procedures the Secretary of Education may prescribe.</p> <p><u>Condition</u> PSS did not conduct any evaluation of the programs to ensure its effectiveness in meeting its purposes and objectives.</p> <p><u>Cause</u> The cause of the above condition is a lack of system in administering a grant award.</p> <p><u>Effect</u> This would affect the performance of PSS as a State Educational Agency. Failure to monitor and evaluate their programs and activities demonstrate neglect on their responsibility as both SEA and LEA.</p> <p><u>Recommendation</u> PSS should assign one Federal Program Officer in monitoring and providing assistance on the institutions that carry out the programs under this grant and evaluate the effectiveness of these programs in meeting the purposes and objectives of this grant.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.</p> <p><u>Auditee Response and Corrective Action Plan</u> PSS concurs. The internal monitoring program will ensure compliance with the existing terms and conditions of its federal programs.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-14

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> Based on the terms and conditions stated on the state plan regarding the local use of funds, all procurement orders will be received by PSS, stamped as property of PSS, and then loaned to the schools for use in the approved innovative assistance programs. An inventory will be maintained for all materials sent to the schools.</p> <p><u>Condition</u> PSS does not maintain an inventory of materials sent to the schools.</p> <p><u>Cause</u> The cause of the above condition is the lack of system that will document, monitor, and evaluate the various activities administered by PSS as a grantee agency.</p> <p><u>Effect</u> The effect of this condition is possible disallowed costs and non-compliance with the grant terms and conditions.</p> <p><u>Recommendation</u> PSS should adopt a system that will ensure compliance with the grant terms and conditions.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2001.</p> <p><u>Auditee Response and Corrective Action Plan</u> The plan of implementing an internal monitoring program is an enhanced effort of the PSS to ensure that all federal requirements are being complied to and that all responsibilities of PSS as both the SEA and LEA are performed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 02-15

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Criteria</u> One of the methods for monitoring the implementation of the programs at the Local Educational Agency under the Safe and Drug Free Schools Program is site visitation to all schools at least once every fiscal quarter during which, technical assistance will be provided.</p> <p><u>Condition</u> The Federal Program Office did visit schools during school years 2001 - 2002 but no documentation of the dates was logged. They were only able to document the meeting with all school on Safe & Drug Free issues on May 10, 2002.</p> <p><u>Cause</u> PSS lacks a system that will facilitate smooth flow of program operations. In addition, PSS does not have the necessary personnel who will carry out its activities effectively.</p> <p><u>Effect</u> The effect of the above condition is possible non-compliance with grant terms and conditions.</p> <p><u>Recommendation</u> PSS should put a system in place that will ensure compliance with the grant terms and conditions, as well as facilitate smooth flow of program operations.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal years 2000 and 2001.</p> <p><u>Auditee Response and Corrective Action Plan</u> The Public School will implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office and will be conducted in an independent environment.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-16

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria</u> Based on the State Plan, PSS shall consult with the representatives of private school children in deciding how to conduct the annual count of the number of private school children with disabilities and ensure that count is conducted on December 1 or the last Friday of October each year.</p> <p><u>Condition</u> PSS was not able to provide the Annual Child Count for the year 2002.</p> <p><u>Cause</u> The cause of the above condition is lack of administrative oversight to ensure that all requirements were met in accordance with the State Plan and Federal laws and regulations.</p> <p><u>Effect</u> The child count is being used to determine the amount that PSS will spend on providing special education and related services to private school children with disabilities in the next subsequent fiscal year. With the cited condition, not all children with disabilities in private schools may be included in the population whose needs must be addressed consistent with the goals and objectives of this program.</p> <p><u>Recommendation</u> I recommend PSS to ensure that all requirements on the Federal regulations and activities or services to be performed as stated on the State Plan are all complied with.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-16, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.027

Auditee Response and Corrective Action Plan
PSS concurs. Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-17

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria</u> PSS shall ensure that, in accordance with the requirements and §300.454 - 300.456, a service plan is developed and implemented for each private school child with a disability that has been designated to receive special education and other related services.</p> <p>Under this plan, PSS shall consult with the representatives of private school children in deciding how to conduct the annual count of the number of private school children with disabilities and ensure that count is conducted on December 1 or the last Friday of October each year.</p> <p><u>Condition</u> PSS did not develop a service plan for its implementation on private schools.</p> <p><u>Cause</u> The cause of the above condition is due to non-adherence to the requirements of the CNMI State Plan and federal regulations.</p> <p><u>Effect</u> The services to be provided to eligible private school children may not be properly identified and carried out by PSS.</p> <p><u>Recommendation</u> I recommend PSS to comply with the State plan to ensure that all federal requirements are met.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audits of fiscal years 2000 and 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-17, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.027

Auditee Response and Corrective Action Plan

PSS concurs. Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-18

<u>CFDA no.:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.027

\$ -

Criteria

In accordance with the CNMI Special Education Program 2001-2002 State Plan and as required by 34 CFR §300.152, it is the policy of the Public School System to develop and implement interagency agreements between the Public School System and all other CNMI agencies that provide or pay for services required under the State Plan for children with disabilities. As stated in the State Plan, "the CNMI currently has interagency agreements (sometimes referred to as Memoranda of Understanding) with Vocational Rehabilitation Services, the Division of Youth Services, Head Start, and the Center for Child and Family Guidance (Department of Public Health) which pertain to Part B services."

Condition

There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2001. As justified by PSS, the MOU expired September 30, 1999. No MOU was considered necessary after this date because PSS performs services for the DYS at no charge. No consideration was exchanged between the two parties, DYS and PSS, therefore no MOU is required.

PSS failed to update and make the necessary changes on the documentation of their plans and programs identified in the State Plan.

Cause

The cause of the above condition is lack of administrative oversight to ensure that all the necessary changes or any updates on their plans and programs are timely and properly documented in the State Plan.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 02-18, Continued

<u>CFDA no.:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027		\$ -

Effect

The effect of the above condition is that the Special Education Program may be wrongly construed as not in adherence to the State Plan and federal regulations.

Recommendation

The Special Education Program should update and make the necessary changes on documenting their plans and programs identified in the State Plan.

Auditee Response and Corrective Action Plan

Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Directors, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 02-19

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> Based on the state plan of the Head Start Program, the ten percent (10%) limitation on children from families whose income exceeds the guidelines will be maintained as well as the ten percent (10%) target for children with disabilities.</p> <p><u>Condition</u> PSS lacks management oversight that would ensure compliance with the above criterion. In addition, PSS lacks the necessary system and procedures that will provide concrete data and statistics regarding children with disabilities.</p> <p><u>Cause</u> The cause of the above condition can be attributed mainly to the long-standing vacancy for the position of the Disabilities Services Manager.</p> <p><u>Effect</u> PSS is designated deficient as the grantee agency of the Head Start Program by the Administration for Children and Families (ACF).</p> <p><u>Recommendation</u> PSS should actively pursue recruitment for the Disabilities Services Manager. A system must likewise be established that will warrant compliance with the above criterion even with the absence of a Disabilities Services Manager.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2001.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 02-19, Continued

<u>CFDA no.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600		\$ -

Auditee Response and Corrective Action Plan

PSS had just recently hired a Disabilities Service Manager. This corrective action would help to ensure that program requirements such as stated above are complied with. Also, the necessary system and procedures that will provide concrete data and statistics regarding children with disabilities would be properly established.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 02-20

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.600

\$ -

Criteria

Head Start's educational program is designed to meet the needs of each child, the community served, and its ethnic and cultural characteristics.

Every child receives a variety of learning experiences to foster intellectual, social and emotional growth. Head Start also emphasizes the importance of the early identification of health problems. Every child is involved in a comprehensive health program, which includes immunizations, medical, dental, mental health and nutritional services.

Condition

PSS has unavailable regular services from specialists such as Ophthalmologists and Mental Health Psychologists. Patients are referred only when necessary immediately following the free physical examination required before registering for Head Start. Parents are then responsible for any other expenses incurred during specialized treatment or follow-up services. Specialized dental health services for children with disabilities are not also available locally.

Cause

This was cited as additional demographic problems related to Head Start Operations on the Program Description for the year 2002.

Effect

This is non-compliance of the federal requirement under Head Start Services.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 02-20, Continued

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.600

\$ -

Recommendation

PSS should ensure that each eligible participants of the Head Start program have all the services they are entitled to receive.

Prior Year Status

The above condition has been reported as findings since fiscal years 1998 through 2001.

Auditee Response and Corrective Action Plan

Since the hiring of additional Federal monitor has proven very difficult to implement, the Public School has decided to implement its own internal monitoring program. An audit program will be prepared and implemented by the Internal Auditor of PSS with the assistance of the Comptroller of the Fiscal & Budget Office. They will jointly audit the major Federal programs, which consist of the following: Consolidated Grants, Food & Nutrition, Special Education, Headstart, and Childcare Services.

Each major program will be internally audited once a year. The four internal audits will be conducted in an independent environment, as these internal reports will be communicated directly to the Board of Education, Office of the Public Auditor, and the external auditors.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 02-21

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.600

\$ -

Criteria

Head Start promotes school readiness by enhancing the social and cognitive development of low-income children, including children on federally recognized reservations and children of migratory farm workers, through the provision of comprehensive health, educational, nutritional, social and other services. One basic requirement for admitting Head Start applicants is to conduct initial screening of all applicants, including children with disabilities in order to identify potential health problems or special needs that may be required by each child.

Condition

The initial screening for children with disabilities is conducted by Head Start staff who may lack the necessary competence and experience in handling the process.

Cause

PSS lacks the system that will gear them towards meeting its objectives and compliance with the appropriate federal requirements.

Effect

The effect of the above condition is possible non-compliance with the existing terms of the Head Start program.

Recommendation

PSS should adopt a system and establish the necessary leadership that will ensure compliance with federal requirements and the smooth operations of its Head Start Program.

Auditee Response and Corrective Action Plan

PSS had just recently hired a Health & Disabilities Coordinator. One of its responsibilities is to coordinate the process of assessing children, including the initial screening to determine if a disability exists.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Childcare Development Block Grant

Finding No. 02-22

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Criteria

Payment to childcare providers is made based upon the approved provider's monthly billing. The PSS will issue payment to the vendor within the ten working days of the receipt of the request for payment by PSS' Fiscal & Budget Office. If the proposed provider is not licensed then that provider must secure the appropriate license from the CNMI Department of Community & Cultural Affairs, which is mandated by PL 4-67 to license all day care providers.

Condition

As of September 30, 2002, the regulations imposed on childcare providers were still in draft format. This could imply that there is no clear basis on the PSS to issue payments to the current childcare providers, as they cannot be fully regarded as approved providers since the day care rules and regulations are not yet promulgated.

Cause

The cause of the above condition is unknown.

Effect

Some day care providers may not be eligible to operate if there are no promulgated rules and regulations to comply with.

Recommendation

PSS should coordinate with the Department of Community and Cultural Affairs in ensuring that child care provider regulations has already been adopted and approved for implementation.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2001.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Childcare Development Block Grant

Finding No. 02-22, Continued

CFDA no.: Findings/Noncompliance

Questioned
Costs

93.575

\$ -

Auditee Response and Corrective Action Plan

PSS did not fail to collaborate with DCCA in promulgating day care rules. In 1992, PSS developed a day care rules and regulations, gave the rules to DCCA, but DCCA failed to go through the process of having the rules promulgated. Through technical assistance provided to PSS Child Care program by the Child Care Bureau, it was defined and clarified that DCCA never had any standards or regulations.

Total Questioned Costs

\$ -

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

2001 Audit Findings

Finding No. 01-1

Condition: It appears that PSS does not adequately monitor adherence to its travel policies. Following are the results of the examination performed:

- a. 1 out of 7 travel requests examined was not submitted within ten working days prior to commencement of travel.
- b. 4 out of 7 travel vouchers examined were not submitted within ten working days upon completion of travel.
- c. 2 out of 7 samples tested were not automatically deducted the amount due from payroll for untimely liquidation of travel advance.

Recommendation: PSS should strictly enforce its established policies and procedures in collecting unliquidated travel advances.

Current Status: Unresolved. To date, the Company has not been able to adequately monitor adherence to its travel policies. The same condition was identified as Finding No. 02-01 for financial statements.

Finding No. 01-2

Condition: PSS' balance sheet of general fund as of September 30, 2001 was not balanced. Total assets exceeded total liabilities and fund equity by \$55,938. This amount was adjusted to miscellaneous expenses to correct the balance of the financial statements of PSS.

Recommendation: PSS should consider updating or modifying the design of their current financial management system based on the needs of the organization. This would help the employees on their assigned tasks and generate the desired output for the end users.

Current Status: Unresolved. During FY 2002, PSS' general fund general ledger was not balanced by \$66,030. This condition was noted as Finding No. 02-2 for financial statements.

Finding No. 01-3

Condition: Expenditures pertaining to this program are well supported but PSS failed to adhere to the requirements of the State Plan. There was no proper monitoring of the activities held during the year, no records were maintained on the number of meetings held, the number of parents receiving the training and type of training provided for the fiscal year 2001.

Recommendation: The SEA should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-3.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 01-4

Condition: Eligibility test for the Nutrition Assistance Program showed the following:

- a. 9 or 36% of the participants tested have only one paycheck as proof of income attached to the application form.
- b. 4 or 16% of the participants, who are food stamp recipients, do not have a photocopy of the Food Stamp I.D. card attached to the NAP recipient form to show independent verification of this number.
- c. 1 or 4% of the participants did not indicate the Food Stamp ID card, and no copy of the card was attached to the application form.

For the fiscal year ended September 30, 2001, the Nutrition Assistance Program had total program expenditures of \$3,754,008. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Recommendation: PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation are received before a participant is enrolled in the Food and Nutrition Assistance Program.

Current Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-4.

Finding No. 01-5

Condition: Eligibility test for the Childcare & Development Block Grant showed the following:

- a. 5 applicants or 20% of those tested do not have copy of birth certificates or passports to verify their citizenship.
- b. 3 applicants or 12% of those tested do not have birth certificates to proof that children were under the age of 13.

For the fiscal year ended September 30, 2001, the Childcare Development Block Grant had total program expenditures of \$1,313,743. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Recommendation: PSS should develop internal control policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Childcare Program.

Current Status: Unresolved. The same condition was identified in the fiscal year 2002 as Finding No. 02-5.

Finding No. 01-6

Condition: Eligibility test for the Headstart program showed the following:

- a. 25%, or 5 out of 20 files tested had missing birth certificates or passports.
- b. 10%, or 2 out of 20 files tested did not have dates on the application.
- c. 30%, or 6 out of 20 files tested had no income verification.
- d. 60%, or 12 out of 20 files tested had missing health certificate.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 01-6, Continued

Recommendation: Records showed that no medical and dental screening and examinations were provided for each child enrolled in the Head Start program. For the fiscal year ended September 30, 2001, the Head Start program had total program expenditures of \$1,299,815.

Current Year Status: Unresolved.

Finding No. 01-7

Condition: PSS does not prepare an annual report that details the progress toward meeting its goals/objectives.

Recommendation: PSS should adopt a system that will ensure compliance with the grant terms and conditions.

Current Year Status: Unresolved. The same condition was identified in the 2002 Single Audit as Finding No. 02-6.

Finding No. 01-8

Condition: PSS failed to submit an annual report to the U.S. Department of Education.

Recommendation: The SEA should adopt a system that will ensure compliance with the requirements of the State Plan.

Current Year Status: Unresolved. The same condition was identified as Finding No. 02-7 in the 2002 Single Audit.

Finding No. 01-9

Review of the Quarterly Performance reports concerning submission compliance are noted as follows:

	<u>Date Submitted</u>	<u>No. of days late</u>
Quarter ended December 31, 2000	03/09/01	37 days
Quarter ended April 30, 2001	8/29/01	29 days
Quarter ended October 31, 2001	11/02/01	2 days

Recommendation: I recommend that PSS should adhere to the schedule of federal reporting deadlines.

Current Status: Unresolved. The same condition was identified as Finding No. 02-8 in the 2002 Single Audit.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 01-10

Condition: The CNMI/PSS did not comply within the period required for the submission of annual Single Audit of the Nutrition Assistance Grant for fiscal year 2001, which was due no later than June 30, 2002.

Recommendation: I recommend the annual Single Audit be contracted prior to year-end.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-9.

Finding No. 01-11

Condition: PSS failed to comply with the submission of the annual report.

Recommendation: PSS should comply with the reporting requirements of the Childcare funds.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-10.

Finding No. 01-12

Condition: No evaluation was performed for the activities mentioned above.

Recommendation: The SEA should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-11.

Finding No. 01-13

Condition: Reports were not maintained to document the activities under the Comprehensive Student Achievement & Participation Program.

Recommendation: PSS should adopt a system that will ensure compliance with the grant terms and conditions.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-12.

Finding No. 01-14

Condition: PSS did not conduct any evaluation of the programs to ensure its effectiveness in meeting the program's purposes and objectives.

Recommendation: PSS should assign a Federal Program Officer (or equivalent) in monitoring and providing assistance on the institutions that carry out the programs under this grant and evaluate the effectiveness of these programs in meeting the purposes and objectives of this grant.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-13.

PUBLIC SCHOOL SYSTEM

**Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002**

Finding No. 01-15

Condition: PSS does not maintain an inventory of materials sent to the schools. This is based on the terms and conditions stated on the State Plan regarding the local use of funds.

Recommendation: PSS should adopt a system that will ensure compliance with the grant terms and conditions.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-14.

Finding No. 01-16

Condition: For the fiscal year 2001, PSS conducted only one site visit during the second quarter.

Recommendation: PSS should establish a system in place that will ensure compliance with the grant terms and conditions, as well as to facilitate a smooth flow of program operations.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-15.

Finding No. 01-17

Condition: PSS was not able to provide the Annual Child Count for the year 2001.

Recommendation: PSS should establish procedures to ensure that all requirements on the Federal regulations and activities or services to be performed as stated on the State Plan are all complied with.

Current Status: The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-16.

Finding No. 01-18

Condition: There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2001. As justified by PSS, the MOU expired September 30, 1999. No MOU was considered necessary after this date because PSS performs services for the DYS at no charge. No consideration was exchanged between the two parties, DYS and PSS, therefore no MOU is required. PSS failed to update and make the necessary changes on the documentation of their plans and programs identified in the State Plan.

Recommendation: The Special Education Program should update and make the necessary changes on documenting their plans and programs identified in the State Plan.

Current Status: Unresolved. The same condition was identified in the 2002 audit report as Finding No. 02-18.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 01-19

Condition: PSS did not develop a service plan for its implementation on private schools.

Recommendation: PSS should establish internal control policies and procedures to ensure compliance with federal requirements.

Current Status: Unresolved. The same condition was identified in the 2002 fiscal year audit as Finding No. 02-17.

Finding No. 01-20

Condition: PSS was not able to provide a report that would verify an analysis of CNMI needs for professional development was conducted during the year.

Recommendation: PSS was not able to provide a report that would verify an analysis of CNMI needs for professional development was conducted during the year.

Current Status: Resolved. PSS hired a CSPD Coordinator, Josephine Mesa, in January of 2001. Ms. Mesa has conducted an analysis of CNMI needs for professional development for personnel to serve children with disabilities. This can be seen in the Eligibility Document 2002, Continuous Improvement Monitoring Process (CIMP Report).

Finding No. 01-21

Condition: There were no site visits made to selected schools to review IEP's during the fiscal year ended September 30, 2001. Therefore, the State Educational Agency did not comply with the terms set forth in the 2000-2001 State Plan and as required by 34 CFR §300.146.

Recommendation: The SEA should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Status: Unresolved. For FY 2002, PSS was able to conduct site visits on selected schools on reviewing their IEP's.

Finding No. 01-22

Condition: As of September 30, 2001, the regulations imposed on childcare providers were still in draft format. This could imply that there is no clear basis on the PSS to issue payments to the current childcare providers, as they cannot be fully regarded as approved providers since the day care rules and regulations are not yet promulgated.

Recommendation: PSS should coordinate with the Department of Community and Cultural Affairs in ensuring that child care provider regulations has already been adopted and approved for implementation.

Current Status: Unresolved. The same condition was identified in the Single Audit of fiscal year 2002 as Finding No. 02-22.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 01-23

Condition: PSS lacks management oversight that would warrant compliance with the criteria in meeting the needs of each child. In addition, PSS lacks the necessary system and procedures that will provide concrete data and statistics regarding children with disabilities.

Recommendation: PSS should actively pursue recruitment for the Disabilities Services Manager. A system should be established to ensure compliance with the above criterion even with the absence of a Disabilities Services Manager.

Current Status: Unresolved. The same condition was identified in the 2002 audit report as Finding No. 02-19.

Finding No. 01-24

Condition: During SY 2001-2002, PSS failed to maintain the teacher/pupil ratio of 1:20. Actual teacher/pupil ratio during 2001 was 1:21.

Recommendation: PSS should adopt a system that will effectively monitor compliance of PSS with the required ratio of pupils to teacher/teacher aide.

Current Status: Unresolved.

Finding No. 01-25

Condition: PSS does not have regular services available from specialists such as Ophthalmologists and Mental Health Psychologists. Patients are referred only when necessary immediately following the free physical examination required before registering for Head Start. Parents are then responsible for any other expenses incurred during specialized treatment or follow-up services. Specialized dental health services for children with disabilities are not also available locally.

Recommendation: PSS should ensure that each eligible participants of the Head Start program have all the services they are entitled to receive.

Current Status: Unresolved. The same condition was identified in the Single Audit of FY 2002 as Finding No. 02-20.

2000 Audit Findings

Finding No. 00-3

Condition: It appears that PSS does not adequately monitor adherences to its travel policies. As of fiscal year ended September 30, 2000, PSS outstanding travel advances was \$552,799 of which significant amount pertains to prior years.

Recommendation: PSS should strictly enforce its established policies and procedures in collecting unliquidated travel advances.

Current Year Status: Unresolved. The same condition was identified as Finding No. 02-1 for financial statements in the Single audit of FY 2002.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 00-8

Condition: PSS' balance sheet of general and special fund as of September 30, 2000 was not balanced. The difference noted on one fund was traced and located from the other fund.

Recommendation: PSS should consider updating or modifying the design of their current financial management system based on the needs of the organization. This would help the employees on their assigned tasks and generate the desired output for the end users.

Current Year Status: Unresolved. This condition was noted as Finding No. 02-2 for financial statements in the Single Audit of fiscal year 2002.

Finding No. 00-9

Condition: Expenditures pertaining to Consolidated Grant Program are well supported but PSS failed to adhere to the requirements of the State Plan. There was no proper monitoring of the activities held during the year, no records were maintained on the number of meetings held, the number of parents receiving the training and type of training provided for the fiscal year 2000.

Recommendation: PSS as the State Educational Agency should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Year Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-03. PSS is currently actively pursuing the recruitment of a federal programs officer who will be responsible for monitoring all federal grant requirements.

Finding No. 00-10

Condition:
Eligibility test for the Nutrition Assistance Program produced the following results:

- a. 6 participants or 24% of the participants tested have only one paycheck as proof of income attached to the application form.
- b. 7 participants or 28% of the participants, who are food stamp recipients, do not have a photocopy of the Food Stamp I.D. card attached to the Nap recipient form to show independent verification of this number.

For the fiscal year ended September 30, 2000, the Nutrition Assistance Grant program had total program expenditures of \$3,756,184. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Recommendation: PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Nutrition Assistance Grant Program.

Current Year Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-04.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 00-11

Condition: Eligibility test for the Child Care and Development Block Grant showed the following:

- c. 7 applicants or 28% do not have copy of birth certificates or passports to verify their citizenship
- d. 6 applicants do not have birth certificates to proof that children were under the age of 13.

For the fiscal year ended September 30, 2000, the Childcare Development Block Grant had total program expenditures of \$825,712. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Recommendation: PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Childcare Program.

Current Year Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-05.

Finding No. 00-14

Condition: For its Consolidated Grant Program, PSS failed to submit the annual report to U.S Department of Education.

Recommendation: PSS should comply with this requirement and implement a system to ensure that all their responsibilities as both a State Educational Agency (SEA) and Local Educational Agency (LEA) are performed.

Current Year Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-07.

Finding No. 00-15

Condition: Review of the Quarterly Performance reports concerning submission compliance for the Nutrition Assistance Program are noted as follows:

	<u>Date Submitted</u>	<u>No. of days late</u>
Quarter ended December 31, 1999	03/28/00	56 days
Quarter ended September 30, 2000	03/09/01	129 days

Recommendation: I recommend that PSS should adhere to schedule of federal reporting deadlines.

Current Year Status: Unresolved. The same condition was identified in the fiscal year 2002 audit as Finding No. 02-08.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 00-16

Condition: The CNMI/PSS has not complied within the period required for the submission of annual Single Audit of the Nutrition Assistance Grant for fiscal year 2000.

Recommendation: I recommend the annual Single Audit be contracted prior to year-end.

Current Year Status: Unresolved. The same condition was noted in the fiscal year 2002 audit as Finding No. 02-9.

Finding No. 00-17

Condition: PSS failed to comply with the submission of annual report for its Child Care and Development Block Grant.

Recommendation: PSS should comply with the reporting requirements of the Childcare funds.

Current Year Status: Unresolved. The same condition was noted in the fiscal year 2002 audit as Finding No. 02-10.

Finding No. 00-18

Condition: PSS did not conduct any evaluation of the programs under the Consolidated Grant Program to ensure its effectiveness in meeting its purposes and objectives.

Recommendation: PSS should assign one Federal Program Officer in monitoring and providing assistance on the institutions that carry out the programs under this grant and evaluate the effectiveness of these programs in meeting the purposes and objectives of this grant.

Current Year Status: Unresolved.

Finding No. 00-19

Condition: Under the Special Education Program, no service plan was developed and implemented for each private school child with a disability that has been designated to received special education and other related services.

Recommendation: I recommend PSS to comply with the State plan to ensure that all federal requirements are met.

Current Year Status: Unresolved.

Finding No. 00-20

Condition: PSS was not able to provide the Annual Child Count for its Special Education Program in the year 2000.

Recommendation: I recommend PSS to ensure that all requirements on the Federal regulations and activities or services to be performed as stated on the State Plan are all complied with.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 00-20, Continued

Current Year Status: Unresolved. For Fiscal year 2001, an annual child count was established as seen in the 22nd Annual Report Congress.

Finding No. 00-21

Condition: PSS was not able to provide a report that would verify an analysis of CNMI needs for professional development was conducted during the year under its Special Education Program.

Recommendation: PSS should ensure that all requirements as stated in the State Plan are complied with.

Current Year Status: Unresolved.

Finding No. 00-22

Condition: There were no site visits made to selected schools to review IEP's during the fiscal year ended September 30, 2000. Therefore, the State Educational Agency did not comply with the terms set forth in the 2000-2001 Special Education Program's State Plan and as required by 34 CFR §300.146.

Recommendation: The SEA should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Year Status: Unresolved.

Finding No. 00-23

Condition: There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2000. The MOU with the Center for Child and Family Guidance was implemented on October 1, 1996 but did not have an annual review performed as stipulated.

Recommendation: The Special Education Program should comply with the requirements of the CNMI State Plan and federal regulations by signing MOU's with appropriate agencies and conduct annual reviews as stipulated on their agreements.

Current Year Status: Unresolved.

Finding No. 00-24

Condition: Records showed that no medical and dental screening and examinations were provided for each child enrolled in the Head Start program.

For the fiscal year ended September 30, 2000, the Head Start program had total program expenditures of \$1,237,018.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 00-24, Continued

Recommendation: PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Head Start Program. Furthermore, PSS should establish stringent policies and controls to ensure that all children in the Head Start program receive timely and complete medical and dental evaluations as required by 45 CFR §1304.3-3 and the CNMI Head Start General Health Services Written Plan, FY 2000-01.

Current Year Status: Unresolved.

Finding No. 00-25

Condition: PSS has unavailable regular services from specialists such as Ophthalmologists and Mental Health Psychologists. Patients are only referred only when necessary immediately following the free physical examination required before registering for Head Start. Parents are then responsible for any other expenses incurred during specialized treatment or follow-up services. Specialized dental health services for children with disabilities are not also available locally.

Recommendation: PSS should ensure that each eligible participants of the Head Start program have all the services they are entitled to receive.

Current Year Status: Unresolved.

1999 Findings

Finding No. 99-9

Condition: It appears that PSS does not adequately monitor adherences to its travel policies. As of fiscal year ended September 30, 1999, PSS outstanding travel advances were \$508,212, of which, a significant amount pertains to prior years.

Recommendation: PSS should strictly enforce its established policies and procedures in collecting unliquidated travel advances.

Current status: Unresolved. To date, the Company has not been able to adequately monitor adherence to its travel policies.

Finding No. 99-13

Condition: The files that were examined were provided by the Special Education (SPED) Central Office and reviewed on the premises. Generally, the files appeared incomplete, disorganized, and lacking in attention to detail. Many documents were incomplete or altogether missing. Those documents that were present were generally lacking a combination of required signatures, complete and relevant dates, correct student date of birth, and check boxes that were marked.

25 files were reviewed.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-13, Continued

Although fourteen of the 25 files were on students with disabilities that had been in the program prior to 1999, four of those files contained complete information so it can reasonably be assumed that the documentation of eligibility determination did not significantly change from one state plan to the next. Consequently, all 25 files were audited for the stated criteria. Specific information is as follows:

- a) Thirteen files or 52% of the 25 files did not contain the annual IEP as required by the 1997-1999 State Plan and 34 CFR §300.342.
- b) Sixteen files or 64% of the 25 files lacked a properly documented Referral.
- c) Eight files or 32% of the 25 files had incomplete or missing Permission to Test and/or Release of Information forms.
- d) Twelve files or 48% of the 25 files had incomplete or missing documentation of initial CST Meetings.
- e) Fourteen files or 56% of the 25 files had missing Eligibility Meeting documents or the Eligibility Meeting was not held within the designated timeline for final assessment of student disability.

Recommendation: Recommendations include adherence to established policies and procedures, increased administrative oversight, the use of standardized forms, following the State Plan and applicable federal regulations, developing a checklist to be included in each student file, and following a set organizational scheme for the documents in the student files to facilitate easy retrieval.

Current Status: Unresolved. With the implementation of the school visits to review IEP's, the individual students files will be complete and organized. The central office files will be reviewed, completed and organized in an efficient manner. A checklist for the content of each fill will be developed and used to monitor and assure that the files are complete and organized. School principals will be given a memo describing the condition of the student files and corrective action measure if needed to correct the deficiencies.

Finding No. 99-14

Condition: There were no site visits made to selected schools to review IEP's during the fiscal year ended September 30, 1999. Therefore, the State Educational Agency (SEA) did not comply with the terms set forth in the 1997-1999 State Plan and as required by 34 CFR §300.146.

Recommendation: The State Educational Agency (SEA) should enforce existing internal policies and procedures and comply with the requirements of the State Plan.

Current Status: Unresolved. As indicated on the auditee's response and corrective plan, site visits will be conducted to review the IEP's on a cyclical basis. Two schools per month will be reviewed and it would be the data clerk who will determine the selection of the schools. Consideration as to the size and number of students per school will determine the review schedule. Reviews are scheduled to begin in September 2002 through May 2003.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-15

Condition: There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2000. The MOU with the Center for Child and Family Guidance was implemented on October 1, 1996 but did not have an annual review performed as stipulated. It was not reviewed and updated until January 31, 1999.

Recommendation: The Special Education Program should comply with the requirements of the CNMI State Plan and federal regulations by signing MOU's with appropriate agencies.

Current Status: Unresolved. As indicated on its auditee's response and corrective action plan, the CNMI Eligibility Document (formerly referred to as the State Plan) was submitted to the US Office of Special Education in June 2002 for review and approval. All required interagency agreements as stipulated in the Eligibility Document and Procedure Manual will be developed and implemented. The same condition was identified as Finding No. 01-19 in the fiscal year 2001 audit report.

Finding No. 99-16

Condition: The Special Education Program was unable to provide the respective SESAP and Special Education Program annual reports for the 1998-1999 school year.

Recommendation: The Special Education Program and the Special Education State Advisory Panel should comply with the requirements set forth in the CNMI State Plan and federal regulations

Current Status: Unresolved. Enhanced effort will be made to ensure PSS complies with the requirements set forth in the CNMI State and Federal regulations.

Finding No. 99-18

Condition:

- a. Fifteen files or 60% of the 25 files had incomplete or missing health records.
- b. Two files or 8% of the 25 files did not have dates on the application.
- c. One file or 4% of the 25 files had no income verification.

Recommendation: PSS should establish stringent policies and controls to ensure that all children in the Head Start program receive timely and complete medical and dental evaluations as required by 45 CFR §1304.3-3 and the CNMI Head Start General Health Services Written Plan, FY 1998-99. Furthermore, PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Head Start Program.

Current Status: Unresolved. As identified on its auditee's response and corrective plan, enhanced effort to monitor all necessary documentation of each child enrolled within the Headstart program. A memorandum dated April 2002 was issued to program managers enforcing administrative compliance, participants receiving this program are to be monitored, reviewed and updated annually.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-22

Condition: Ten disbursements or 23% of 43 disbursements tested were travel advances that were not liquidated in accordance with PSS policy.

<u>Date of travel</u>	<u>Date of liquidation</u>	<u>APV #</u>	<u>Amount</u>
05/22/98	06/02/99	1646	\$ 15.00
06/18/98	06/02/99	1638	140.00
07/09/98	06/02/99	1636	1,305.95
02/10/98	06/02/99	1639	85.00
06/16/98	06/02/99	1640	85.00
12/09/97	06/02/99	1644	15.00
06/30/98	06/03/99	1666	15.00
01/30/98	06/02/99	1625	1,745.00
08/03/98	06/02/99	1627	315.00
04/26/98	06/02/99	1637	<u>1,063.55</u>
		Total	<u>\$ 4,784.50</u>

Recommendation: PSS's travel policy should be strictly enforced and all Travel Advances that are not liquidated within 15 days should be investigated immediately.

Current Status: Unresolved.

Finding No. 99-26

Condition: The cumulative expenditures reported per SF-269 relating to 1999 grant as of September 30, 1999 shows variance when compared to the general ledger as follows:

Total expenditures per SF-269 (org. 5901, 5902, 5903, 5904, 5905, 5906, 5907, 5909, 5910, 5912 and 5919)	\$ 2,325,224
Total expenditures per general ledger for same organization	<u>2,402,689</u>
Variance	<u>\$ (77,465)</u>

Recommendation: I recommend PSS reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. For fiscal years 2000 to 2002, PSS has taken the corrective actions to reconcile their records for all amounts reported to the grantor agency. The cumulative expenditures reported per SF-269 in FY's 2000 to 2002 ties up with amount in the general ledger.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-27

Condition: There were no PMS-272's relating to the year ended September 30, 1999 found on file thus adherence to the requirement could not be determined.

Recommendation: PSS should prepare and retain all required federal financial reports.

Current Status: Unresolved. Enhanced efforts were already made in fiscal years 2000 to 2002 in preparing and retaining all required reports. This was subsequently corrected, as there was no finding identified with the same condition in fiscal years 2000 to 2002 audits.

Finding No. 99-28

Condition: The SF-269A expenditures reported for period covering October 1, 1998 to September 30, 1999 relating to the 1998 grant shows variance when compared to general ledger expenditures as follows:

Total expenditures per SF-269A (org. 2876, 2877, 2878, 2879 and 2880)	\$ 925,069
Total expenditures per general ledger for same orgs	<u>826,077</u>
	98,992
Prior fiscal year overstatement of general ledger expenditures	<u>(98,992)</u>
	<u>\$ -</u>

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. For the fiscal years 2000 to 2002, PSS has taken corrective actions to reconcile their records for all amounts reported to the grantor agency. The cumulative expenditures reported per SF-269 in 2002 to 2000 ties up with amount in the general ledger.

Finding No. 99-29

Condition: The amounts reported per SF-269 relating to 1998 grant covering expenditures from October 1, 1998 to September 30, 1999 filed and submitted on October 18, 1999 noted difference against general ledger as follows:

Expenditures per SF-269 from October 1, 1998 to September 30, 1999	\$ 829,116
Expenditures per general ledger for orgs 2883, 2884 and 2885	<u>(825,994)</u>
Variance	<u>\$ (3,122)</u>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-29, Continued

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency.

Current Status: Unresolved. Enhanced efforts were made in fiscal years 2000 to 2002 to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. The cumulative expenditures reported per SF-269 in fiscal years 2000 to 2001 ties up with amount in the general ledger.

Finding No. 99-30

Condition: The SF-269 for the second quarter of the 1999 grant covering the months from January 1999 to March 1999 was filed eight days late. There were no SF-269 for third and fourth quarter covering period of April 1, 1999 to June 30, 1999 and July 1, 1999 to September 30, 1999, respectively. The cumulative expenditures of the annual reports when compared to general ledger shows variance as follows:

Cumulative expenditures to September 30, 1999 per SF-269	\$ 1,222,697
Cumulative expenditures to September 30, 1999 per general ledger for orgs 2981 and 2982	<u>1,187,010</u>
Variance	<u>\$ 35,687</u>

Recommendation: PSS should adhere to reporting deadlines. I additionally recommend that transfers between organization within the same grant be minimized and when considered appropriate, be performed in a timely manner.

Current Status: Unresolved. Enhanced efforts were made to submit the required financial reports in a timely manner and that the amounts reported to the grantor agency reconciles with the general ledger. In the fiscal years 2000 to 2002 audits, the cumulative expenditures reported per SF-269 ties up with amount in the general ledger and PSS was able to adhere to the reporting deadlines.

Finding No. 99-31

Condition: Variances were noted between the cumulative expenditures reported per fourth quarter status report (PMS 272-A) and the general ledger as follows:

Total expenditures per PMS 272-A quarter end for organization 2981 and 2982	\$ 1,257,645
Total expenditures per general ledger for same organization	<u>1,187,010</u>
Variance	<u>\$ 70,635</u>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-31, Continued

Recommendation: I recommend PSS reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were subsequently made to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. In the fiscal years 2000 to 2002 audits, the cumulative expenditures reported per PMS-272 ties up with amount in the general ledger.

Finding No. 99-32

Condition: The PMS-272 for the quarter period ending June 30, 1999 was signed and submitted on August 23, 1999 (nine days late). The total expenditures show variance when compared to general ledger as follows:

Total reported expenditures for 1999 relating to 1998 grant (organization 2881 and 2882)	\$ 110,248
Total expenditures per general ledger for same organization	<u>7,116</u>
Variance	<u>\$ 103,132</u>

Recommendation: I recommend PSS reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were subsequently made to ensure that the amounts reported to the grantor agency reconciles with the general ledger and submitted in compliance with the reporting requirement. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. In the fiscal years 2000 to 2002 audits, the cumulative expenditures reported per PMS-272 agrees with amount in the general ledger and timely submission of the reports was adhered to.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-33

Condition: Variances were noted between the program expenditures for the Childcare and Development Block Grant per the fourth quarter status report and the general ledger as follows:

Total 1999 expenditures relating to 1998 grant (organization 2890, 2891, 2894 per ACF-696 and PMS-272)	\$ 77,215
Total expenditures per general ledger for same organization	<u>74,475</u>
Variance	<u>\$ 2,740</u>

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were made to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. In the fiscal years 2000 to 2002 audits, the cumulative expenditures reported per ACF-696 and PMS-272 ties up with amount in the general ledger.

Finding No. 99-34

Condition: Review of the PMS reports concerning submission compliance are noted as follows:

	<u>Date Submitted</u>	<u>No. of days late</u>
PMS-272 quarter ended March 31, 1999	June 16, 1999	32 days
PMS-272 quarter ended June 30, 1999	August 23, 1999	9 days
PMS-272 quarter ended September 30, 1999	November 22, 1999	8 days

Recommendation: I recommend that PSS should adhere to schedule of federal reporting deadlines.

Current Status: Unresolved. Submission of the report was late due to unavailability form in the internet. Enhanced effort was made to submit the PMS-272 on or before the due date. A corrective action was subsequently taken on this condition in fiscal years 2000 to 2002, as there was no finding of the same condition identified during the 2000 to 2002 audits.

Finding No. 99-35

Condition: The ACF-696 for quarter ending June 30, 1999 relating to 1999 grant was submitted three days late from report deadline.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 99-35, Continued

Recommendation: I recommend that PSS maintain and adhere to a schedule of reporting deadlines.

Current Status: Unresolved. Enhanced efforts were made to maintain, adhere to federal reporting requirements and submit financial reports in a timely manner. This was subsequently corrected, as there was no finding of the same condition identified in the audit years of 2000 to 2002.

1998 Audit Findings

Finding No. 98-3

Condition: In eleven disbursements or 28% of the forty payroll disbursements tested, timesheets could not be located on the following:

<u>Date</u>	<u>Check no.</u>	<u>Amount</u>
10/07/97	242837	\$ 977.02
10/22/97	273710	658.59
11/18/97	246810	356.89
12/17/97	248587	997.06
01/01/98	249761	447.72
01/01/98	249980	664.72
01/13/98	250856	752.81
01/13/98	251493	369.63
02/25/98	254109	323.50
02/25/98	254128	319.64
03/11/98	255742	<u>1,046.99</u>
	Total	<u>\$6,914.57</u>

Recommendation: PSS should adhere to established policies and procedures to ensure that all timesheets are complete and properly accounted for prior to disbursements.

Current status: Unresolved. This is a document retention problem. When PSS moved in 2001, some documents were transported to their Lower Base storage and some were misplaced. Extra efforts are being made to file the supporting documents promptly. Subsequently, there was no finding identified with the same condition noted in the fiscal years 2002, 2001 and 2000 audit.

Finding No. 98-4

Condition: In six disbursements or 15% of the forty payroll disbursements tested, employment contracts could not be located.

Recommendation: PSS should adhere to prescribed policies and procedures to ensure that employment contracts are complete and kept on file.

Current status: Unresolved. PSS will be including an Employee File Checklist not only to assist in improving the filing system, but will also ensure that PSS is in compliance with and meeting their policies and procedures.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-7

Condition: There were no detailed subsidiary ledgers for travel advances available for audit as of the fiscal year ended September 30, 1998. The available detailed subsidiary ledger for travel advances is as of April 1, 1999 amounted to \$455,950.

Recommendation: PSS should establish internal control policies and procedures in maintaining its computer records.

Current status: Unresolved. This is a document retention problem. PSS moved from Nauru Building to Capitol Hill and some documents were transported to Lower Base. Enhanced effort was made to maintain subsidiary ledgers on a regular basis. We have provided the auditors the schedule of travel advances and its subsidiary ledger for the audit year 1999 and 2000.

Finding No. 98-9

Condition: It appears that PSS does not adequately monitor adherences to its travel policies. As of fiscal year ended September 30, 1998, PSS outstanding travel advances was \$441,170, of which significant amount pertains to prior years.

Recommendation: PSS should strictly enforce its established policies and procedures in collecting unliquidated travel advances.

Current status: Unresolved. PSS management has made tremendous efforts to inform employees of the travel advance policies. A new travel policy dated August 1, 2002 was issued regarding strict enforcement of the travel liquidation. The policy indicates that 10% of the total travel advances will be withheld and will be paid out to the traveler only upon liquidation; otherwise, the 10% will be forfeited. To date, the Company has not been able to adequately monitor adherence to its travel policies.

Finding No. 98-14

Condition: The department has only one employee and there was no employment contract provided by personnel department.

Recommendation: I recommend that all documents be appropriately retained.

Current status: Unresolved. The contract for Ms. Lilian Bennett was not included with the Notification of Personnel Actions from a period of two years from February 12, 1997 to May 1999. An employee file checklist has been established to keep files in order and to ensure that they are complete with the proper required documents.

Finding No. 98-15

Condition: Personal action forms require approval from the Commissioner of Education. The approval was not present.

Recommendation: I recommend that all documents be properly approved and reviewed for all required purposes.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-15, Continued

Current status: Unresolved. Enhanced efforts will be made to ensure that files are organized and more complete. An employee file checklist is now required to be included in the employee's file to ensure that PSS is in compliance and meets the established policies and procedures.

Finding No. 98-16

Condition: The files that were examined were provided by the Special Education (SPED) Central Office and reviewed on the premises. Generally, the files appeared incomplete, disorganized, and lacking in attention to detail. Many documents were incomplete or altogether missing. Those documents that were present were generally lacking a combination of required signatures, complete and relevant dates, correct student date of birth, and check boxes that were marked.

Two files or 8% of the 25 requested files were not available for review. The two missing files were on students from Rota. Additionally, there was a file on one student that contained documents from two different people with the same name. There were numerous inconsistencies regarding the date of birth and identity of the two individuals so the file was turned over to the Special Education staff for action. There was no additional review performed on that file.

Although seventeen of the 23 files were on students with disabilities that had been in the program prior to 1998, six of those files contained complete information so it can reasonably be assumed that the documentation of eligibility determination did not significantly change from one state plan to the next. Consequently, all remaining 22 files were audited for the stated criteria. Specific information is as follows:

- a) Eight files or 36% of the 22 files did not contain the annual IEP as required by the 1997-1999 State Plan and 34 CFR §300.342.
- b) Eleven files or 50% of the 22 files lacked a properly documented Referral.
- c) Nine files or 41% of the 22 files had incomplete or missing Permission to Test and/or Release of Information forms.
- d) Thirteen files or 59% of the 22 files had incomplete or missing documentation of initial Child Study Team (CST) Meetings.
- e) Nine files or 41% of the 22 files had missing Eligibility Meeting documents or the Eligibility Meeting was not held within the designated timeline for final assessment of student disability.

Recommendation: Adherence to established policies and procedures, increased administrative oversight, the use of standardized forms, following the State Plan and applicable federal regulations, developing a checklist to be included in each student file, and following a set organizational scheme for the documents in the student files to facilitate easy retrieval.

Current status: Unresolved. Enhanced efforts are being made to ensure that established policies and procedures are being adhered to. This was subsequently corrected, as there was no finding identified with the same condition in the fiscal years 2002 and 2001 audits.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-17

Condition: There were no site visits made to selected schools to review Individual Educational Plan's (IEP) during the fiscal year ended September 30, 1998. Therefore, the State Educational Agency (SEA) did not comply with the terms set forth in the CNMI 1997-1999 State Plan and as required by 34 CFR §300.146.

Recommendation: The SEA should enforce existing internal control policies and procedures and comply with the requirements of the State Plan.

Current Status: Unresolved. As indicated on the auditee's response and corrective plan, sites visits will be conducted to review the IEP's on a cyclical basis. Two schools per month will be reviewed and it would be the data clerk who will determine the selection of the schools. Consideration as to the size and number of students per school will determine the review schedule. Reviews are scheduled to begin in September 2002 through May 2003.

Finding No. 98-18

Condition: There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2000. The MOU with the Center for Child and Family Guidance was implemented on October 1, 1996 but did not have an annual review performed as stipulated; it was not reviewed and updated until January 31, 1999.

Recommendation: The Special Education Program should comply with the requirements of the CNMI State Plan and federal regulations by signing MOU's with appropriate agencies and conduct annual reviews as stipulated in their agreements.

Current Status: Unresolved. As indicated on its auditee's response and corrective action plan, PSS is obligated by federal law to provide services for any and all children with disabilities in the CNMI free of charge, there is no federal saying agreements must be signed. If an MOU for a specific student with a specific agency becomes necessary and there is reasonable expectation to receive compensation, PSS will draw up an MOU to meet the needs of the student.

Finding No. 98-19

Condition: Two files or 8% of the 25 requested files were not available for review although all 25 applicants were approved and received childcare assistance.

- a) One applicant (4%) was attending school in California and therefore not eligible for childcare assistance. Documents were later proved that showed guardianship for the child had been transferred to the grandparents but the application was not amended.
- b) One file or 4% out of 23 files was missing proof of income eligibility.
- c) Three files or 13% out of 23 files were missing proof of parental citizenship.
- d) One file or 4% out of 23 files was missing proof of age for the child.
- e) Eleven files or 48% out of 23 files lacked a signed Certificate and Confirmation Form.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-19, Continued

The application form does not contain a space for the name and/or signature of the individual approving the eligibility of the applicant therefore it was not possible to determine the level of involvement of the Childcare Coordinator in the process.

Recommendation: PSS should develop policies and procedures to ensure that all documents supporting eligibility are submitted by each applicant. Additionally, the eligibility application should contain a space for the signature of the Child Care Coordinator. The CNMI State Plan dated 10/1/97 - 9/30/99, Part 4 (4.1) states: "The eligibility determination is made by our Child Care Coordinator." The form currently in use leaves in question the identity of the individual that is making the determination of eligibility.

Current status: Unresolved. PSS agrees to this finding and enhanced effort to review, monitor and update the files of each recipient on a quarterly or annual basis will be made in compliance with the administrative requirements indicated.

Finding No. 98-20

Condition: The list of participant names only included those that were in the program beginning in April 1998 leaving the first six months of the year unaudited.

- a) One participant's name was on the list two times with two different social security numbers. All other demographic information indicated that this was the same person.
- b) The file of one participant (whose name was on the master list) was requested as part of the original 25 files to be reviewed. The auditor was told that his name was on the list in error and that the applicant had been denied benefits.
- c) While examining the supporting documents for cash disbursements from the General Fund, it was noted that there were names of children being submitted by the childcare providers for reimbursement for childcare services whose mother's names were not on the master list of approved participants.
 1. One participant had a completed and approved application on file but the name of the participant was not on the master list.
 2. One participant had a completed and approved application on file but the Certificate and Confirmation Form in the childcare file was not updated for the dates of service indicated by the invoice submitted by the childcare provider. The participant's name was not on the master list.
 3. One participant was lacking an application and eligibility documents. However, the Certificate and Confirmation Form in the childcare file was current for the time period indicated on the invoice submitted by the childcare provider. The participant's name was not on the master list.

Recommendation: PSS should develop policies and procedures to ensure that the master participant list, applicant files, and childcare provider files are periodically monitored and reconciled.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-20, Continued

Current status: Unresolved. Enhanced effort to review, monitor and update the files of each recipient on a quarterly or annual basis was made in compliance with the administrative requirements indicated. There was no finding of the same condition identified in the fiscal years 2002, 2001 and 2000 audits.

Finding No. 98-22

Condition:

- a) Four files or 16% of the 25 files requested for review were not available.
- b) Eight files or 38% of the 21 files had incomplete or missing health records.
- c) Four files or 19% of the 21 files had no proof of birth.
- d) Four files or 19% of the 21 files had no income verification.

Recommendation: PSS should establish stringent policies and controls to ensure that all children in the Head Start program receive timely and complete medical and dental evaluations as required by 45 CFR §1304.3-3 and the CNMI Head Start General Health Services Written Plan, FY 1997-98. Furthermore, PSS should develop policies and monitoring procedures to ensure that all of the necessary documentation is received before a child is enrolled in the Head Start Program.

Current Status: Unresolved. As identified on its auditee's response and corrective plan, enhanced effort to monitor all necessary documentation of each child enrolled within the Headstart program. A memorandum dated April 1, 2002 was issued to program managers enforcing administrative compliance, participants receiving this program are to be monitored, reviewed and updated annually.

Finding No. 98-28

Condition: In six disbursements or 15% of the 39 disbursements tested, there was no underlying or supporting documentation to support the transaction.

<u>Date</u>	<u>APV #</u>	<u>Amount</u>
02/25/98	Unknown	\$ 1,195.00
08/03/98	Unknown	1,050.00
12/18/97	988500	29.81
12/18/97	988400	101.25
09/24/98	986274	5,410.00
06/09/98	984382	420.00
	Total	\$ 8,206.06

In one disbursement or 3% of the 39 disbursements tested the cancelled check was missing for the following transaction.

<u>Date</u>	<u>APV #</u>	<u>Amount</u>
11/03/97	980465	\$ 7,355.15

Recommendation: PSS should establish internal control policies and procedures over procurement and disbursements to ensure that all transactions are properly documented. These transactions should be supported by a requisition, purchase order, invoice, check voucher and receiving report and should be attached and filed together in a manner to facilitate easy retrieval.

Current status: Unresolved.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-29

Condition: In eight disbursements or 24% of the 33 disbursements tested, there was no underlying or supporting documentation to support the transaction.

<u>Date</u>	<u>APV #</u>	<u>Amount</u>
05/01/98	00086968	\$ 3,929.00
08/21/98	211461	1,375.00
12/30/97	988489	94.00
02/03/98	988528	94.00
09/22/98	986246	1,737.34
09/30/98	986451	1,160.00
09/30/98	986619	755.47
09/30/98	986763	519.98
Total		<u>\$ 9,664.79</u>

Recommendation: PSS should establish internal control policies and procedures over procurement and disbursements to ensure that all transactions are properly documented. These transactions should be supported by a requisition, purchase order, invoice, check voucher and receiving report and should be attached and filed together in a manner to facilitate easy retrieval.

Current status: Unresolved.

Finding No. 98-30

Condition: Two disbursements or 6% of thirty-three disbursements tested were property items that had not been identified as the property of PSS.

<u>Date</u>	<u>P.O.#</u>	<u>Check#</u>	<u>Amount</u>	<u>Description</u>
11/18/97	E80023	81926	\$2,097.00	3 ea. White Westing Refrigerator
02/26/98	E80404	84675	2,097.00	3 ea. White Westing Refrigerator

The two transactions detailed above were justified with written documentation as follows:

The memo of justification for the first transaction was dated 10/08/97 and stated that refrigerators were needed at Headstart Centers in Paupau, Kagman, and San Antonio Peer with the refrigerator at San Antonio Peer to be replaced. The receiving report is present and shows that all three refrigerators were received but does not indicate disposition.

The memo of justification for the second transaction was dated 12/12/97 and stated that refrigerators were needed at Headstart Centers in Sinapalo, Kagman, and Dandan with the refrigerator at Dandan to be replaced. The memo further stated that Kagman desperately needed a refrigerator although one was purchased specifically for Kagman two months earlier according to the memo of justification dated 10/08/97. The receiving report is present but does indicate the disposition of the refrigerators.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-30, Continued

A subsequent follow-up memo from the Procurement Office to the warehouse that was written in June 2001 when property records were requested by the auditor documents that there are only 5 White Westinghouse Refrigerators present in the Head Start Centers. There is no record of the whereabouts of the sixth. Additionally, there are no property report records of the six refrigerators and no survey records for the ones taken out of service.

Recommendation: PSS should establish stringent controls and implement written policies and procedures governing the control over property, equipment, and supplies. Annual inventories should be performed and accountability maintained. Additionally, the Procurement Office and the warehouse receiving areas should be located closely enough so that management oversight can be handled with ease and personnel resources utilized in a more efficient manner.

Current status: Unresolved.

Finding No. 98-31

Condition: In one disbursement or 3% of the 33 disbursements tested, the items that were procured were unnecessary to the maintenance and operation of the program. Two different funeral baskets were purchased: one on 9/15/97 for \$75.00 and the other was 9/5/97 for \$47.50.

<u>Date</u>	<u>APV #</u>	<u>Check #</u>	<u>Amount</u>
12/30/97	981316	82911	\$ 122.50

Recommendation: PSS should establish internal control policies and procedures over procurement and disbursements to ensure that all transactions are proper, necessary, and in compliance with established federal regulations.

Current status: Unresolved.

Finding No. 98-33

Condition: The CNMI/PSS has not complied within the period required for the submission of annual Single Audit of the Nutrition Assistance Grant for fiscal year 1998.

Recommendation: We recommend the annual Single Audit be contracted prior to year-end.

Current status: Unresolved. The same condition was identified as Finding No. 01-10 in the fiscal year 2001 audit. Through the multi-year Request for Proposal for the Single Audit, PSS would be able to be current in the annual agency audit.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-35

Condition: The cumulative expenditures reported per SF-269 relating to the July 1, 1996 to September 30, 1998 grant period shows variance when compared to the general ledger as follows:

Total expenditures (org. 5801, 5802, 5803, 5804, 5805, 5807, 5809, 5810 and 5819)	\$ 3,549,779
Total expenditures per general ledger for same orgs	<u>3,564,365</u>
	<u>\$ (14,586)</u>

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were made to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference.

Finding No. 98-36

Condition: There were no PMS-272's relating to the year ended September 30, 1998 found on file thus adherence to the requirement could not be determined.

Recommendation: PSS should prepare and retain all required federal financial reports.

Current Status: Unresolved. Enhanced effort was already made to prepare and retain all required reports. In fiscal years 2000 to 2002 audits, PSS was found to be in adherence to the federal reporting requirements.

Finding No. 98-37

Condition: There is no SF-269 to prove that expenditures for second quarter ended March 31, 1998 has been reported and filed within the required due dates, instead a report of SF-269 covering from September 30, 1997 through June 30, 1998 expenditures was reported and filed on July 10, 1998. Additionally, comparison of the cumulative expenditures as of September 30, 1998 relating to 1998 grant reported per SF-269 against the general ledger shows variance as follows:

Cumulative expenditures as of September 30, 1998 per SF-269	\$ 1,063,533
Cumulative expenditures to September 30, 1998 per general ledger for organization 2881 and 2882	<u>1,055,643</u>
Variance	<u>\$ 7,890</u>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-37, Continued

Recommendation: PSS should adhere to reporting deadlines. I additionally recommend that appropriate adjustments be performed in a timely manner.

Current Status: Unresolved. Enhanced efforts were made to submit the required financial reports in a timely manner and reconcile records for all amounts reported to grantor agency. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. The Federal Program Office is now assigned to prepare the federal required reports. In fiscal years 2000 to 2002 audits, the cumulative expenditures reported per SF-269 ties up with amount in the general ledgers and PSS was found to be in adherence to the federal reporting deadlines.

Finding No. 98-38

Condition: PMS-272 for the fourth quarter ended September 30, 1998 was not signed and dated that adherence to the above requirement could not be determined. Additionally, the report covering expenditures from April 1, 1998 to September 30, 1998 shows variance when compared to general ledger as follows:

Cumulative expenditures as of September 30, 1998 per PMS-272	\$ 1,037,846
Cumulative expenditures as of September 30, 1998 per general ledger for organization 2881 and 2882	<u>1,055,643</u>
Variance	<u>\$ (17,797)</u>

Recommendation: I recommend that PSS properly document the filing of federal financial reports and reconcile records for all amounts reported to grantor agency.

Current Status: Unresolved. Enhanced efforts were made to properly document the filing of federal financial reports and reconcile records for all amounts reported to grantor agency. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. In fiscal years 2000 to 2002 audits, the cumulative expenditures reported per PMS-272 tie up with amounts in the general ledgers and filing of federal financial reports is properly documented.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-39

Condition: The cumulative expenditures reported relating to 1998 grant per Federal Financial Reports PMS-272 and ACF-696 shows variance when compared to general ledger as follows:

Total expenditures (organization 2890, 2891, 2892, 2894) per ACF-696 and PMS-272	\$ 495,551
Total expenditures per general ledger for same organization	<u>487,661</u>
Variance	<u>\$ 7,890</u>

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were made to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. This was subsequently corrected in the fiscal years 2000 to 2002 audits.

Finding No. 98-40

Condition: The amounts reported to SF-269 relating to the 1998 grant covering expenditures from October 1, 1997 to September 30, 1998 did not agree to that of expenditures per general ledger. Variance noted arrived as follows:

Expenditures per SF-269 as of September 30, 1998	\$ 1,179,721
Expenditures per general ledger as of September 30, 1998 for organization 2883, 2884 and 2885	<u>1,185,831</u>
Variance	<u>\$ (6,110)</u>

Recommendation: PSS should reconcile records for all amounts reported to the grantor agency.

Current Status: Unresolved. Enhanced efforts were made to submit the required financial reports in a timely manner and that the amounts reported to the grantor agency reconciles with the general ledger. In the fiscal year 2000 to 2002 audits, the cumulative expenditures reported per SF-269 ties up with amounts in the general ledgers and PSS was able to adhere to the reporting deadlines.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 98-41

Condition: Variances were noted between the program expenditures for the Nutrition Assistance Grant per the annual status report (SF-269A) and the general ledger as follows:

Total expenditures per SF-269A (organization 2876, 2877, 2879, 2880)	\$ 2,633,560
Total expenditures per G/L for same organization	<u>2,732,552</u>
Variance	(98,992)
Variance noted to subsequent general ledger expenditures	<u>98,992</u>
	<u>\$ -</u>

Recommendation: We recommend PSS reconcile records for all amounts reported to the grantor agency and perform any transfers between grant years on a timely basis.

Current Status: Unresolved. Enhanced efforts were made to ensure that the amounts reported to the grantor agency reconciles with the general ledger. The attachment of a copy of the general ledger as a supporting document on the financial reports on file minimizes the occurrences of this condition and would also serve for future reference. In the fiscal years 2000 to 2002 audits, the cumulative expenditures reported per SF-269 ties up with amount in the general ledger.

1997 Audit Findings

Finding No. 97-2

Condition: Our testing of Accounts Payable Vouchers (APVs) indicated many instances (non-federal) where supporting documentation was not available, receipt of goods was not evidenced, and price quotations from three sources had not been obtained.

Recommendation: We recommend that PSS implement procedures to ensure adherence to procurement policies.

Current status: Unresolved. PSS moved in 1996 and some documents were misplaced. In future, extra efforts will be made to file supporting documentation promptly and maintain these files.

Finding No. 97-5

Condition: Testing of opening fund balances as of September 30, 1997 revealed numerous immaterial adjustments made to fund balance during the year.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 97-5, Continued

Recommendation: We recommend that PSS only make adjustments to opening fund balance when a material prior period error is noted.

Current status: Unresolved.

Finding No. 97-7

Condition: Pre-numbered receiving reports, inventory issuance slips, subsidiary ledgers and written inventory count instructions were not used in fiscal year 1997.

Recommendation: We recommend that PSS improve internal controls over inventory by using prenumbered receiving reports and inventory issuance slips, and maintaining subsidiary ledgers or stock cards to facilitate reconciliation of year end inventory balances. Written inventory instructions should be distributed to PSS personnel involved in inventory counts to ensure accurate and consistent counts.

Current status: Unresolved. Inventories were directly expensed to the appropriate expenditure accounts at cost at the time of acquisition during fiscal year 1997. The Procurement Office of PSS is conducting an inventory of all assets and is in the process of upgrading its system of accounting for inventories.

Finding No. 97-9

Condition: The vouchers payable subsidiary ledger was not provided for all funds as of September 30, 1997.

Recommendation: We recommend that PSS establish policies and procedures to produce appropriate financial reports after the closing of an accounting period.

Current status: Unresolved. Enhanced efforts to prepare monthly reconciliation/schedule at the end of the fiscal year.

Finding No. 97-10

Condition: From a total of \$5,487,863 of encumbrances for all governmental fund types at September 30, 1997, twenty-five items, totaling \$927,037, were tested. Documentation for five items with a value of \$135,529 was unavailable for our review.

Recommendation: We recommend that management review the items in the encumbrance ledger to ensure that the encumbrances are properly recorded and valid.

Current status: Unresolved. This is a document-filing problem that may require changes both in personnel and procedures to satisfactorily correct.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 97-15, Continued

Current status: Unresolved. The Human Resources Office lost the personnel details for this employee in the relevant pay period. They were unable to verify the education and experience of the individual, which are the determining factors in computing the rate of pay. The Human Resources Office will develop computerized files for each employee that are maintained on both hard and floppy discs in addition to the original signed hard copy that constitutes the employee master file.

Finding No. 97-16

Condition: From a total of \$683,461 of non-payroll direct expenditures, a sample of 38 items, with a total value of \$95,487 were tested with the following results:

1. Two purchases (APV #972077, 975329) with a value of \$11,718 did not have three price quotations or any justification for not having such quotations.

Recommendation: We recommend that PSS comply with PSSPRR.

Current status: Unresolved. This is a document retention problem. The documents were accidentally detached and lost during packing and/or re-filing when the Fiscal Office was relocated to the Nauru Building. Enhanced efforts will be made to file all supporting documentation for expenditures and secure these documents numerically filed in locked filing cabinets.

Finding No. 97-17

Condition: Of 25 applicants tested, we noted one applicant's file did not include reason for eligibility despite being above income guidelines; seventeen applications' files did not contain a signature on the review checklist; one applicant did not have birth certificate; nine applicants did not have proof of annual household income; and one registration form was not provided for the current year. The Headstart program enrolled 497 children during the year ended September 30, 1997 and had total program expenditures of \$1,181,144. Dollar amounts of questioned costs directly related to the finding could not be ascertained.

Recommendation: We recommend that PSS establish stringent controls to ensure all required documents of eligibility are submitted by each applicant.

Current status: Unresolved. This is a document retention problem that has been exacerbated by the Headstart program moving three times in the last three years. Enhanced efforts are being made to ensure that child enrollment documents are properly filed and maintained in a locked file. The same condition was identified in the fiscal year 2001 audit as Finding No. 01-06.

Finding No. 97-18

Condition: Of 25 participant files tested, the following items were noted:

1. One participant's eligibility worksheet did not have an administrator's signature evidencing approval and review.
2. One participant's file could not be provided; therefore, eligibility could not be determined.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 97-18, Continued

The Childcare and Development Block Grant program had total program expenditures of \$772,021 for the year ended September 30, 1997. Dollar amounts of questioned costs directly related to this finding could not be ascertained.

Recommendation: We recommend that PSS implement policies and procedures that will control access to and improve custodianship of participant files.

Current status: Unresolved. We concur and have implemented standard operating procedures under the Child Care Program. The same condition was identified in the fiscal year 2001 audit as Finding No. 01-05.

Finding No. 97-21

Condition: PSS did not provide an annual report for audit review.

Recommendation: We recommend that PSS prepare and retain an annual report.

Current status: Unresolved. We have subsequently prepared an annual report for fiscal year 1997.

Finding No. 97-22

Condition: The CNMI/PSS has not submitted an annual independent Single Audit of the Nutrition Assistance Grant for fiscal year 1997 within the period requested.

Recommendation: We recommend the annual Single Audit be contracted prior to year-end.

Current status: Unresolved. We have already issued the audit RFP for FY 1998 and FY 1999. The same condition was identified in the fiscal year 2001 audit as Finding No. 01-10.

Finding No. 97-26

Condition: PSS enrolled 497 children in the Headstart Program during fiscal year 1997. The enrollment and attendance level specified in the Notice of Financial Assistance Award is 559, which exceeds the PSS enrollment level by 62.

Recommendation: We recommend that PSS adhere to grant terms and conditions.

Current status: Unresolved. The Headstart Program did enroll 559 children prior to the start of school however, attendance fluctuated and only 497 children were in attendance at the end of the school year. PSS will establish a waiting list and enroll additional children as soon as there are slots available.

Finding No. 97-30

Condition: Two PMS-272s relating to the quarters ended March 31, 1997 and June 30, 1997 were not dated and adherence to the above requirement could not be determined.

Recommendation: We recommend that PSS properly document the filing of federal financial reports.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2002

Finding No. 97-30, Continued

Current status: Unresolved. Beginning the fiscal year 1998, the preparation of reports and monitoring of federal reporting requirements were transferred from the Fiscal & Budget office to the Federal Programs office. There was no finding with the same condition was identified in the fiscal year 2000 audit.

Finding No. 97-31

Condition: No SF-269s were provided for audit review, relating to the year ended September 30, 1997.

Recommendation: We recommend adherence to reporting requirements.

Current status: Unresolved. This is a document retention problem. Enhanced efforts will be made by procurement staff to retain documentation that shows compliance with established federal reporting procedures. This was however, subsequently corrected in the 2001 and 2000 audits.

Finding No 97-32

Condition: From a total of \$683,461 of non-payroll direct expenditures, a sample of 38 items, with a total value of \$95,487, was tested with the following results:

1. For fifteen items (276505, 276818, 971608, 972013, 974190, 974193, 974903, 975091, 974193, 276544, 276505, 277161, 277434, 276491, 26311) with a total value of \$31,366, Accounts Payable Voucher (APV) and supporting documentation did not have evidence of approval by the Finance/Budget director and one of the Federal Programs Coordinators. Also, purchase orders or purchase requisitions could not be provided.
2. An additional seven items (APV 973449, 97564, 976833, 973381, 973882, 971682, 97217) with a total value of \$20,104 did not have a purchase order provided. Also, one item (APV #975646) did not have an APV.

Recommendation: We recommend that PSS maintain adequate documentation for purchases and ensure that the documents are safeguarded from loss.

Current status: Unresolved. This is a document retention problem. The documents were accidentally detached and lost during packing and/or re-filing when the Fiscal Office was relocated to the Nauru Building. Enhanced efforts will be made to file all supporting documentation for expenditures and secure these documents numerically filed in locked filing cabinets.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Questioned Costs
Year Ended September 30, 2002

III. SUMMARY OF UNRESOLVED QUESTIONED COSTS

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Resolved Questioned Costs</u>	<u>Unresolved Questioned Costs</u>
Total prior years questioned costs reported in the fiscal years 1993 through 1996	\$ 287,181	\$ -	\$ -	\$ 287,181	\$ -
1997	628,546	-	-	559,237	69,309
1998	491,117	-	-	438,798	52,319
1999	169,426	-	-	169,426	-
2000	-	-	-	-	-
2001	-	-	-	-	-
Total prior year questioned costs at September 30, 2001	\$ 1,576,270	\$ -	\$ -	\$ 1,454,642	\$ 121,628
Questioned costs for fiscal year ending 2002	-	-	-	-	-
Total unresolved questioned costs at September 30, 2002	<u>\$ 1,576,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,454,642</u>	<u>\$ 121,628</u>



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

STATE BOARD OF EDUCATION
PUBLIC SCHOOL SYSTEM
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October 10, 2003

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J SCOTT MAGLIARI & COMPANY
PMB 297 BOX 10000
Saipan, MP 96950

Dear Mr. Magliari:

We are transmitting herewith our responses to the audit findings and recommendations per your audit report for FY 2002.

We hope that the attached responses are sufficient to address the audit findings and recommendations.

Sincerely,

Richard Waldo
Director of Finance

cc: BOE
COE
ADCA
file

