

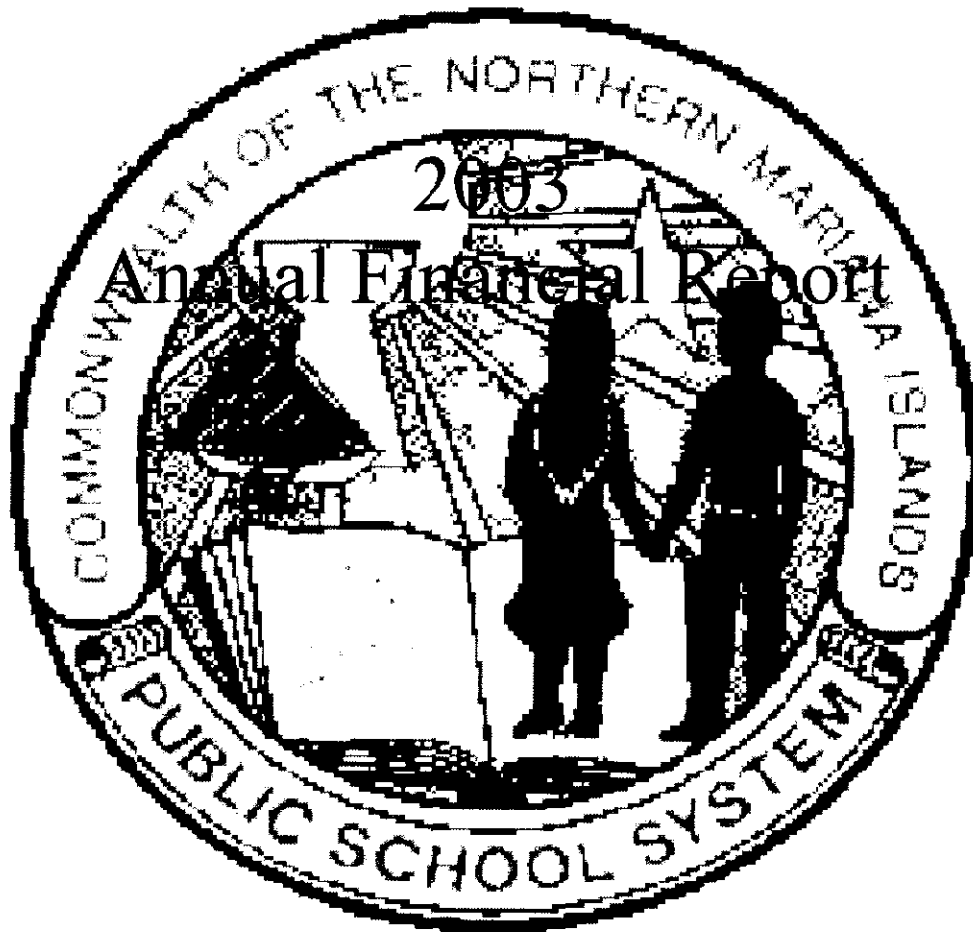
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PUBLIC SCHOOL SYSTEM

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

Years Ended September 30, 2003 and 2002

Commonwealth of the Northern Mariana
Islands
Public School System



Fiscal Year ended September 30, 2003
P.O. Box 501370
Saipan, MP 96950

PUBLIC SCHOOL SYSTEM
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



Roman C. Benavente
Chairman

Arino M. Jones
Vice Chairman

Marja Lee C. Taitano
Secretary/Treasurer

Members
Frances H. Diaz
Herman T. Guerrero

Scott Norman
Non Public School Rep.

Ms. Aubry Mangiona Hocog
Student Representative

Teacher Representative

Commissioner of Education
Rita Hocog Inos, Ed.D

April 22, 2004

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, 2003, 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.

III

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 3-10), 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 citizens 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 2002-2003, 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 2002-2003 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 House Bill No. 14-62. This bill allows the Public School System to build additional classrooms for both Kagman Elementary and Kagman High School. It also proposes that PSS build a Tinian and a Rota Headstart Center. These projects will be financed by the interest earned on the General Obligation Bond of PSS, and construction will begin in 2004.

The Board of Education submitted a long term Capital Improvement Projects Plan to the CNMI government. These projects include an As-Matus Elementary School, a Marpi Secondary School, a second Kagman Elementary School, a Kagman High School expansion, a Southern High School expansion. Also in the proposal were major renovations to the older schools in the CNMI. The total proposed plan had an estimated cost of \$50,995,988. These projects if approved by the government would be built over the next 7 to 10 years.

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 2003. This represents a 10.5% increase in five years. The teachers have increased from 464 in 1998 to 554 in 2003. Teachers funded by consolidated federal funds increased from 37 teachers in 1998 to 68 teachers in 2003. Federal funds also paid for 72 Special Education teachers in FY2003. The federal funds in 2003 paid for 116 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 2003, which begins on October 1st, 2003 and ends on September 30, 2003 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, 2003.

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. 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 as 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

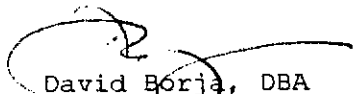
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report and to the 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.

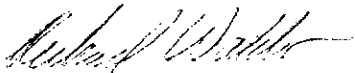
Respectfully submitted,



Rita Hocog Inos, Ed. D.
Commissioner



David Borja, DBA
Deputy Commissioner
Administration



Richard Waldo, CPA
Director of Finance

PUBLIC SCHOOL SYSTEM

PRINCIPAL OFFICIALS

Year ended September 30, 2003

BOARD OF EDUCATION

	<u>Position</u>	<u>Term Expires</u>
Mr. Herman T. Guerrero	Chairperson	2006
Mr. Roman C. Benavente	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
Mr. 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

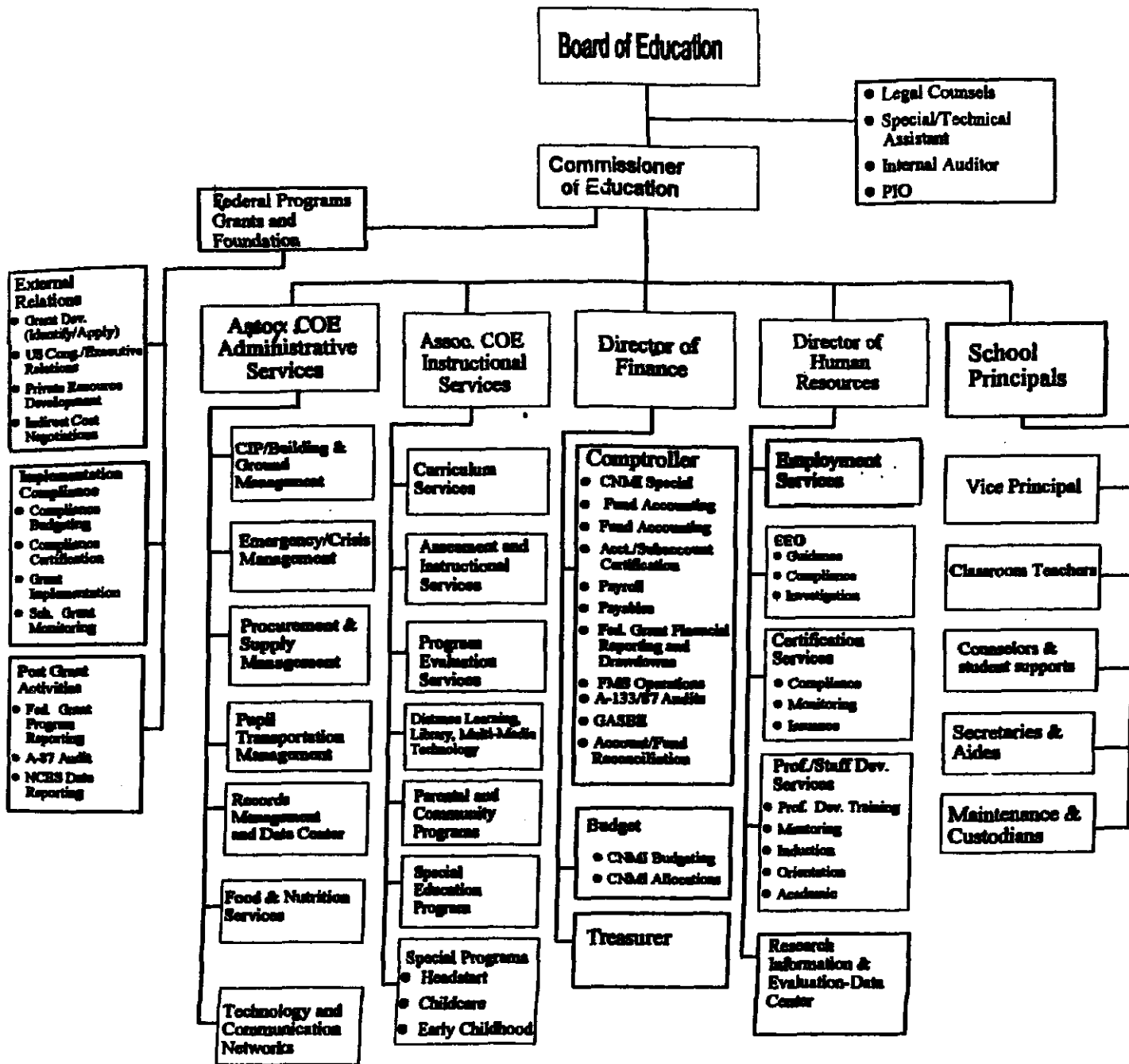
OFFICIALS ISSUING REPORT

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

Years Ended September 30, 2003 and 2002

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

SAIPAN:

PMB 297 PPP Box 10000 • SAIPAN, MP 96950
TEL: (670) 233-1837 • FAX: (670) 233-8214

GUAM:

P. O. Box 12734 • TAMUNING, GUAM 96931
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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, 2003 and 2002, and for the years then ended. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 audits 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 audits provide a reasonable basis for my opinion.


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, 2003 and 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 years 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 10 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 March 26, 2004 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.


Commonwealth of the Northern Mariana Islands
March 26, 2004

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, 2003. This information should be read in conjunction with the audited financial statements included in this report (pages 11 to 14).

Financial Highlights

- . The total government net assets amount to \$83,172,358, which was a decrease of \$1,944,350 from the previous year. The decrease was primarily caused by a decrease of \$850,112 on the cash and cash equivalents at the close of the fiscal year.
- . The current assets of the school exceeded its current liabilities at the close of the fiscal year by \$5,833,245.
- . The accrued leave liability of the school increased by \$418,187. To date, the school system has total accrued leave liability of \$4,151,264.
- . The total liabilities decreased at the close of the fiscal year by \$1,403,318.
- . Capital assets of the school system totaled \$79,687,750 (net of accumulated depreciation), an increase of \$4,688,975 at the close of the fiscal year.

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 is the fund financial statement, which is 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 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 are an indicator of the fiscal health of the School System. Assets for governmental activities exceeded liabilities by approximately \$83,172,358 as of September 30, 2003. The largest component of net assets is invested in capital assets disclosing an amount of \$79,687,750 at fiscal year-end, which comprises 96% of the total net assets.

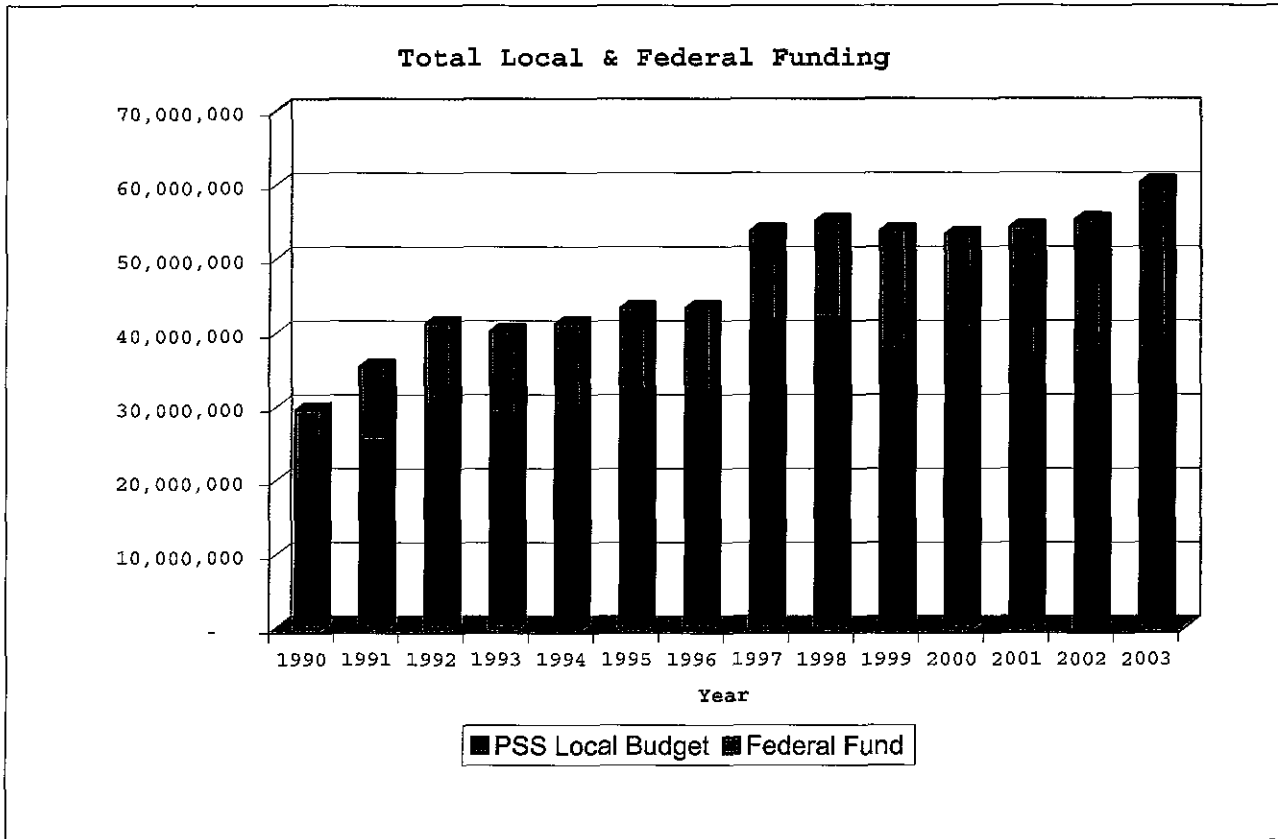
Following is a summary of the Statement of Net Assets:

Condensed Statement of Net Assets
September 30, 2003 and 2002

	Governmental Activities	Business-type Activities	<u>Total</u>	
			2003	2002
Current and other assets	\$ 9,811,521	\$ 106,599	\$ 9,918,120	\$11,138,595
Capital improvement projects in progress	1,888,369	-	1,888,369	8,538,825
Capital assets, net of accumulated depreciation	<u>79,681,538</u>	<u>6,212</u>	<u>79,687,750</u>	<u>74,998,775</u>
TOTAL ASSETS	<u>\$91,381,428</u>	<u>\$ 112,811</u>	<u>\$91,494,239</u>	<u>\$94,676,195</u>
Current and other liabilities	\$ 4,143,988	\$ 26,629	\$ 4,170,617	\$ 5,826,410
Accrued leave liability	<u>4,151,264</u>	<u>-</u>	<u>4,151,264</u>	<u>3,733,077</u>
TOTAL LIABILITIES	<u>8,295,252</u>	<u>26,629</u>	<u>8,321,881</u>	<u>9,559,487</u>
Investment in capital assets	79,681,538	6,212	79,687,750	74,998,775
Restricted for:				
Encumbrances	8,048,616	103,606	8,152,222	4,784,396
Capital improvement projects in progress	1,888,369	-	1,888,369	8,511,378
Unrestricted	<u>(6,532,347)</u>	<u>(23,636)</u>	<u>(6,555,983)</u>	<u>(3,177,841)</u>
TOTAL NET ASSETS	<u>83,086,176</u>	<u>86,182</u>	<u>83,172,358</u>	<u>85,116,708</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$91,381,428</u>	<u>\$ 112,811</u>	<u>\$91,494,239</u>	<u>\$94,676,195</u>

Federal and Local Budget Review

Exhibit I

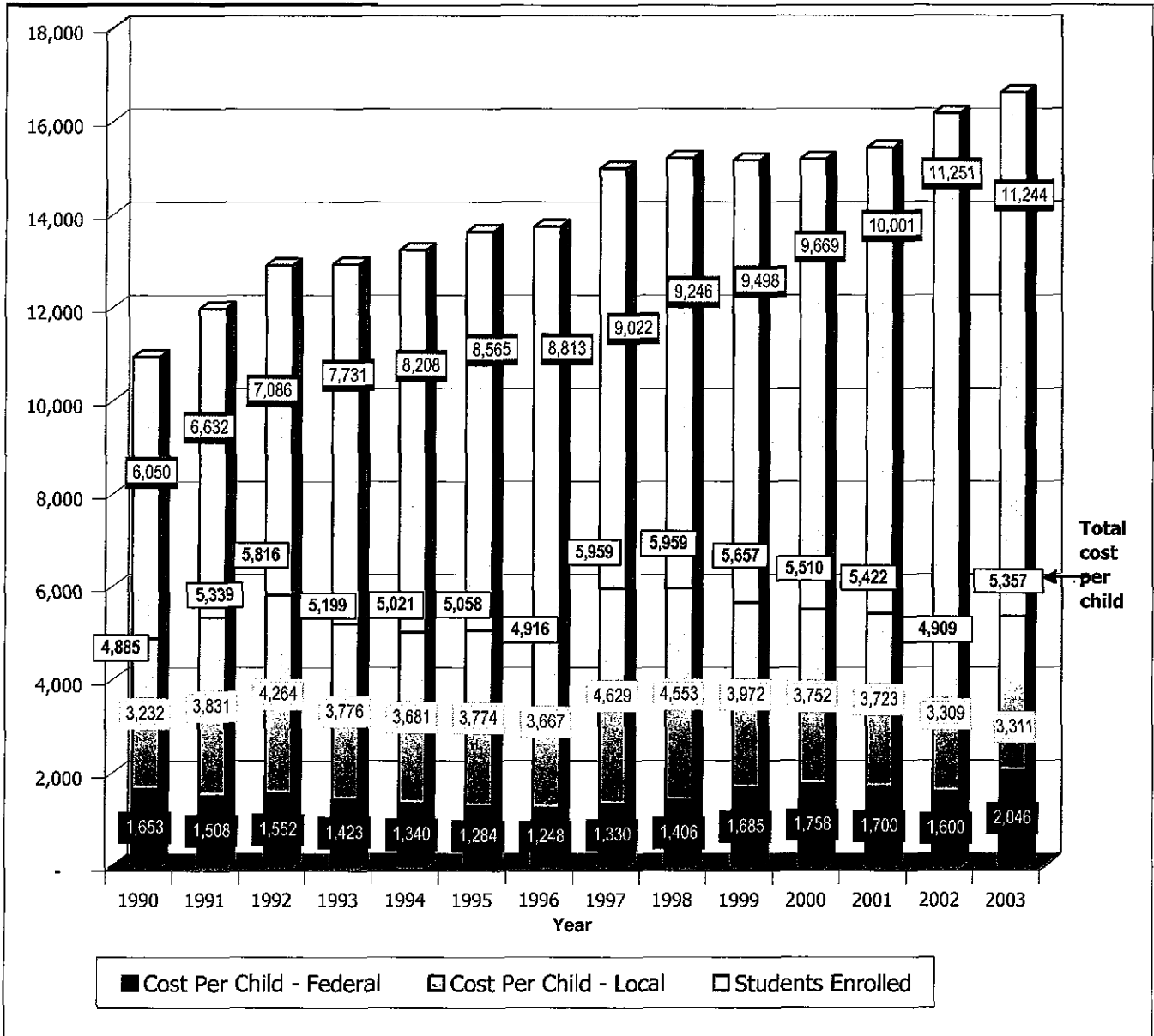


As can be seen by a review of the graphs presented above, Federal funding increased from \$13 million in 1998 to \$23 million in 2003. The Local funds dropped from \$42 million in 1998 to \$37 million in 1999. Local funds have remained at \$37 million for four years while the student growth jumped from 9,246 students in 1998 to 11,244 students in 2003. This represents a 22% increase in student enrollment. This was accomplished by cutting back employees in the Central Office.

Year	Total Funding	Federal Funding		Local Funding	
		Amount	%	Amount	%
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%
2003	60,230,342	23,000,000	38%	37,230,342	62%

The contribution of Local funding to the total funding has varied between 62% to 75% for the 13-year period from 1990 to 2003. The CNMI government has performed well in the maintenance of Local funding for education in the difficult economic times from 1998 to 2003. The Federal Funds of FY2003, which were consolidated using Title VI, were of great value to the Public School System. Under Title VI, PSS was allowed to purchase textbooks, pay substitute teachers, pay for new computers, pay for upgrading of teaching skills, and hire new teachers. In effect except for repairs and maintenance and operational supplies, the Federal component was a major factor in maintaining the academic integrity of the Public School System.

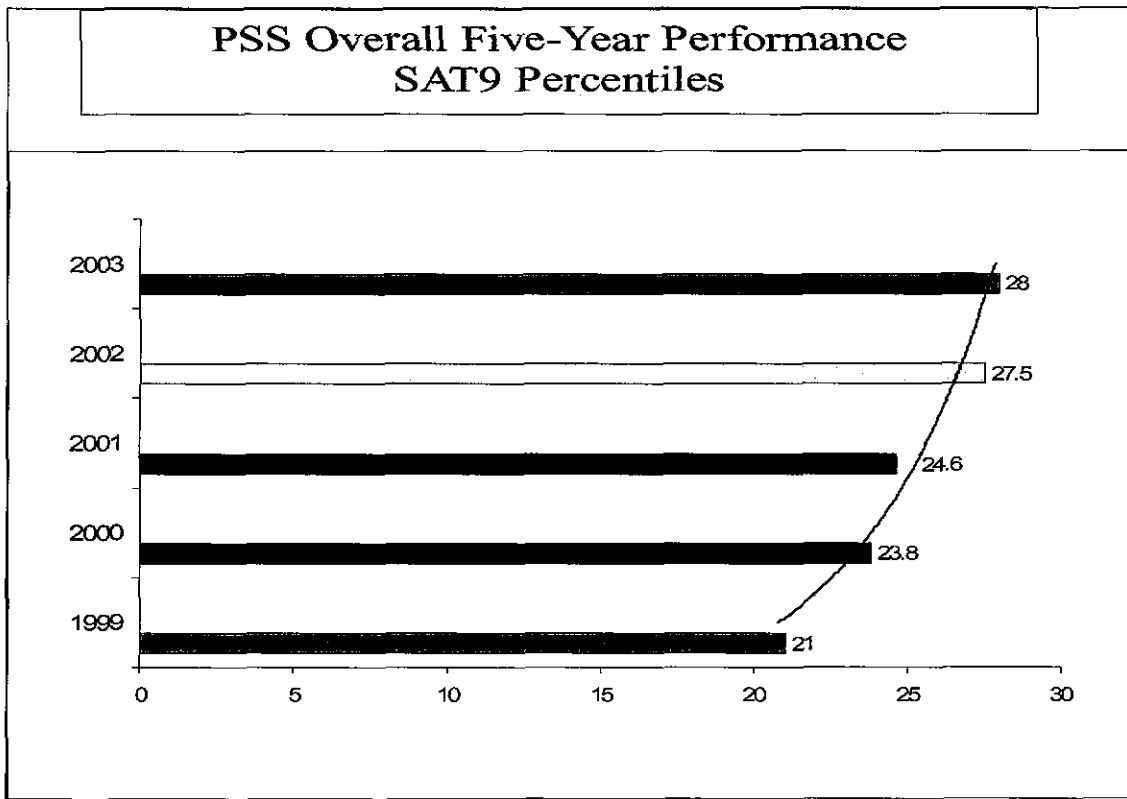
Exhibit II - Cost Per Child



COST PER CHILD

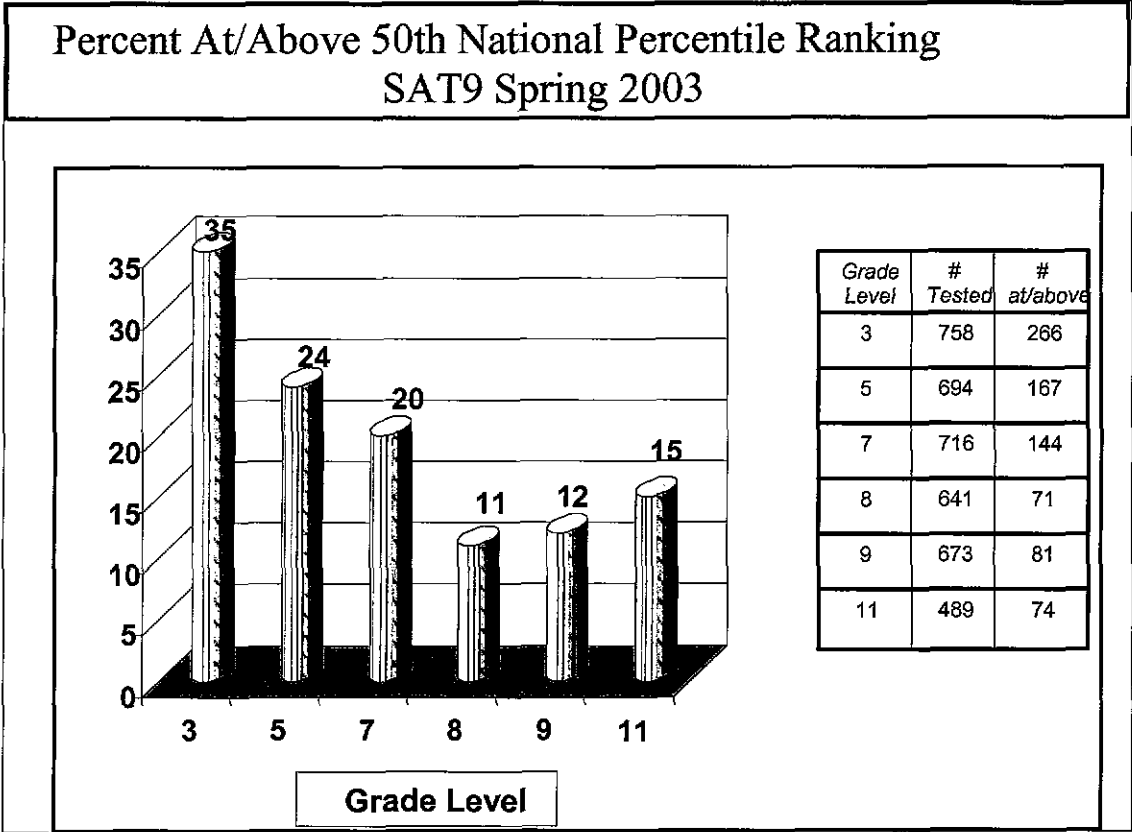
PSS has increased its educational cost per child to \$5,357 in FY2003. The Federal cost increased dramatically due to implementation of Title VI funding. The Federal educational dollar in 2002 was \$1,600 per child, and in FY2003 it increased to \$2,046 per child. Title VI Federal dollars provided book expenditures, new teachers, and general increases in the Federal contribution in Special Education, and Food and Nutrition. Title VI funds also allowed large dollar increases in the implementation of "No Child Left Behind" program in the CNMI. Over one million dollars was spent in the upgrading of skills for our teachers in the kindergarten through third grades.

Exhibit III - Academic Picture of the Public School System



The above chart shows that PSS students as a whole have improved their reading level from the 21st percentile in 1999 to the 28th percentile in 2003. PSS expects with the increased Federal funding for "No Child Left Behind" that the yearly increases in percentile ranking will jump to an average of 4%, and that by 2008 the average student will read at the 50th percentile.

Exhibit IV - Academic Picture of the Public School System



The Public School System has increased the reading level of all its students. By 2008, its goal is to increase its reading level for 80% of its student body to the 50th percentile. Currently, approximately 18% of PSS students read at the 50th percentile.

Consolidated Grants 2004

For FY2004, the Consolidated Federal Grant will be Title V funds. Title V funds may not be used for the purchase of core textbooks, and for the payment of substitute teachers. The textbook purchases and the payment of substitute teachers amounted to over \$2.7 million dollars. The academic integrity of the school system will suffer if the Local portion of the educational dollar is not increased.

Through the flexibility of Title VI funds, PSS increased the efficiency of not only its early elementary grades, but also its entire system. Title V funds, which were mandated to PSS in FY2004, are not as flexible as Title VI funds, and will not serve the needs of the system as easily.

Teacher Certification and "No Child Left Behind"

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.

Headstart and Special Education

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 being appropriated to PSS. 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 \$23 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 2004 fiscal year. The Board's budget focused on a significant amount of repairs and maintenance, and raising the salaries of teachers and staff, as PSS has not given step increases for FY2002 and FY2003. Deferring needed maintenance on classrooms, and not giving mandated step increases would seriously weaken PSS' ability to operate an efficient school system.

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

Statements of Net Assets
September 30, 2003 and 2002

	Governmental	Business-type	Total	
	Activities	Activities	2003	2002
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,705,695	\$ -	\$ 1,705,695	\$ 2,555,807
Receivables from CNMI	3,704,568	-	3,704,568	4,275,497
Receivables from Federal	988,192	19,300	1,007,492	1,160,299
Other receivables	3,332	-	3,332	145,290
Advances, net	457,301	-	457,301	425,935
Due from other funds	2,952,433	87,299	3,039,732	2,575,767
Total current assets	9,811,521	106,599	9,918,120	11,138,595
Noncurrent assets:				
Capital improvement projects in progress	1,888,369	-	1,888,369	8,538,825
Capital assets, net of accumulated depreciation	79,681,538	6,212	79,687,750	74,998,775
TOTAL ASSETS	\$ 91,381,428	\$ 112,811	\$ 91,494,239	\$ 94,676,195
LIABILITIES				
Current liabilities:				
Accrued payroll and others	\$ 954,998	\$ 4,085	\$ 959,083	\$ 2,836,990
Vouchers payable	8,015	-	8,015	75,023
Deferred revenue	149,295	19,300	168,595	303,066
Due to other funds	2,865,356	3,244	2,868,600	2,575,767
Other liabilities	166,324	-	166,324	35,564
Total current liabilities	4,143,988	26,629	4,170,617	5,826,410
Noncurrent liabilities:				
Accrued leave liability	4,151,264	-	4,151,264	3,733,077
TOTAL LIABILITIES	8,295,252	26,629	8,321,881	9,559,487
NET ASSETS				
Investment in capital assets	79,681,538	6,212	79,687,750	74,998,775
Restricted for:				
Encumbrances	8,048,616	103,606	8,152,222	4,784,396
Capital improvement projects in progress	1,888,369	-	1,888,369	8,511,378
Unrestricted	(6,532,347)	(23,636)	(6,555,983)	(3,177,841)
TOTAL NET ASSETS	83,086,176	86,182	83,172,358	85,116,708
TOTAL LIABILITIES & NET ASSETS	\$ 91,381,428	\$ 112,811	\$ 91,494,239	\$ 94,676,195

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Activities
For the Years Ended September 30, 2003 and 2002

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activities	Business Type Activities	Total	
						2003	2002
Governmental activities:							
Instruction:							
Regular	\$28,492,154	\$ -	\$ -	\$ (28,492,154)	\$ -	\$(28,492,154)	\$(27,088,692)
Special education	8,622,800	-	5,596,453	(3,026,347)	-	(3,026,347)	(3,188,631)
Co-curricular	98,192	-	98,192	-	-	-	(469,583)
Student services	9,021,714	-	9,031,356	9,642	-	-	-
Total instruction	46,234,860	-	14,726,001	(31,508,859)	-	(31,518,501)	(30,746,906)
Support services:							
General administration	1,655,791	-	1,363,858	(291,933)	-	(291,933)	(529,811)
School administration	4,606,253	-	308,419	(4,297,834)	-	(4,297,834)	(4,129,147)
Other support	1,043,434	-	-	(1,043,434)	-	(1,043,434)	(1,520,305)
Community	2,630,128	-	2,630,128	-	-	-	65,424
Individual programs	685,584	-	-	(685,584)	-	(685,584)	(899,792)
Depreciation - unallocated	2,030,013	-	-	(2,030,013)	-	(2,030,013)	(1,142,118)
Total support services	12,651,203	-	4,302,405	(8,348,798)	-	(8,348,798)	(8,155,749)
Total governmental activities	58,886,063	-	19,028,406	(39,857,657)	-	(39,857,657)	(38,902,655)
Business-type activities:							
Food services							
Total business-type activities	4,486,857	116,152	4,464,216	-	93,511	93,511	51,490
Total school district	\$63,372,920	\$ 116,152	\$ 23,492,622	(39,857,657)	93,511	(39,764,146)	(38,851,165)
Unrestricted CNMI appropriations				37,794,725	-	37,794,725	36,830,342
Miscellaneous, unrestricted				25,071	-	25,071	943,255
Subtotal, general revenues				37,819,796	-	37,819,796	37,773,597
Changes in Net Assets				(2,037,861)	93,511	(1,944,350)	(1,077,568)
Net assets - beginning				85,124,037	(7,329)	85,116,708	86,194,276
Net assets - ending				\$ 83,086,176	\$ 86,182	\$ 83,172,358	\$ 85,116,708

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Balance Sheets
Governmental Funds
September 30, 2003 and 2002

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds	
				2003	2002
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 1,705,695	\$ -	\$ -	\$ 1,705,695	\$ 2,555,807
Receivables from CNMI	3,687,250	-	-	3,687,250	4,260,758
Receivables from Federal	-	-	1,005,510	1,005,510	1,002,805
Other receivables	3,891	-	279,766	283,657	145,290
Advances, net	177,535	-	-	177,535	425,935
Due from other funds	499,936	-	2,339,060	2,838,996	2,575,767
	<u>6,074,307</u>	<u>-</u>	<u>3,624,336</u>	<u>9,698,643</u>	<u>10,966,362</u>
Capital improvement projects in progress	-	1,888,369	-	1,888,369	8,538,825
	<u>-</u>	<u>1,888,369</u>	<u>-</u>	<u>1,888,369</u>	<u>8,538,825</u>
TOTAL ASSETS	<u>\$ 6,074,307</u>	<u>\$ 1,888,369</u>	<u>\$ 3,624,336</u>	<u>\$ 11,587,012</u>	<u>\$ 19,505,187</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accrued payroll and others	\$ 954,998	\$ -	\$ -	\$ 954,998	\$ 2,832,905
Vouchers payable	-	-	352	352	75,023
Deferred revenues	-	-	555,829	555,829	130,833
Due to other funds	732,983	-	149,854	882,837	2,572,523
Other liabilities	1,471,382	-	165,712	1,637,094	35,564
	<u>3,159,363</u>	<u>-</u>	<u>871,747</u>	<u>4,031,110</u>	<u>5,646,848</u>
TOTAL LIABILITIES	<u>3,159,363</u>	<u>-</u>	<u>871,747</u>	<u>4,031,110</u>	<u>5,646,848</u>
FUND BALANCES:					
Reserved for:					
Encumbrances	778,801	-	7,269,815	8,048,616	4,602,573
Unreserved:					
Capital Improvement projects	-	1,888,369	-	1,888,369	8,511,378
Undesignated	2,136,143	-	(4,517,226)	(2,381,083)	744,388
	<u>2,136,143</u>	<u>1,888,369</u>	<u>(4,517,226)</u>	<u>(492,714)</u>	<u>9,255,766</u>
TOTAL FUND BALANCES	<u>2,914,944</u>	<u>1,888,369</u>	<u>2,752,589</u>	<u>7,555,902</u>	<u>13,858,339</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,074,307</u>	<u>\$ 1,888,369</u>	<u>\$ 3,624,336</u>		

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 86,358,411
Accumulated depreciation is 6,676,873 79,681,538 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 (4,151,264) (3,733,077)

Total net assets - governmental activities \$ 83,086,176 \$ 85,124,037

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Years Ended September 30, 2003 and 2002

	General	Capital	Non-Major	Total Governmental Funds	
	Fund	Projects Fund	Funds	2003	2002
REVENUES:					
Federal	\$ -	\$ 89,767	\$ 17,762,471	\$ 17,852,238	\$ 11,508,126
Other Local	25,071	-	1,265,935	1,291,006	2,201,155
TOTAL REVENUES	25,071	89,767	19,028,406	19,143,244	13,709,281
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	28,492,154	-	-	28,492,154	27,088,692
Special	3,106,472	-	5,596,453	8,702,925	7,087,927
Co-curricular	-	-	98,192	98,192	725,301
Student services	-	-	9,031,356	9,031,356	4,445,784
	<u>31,598,626</u>	<u>-</u>	<u>14,726,001</u>	<u>46,324,627</u>	<u>39,347,704</u>
Supporting services:					
General administration	260,295	-	1,309,645	1,569,940	2,095,798
School administration	4,297,834	-	308,419	4,606,253	4,820,095
Individual programs	685,584	-	-	685,584	899,792
Other	1,129,285	-	-	1,129,285	1,520,307
	<u>6,372,998</u>	<u>-</u>	<u>1,618,064</u>	<u>7,991,062</u>	<u>9,335,992</u>
Community services	-	-	2,630,128	2,630,128	1,842,867
Capital Outlay:					
Equipment & Vehicles	-	89,767	-	89,767	840,195
TOTAL EXPENDITURES	37,971,624	89,767	18,974,193	57,035,584	51,366,758
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,946,553)	-	54,213	(37,892,340)	(37,657,477)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	37,794,725	(6,623,009)	-	31,171,716	36,830,342
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(151,828)	(6,623,009)	54,213	(6,720,624)	(827,135)
(INCREASE) DECREASE IN RESERVE FOR ENCUMBRANCES					
	171,521	-	(3,601,453)	(3,429,932)	238,226
CURRENT YEAR RESTATEMENTS	402,076	-	-	402,076	-
UNRESERVED FUND BALANCE, beginning of year	1,714,374	8,511,378	(969,986)	9,255,766	9,844,675
UNRESERVED FUND BALANCE, end of year	2,136,143	1,888,369	(4,517,226)	(492,714)	9,255,766
RESERVE FOR ENCUMBRANCES	778,801	-	7,269,815	8,048,616	4,602,573
FUND BALANCE, end of the year	\$ 2,914,944	\$ 1,888,369	\$ 2,752,589	\$ 7,555,902	\$ 13,858,339

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 Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Total net change in fund balances - governmental funds	\$ (6,720,624)	\$ (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 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 capital outlays exceed depreciation in the period.		
Capital outlays	\$ 6,712,776	
Depreciation expense	<u>(2,030,013)</u>	<u>4,682,763</u>
		<u>(301,923)</u>
Changes in net assets of governmental activities	<u>\$ (2,037,861)</u>	<u>\$ (1,129,058)</u>

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, 2003

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES	\$ -	\$ 25,071	\$ 25,071
Total revenues	-	25,071	25,071
EXPENDITURES:			
Current operations:			
Instructional programs:			
Regular	28,192,780	28,492,154	(299,374)
Special	2,887,904	3,106,472	(218,568)
Co-curricular	-	-	-
Supporting services:			
General administration	353,299	260,295	93,004
School administration	4,207,111	4,297,834	(90,723)
Individual programs	701,836	685,584	16,252
Other	866,998	1,129,285	(262,287)
Total expenditures	37,209,928	37,971,624	(761,696)
Deficiency of revenues over expenditures	(37,209,928)	(37,946,553)	(736,625)
Other financing sources :			
Operating transfers in	37,209,928	36,830,342	(379,586)
Deficiency of revenues and other financing sources over expenditures and other financing uses	-	(1,116,211)	(1,116,211)
Other change in fund balance:			
Reserve for encumbrances	-	16,020	16,020
FUND BALANCE, beginning of year	-	6,388,183	6,388,183
FUND BALANCE, end of year	\$ -	\$ 5,287,992	\$ 5,287,992

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

General Fund
 Statements of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended September 30, 2003
 (With Comparative Actual Amounts for the fiscal year ended September 30, 2002)

	2003		Variance Favorable (Unfavorable)	2002
	Budget	Actual		Actual
REVENUES	\$ -	\$ 25,071	\$ 25,071	\$ 943,255
Total revenues	-	25,071	25,071	943,255
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	28,192,780	28,492,154	(299,374)	27,088,692
Special	2,887,904	3,106,472	(218,568)	3,188,631
Co-curricular	-	-	-	469,583
Supporting services:				
General administration	353,299	260,295	93,004	763,906
School administration	4,207,111	4,297,834	(90,723)	4,129,147
Individual programs	701,836	685,584	16,252	899,792
Other	866,998	1,129,285	(262,287)	1,520,307
Total expenditures	37,209,928	37,971,624	(761,696)	38,060,058
Deficiency of revenues over expenditures	(37,209,928)	(37,946,553)	(736,625)	(37,116,803)
Other financing sources : Operating transfers in	37,209,928	36,830,342	(379,586)	36,830,342
Deficiency of revenues and other financing sources over expenditures and other financing uses	-	(1,116,211)	(1,116,211)	(286,461)
Other change in fund balance: Reserve for encumbrances	-	16,020	16,020	16,020
FUND BALANCE, beginning of year	-	6,388,183	6,388,183	6,658,624
FUND BALANCE, end of year	\$ -	\$ 5,287,992	\$ 5,287,992	\$ 6,388,183

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Net Assets
Enterprise Funds - Food and Nutrition Program
September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Current assets:		
Due from grantor agencies	\$ 19,300	\$ 172,233
Due from other funds	<u>87,299</u>	<u>-</u>
Total current assets	106,599	172,233
Capital assets, net of accumulated depreciation	<u>6,212</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 112,811</u>	<u>\$ 172,233</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accrued payroll and others	\$ 4,085	\$ 4,085
Deferred revenue	19,300	172,233
Due to other funds	<u>3,244</u>	<u>3,244</u>
Total current liabilities	<u>26,629</u>	<u>179,562</u>
<u>NET ASSETS</u>		
Investment in capital assets	6,212	-
Reserved for encumbrances	103,606	-
Unrestricted	<u>(23,636)</u>	<u>(7,329)</u>
TOTAL NET ASSETS	<u>86,182</u>	<u>(7,329)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 112,811</u>	<u>\$ 172,233</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Revenues, Expenses, and Changes in Fund Net Assets
Enterprise Funds - Food and Nutrition Program
For the Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Food sales	\$ -	\$ -
TOTAL OPERATING REVENUES	<u>-</u>	<u>-</u>
OPERATING EXPENSES:		
Business supporting services:		
Salaries	253,604	339,778
Supplies	204,361	252,962
Contractual services	<u>3,878,702</u>	<u>3,343,769</u>
	<u>4,336,667</u>	<u>3,936,509</u>
Other supporting services:		
Employee benefits	69,356	90,657
Indirect costs	<u>80,834</u>	<u>55,566</u>
	<u>150,190</u>	<u>146,223</u>
TOTAL OPERATING EXPENSES	<u>4,486,857</u>	<u>4,082,732</u>
OPERATING LOSS	<u>(4,486,857)</u>	<u>(4,082,732)</u>
NON-OPERATING REVENUES:		
Federal regular USDA grants	4,464,216	4,073,537
Miscellaneous	<u>116,152</u>	<u>60,685</u>
TOTAL NON-OPERATING REVENUES	<u>4,580,368</u>	<u>4,134,222</u>
NET INCOME	93,511	51,490
NET ASSETS, beginning of year	<u>(7,329)</u>	<u>(58,819)</u>
NET ASSETS, end of year	<u>\$ 86,182</u>	<u>\$ (7,329)</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Cash flows
 Enterprise Funds - Food and Nutrition Program
 For the Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Payments to employees for services	\$ (253,604)	\$ (339,778)
Payments to suppliers for goods and services	(4,083,063)	(3,596,731)
Payments for other operating expenses	<u>(236,601)</u>	<u>(197,713)</u>
Net cash used in operating activities	<u>(4,573,268)</u>	<u>(4,134,222)</u>
Cash flows from non-capital financing activities:		
Federal regular USDA grants	<u>4,464,216</u>	<u>4,073,537</u>
Net cash provided by non-capital financing activities	<u>4,464,216</u>	<u>4,073,537</u>
Cash flows from investing activities:		
Capital expenditures	(7,100)	-
Interest income	<u>116,152</u>	<u>60,685</u>
Net cash provided by investing activities	<u>109,052</u>	<u>60,685</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

PUBLIC SCHOOL SYSTEM

Combining Balance Sheet - Non-major Funds
September 30, 2003 and 2002

ASSETS	Federal Grants	Local Donations	CNMI Grants	Indirect Costs	Total	
	Fund	Fund	Fund	Fund	2003	2002
Due from grantor agencies	\$ 988,192	\$ 2,579	\$ 14,739	\$ -	\$ 1,005,510	\$ 1,002,805
Other receivables	279,766	-	-	-	279,766	230,251
Due from other funds	-	615,747	247,588	1,475,725	2,339,060	2,071,353
	<u>\$ 1,267,958</u>	<u>\$ 618,326</u>	<u>\$ 262,327</u>	<u>\$ 1,475,725</u>	<u>\$ 3,624,336</u>	<u>\$ 3,304,409</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Vouchers payable	\$ 352	\$ -	\$ -	\$ -	\$ 352	\$ 47,576
Deferred Revenue	-	12,173	-	137,681	149,854	63,808
Due to other funds	721,541	-	-	-	721,541	501,170
Total liabilities	<u>721,893</u>	<u>12,173</u>	<u>-</u>	<u>137,681</u>	<u>871,747</u>	<u>612,554</u>
Fund balances (deficit):						
Reserved for encumbrances	7,184,789	85,026	-	-	7,269,815	3,661,841
Unreserved	(6,638,724)	521,127	262,327	1,338,044	(4,517,226)	(969,986)
Total fund balances	<u>546,065</u>	<u>606,153</u>	<u>262,327</u>	<u>1,338,044</u>	<u>2,752,589</u>	<u>2,691,855</u>
	<u>\$ 1,267,958</u>	<u>\$ 618,326</u>	<u>\$ 262,327</u>	<u>\$ 1,475,725</u>	<u>\$ 3,624,336</u>	<u>\$ 3,304,409</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
 Non-major funds
 For the Years Ended September 30, 2003 and 2002

	Federal	Local	CNMI	Indirect	Total	
	Grants	Donations	Grants	Costs	Non-major funds	
	Fund	Fund	Fund	Fund	2003	2002
REVENUES:						
Federal	\$ 17,762,471	\$ -	\$ -	\$ -	\$ 17,762,471	\$ 11,517,321
Other local	-	537,496	-	728,439	1,265,935	1,257,900
TOTAL REVENUES	<u>17,762,471</u>	<u>537,496</u>	<u>-</u>	<u>728,439</u>	<u>19,028,406</u>	<u>12,775,221</u>
EXPENDITURES:						
Current operations:						
Instructional programs:						
Regular	-	-	-	-	-	-
Special	5,596,453	-	-	-	5,596,453	3,899,296
Co-curricular	98,192	-	-	-	98,192	255,718
Student services	9,031,356	-	-	-	9,031,356	4,445,784
	<u>14,726,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,726,001</u>	<u>8,600,798</u>
Supporting services:						
General administration	97,923	476,234	-	735,488	1,309,645	1,331,892
School administration	308,419	-	-	-	308,419	690,948
Individual programs	-	-	-	-	-	-
Other	-	-	-	-	-	-
	<u>406,342</u>	<u>476,234</u>	<u>-</u>	<u>735,488</u>	<u>1,618,064</u>	<u>2,022,840</u>
Community services	<u>2,630,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,630,128</u>	<u>1,842,867</u>
Capital Outlay:						
Equipment & vehicles	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>17,762,471</u>	<u>476,234</u>	<u>-</u>	<u>735,488</u>	<u>18,974,193</u>	<u>12,466,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	61,262	-	(7,049)	54,213	308,716
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	61,262	-	(7,049)	54,213	308,716
INCREASE (DECREASE) IN RESERVE FOR ENCUMBRANCES	(3,577,149)	(24,304)	-	-	(3,601,453)	222,206
FUND BALANCE, beginning of year	<u>(3,061,575)</u>	<u>484,169</u>	<u>262,327</u>	<u>1,345,093</u>	<u>(969,986)</u>	<u>(1,500,908)</u>
FUND BALANCE, end of year	<u>\$ (6,638,724)</u>	<u>\$ 521,127</u>	<u>\$ 262,327</u>	<u>\$ 1,338,044</u>	<u>\$ (4,517,226)</u>	<u>\$ (969,986)</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2003 and 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

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 Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for reappropriation.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Assets and Statement of Activities present information about 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, 2003 and 2002

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

These statements distinguish between the *governmental* and *business-type* activities of 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 PSS and for each function of PSS' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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 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, 2003 and 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.

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 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, 2003 and 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, 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.

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

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, 2003 and 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
Vehicles	8 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 an 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, 2003 and 2002 were \$4,151,264 and \$3,733,077, respectively. 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, 2003 and 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 adjustments for 2003 and 2002 consists of several elements as follows:

<u>Description</u>	<u>2003</u>	<u>2002</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	\$ 86,358,411 <u>(6,676,873)</u>	\$ 79,645,635 <u>(4,646,860)</u>
Net capital assets	79,681,538	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>(4,151,264)</u>	<u>(3,733,077)</u>
Total adjustment	<u>\$ 75,530,274</u>	<u>\$ 71,265,698</u>

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2003 and 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 adjustments of 2003 and 2002 pertains to the following:

<u>Description</u>	<u>2003</u>	<u>2002</u>
Capital outlay expenditures recorded in the Statement of activities.	\$ 6,712,776	\$ 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>(2,030,013)</u>	<u>(1,142,118)</u>
Total adjustments	<u>\$ 4,862,763</u>	<u>(\$ 301,923)</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 September 30, 2003 and 2002, the total amounts deposited with FDIC banks were \$1,082,579 and 2,555,807, respectively. From these deposits, \$687,664 in 2003 and \$663,893 in 2002 were 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, 2003 and 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, 2003 and 2002, are as follows:

Accounts receivable - September 30, 2003

	<u>Due from other Funds (Internal Balances)</u>	<u>Accounts Receivable</u>	<u>Other</u>
Governmental activities:			
General Fund			
Other governmental activities	\$ 2,838,996	\$ 3,687,250	\$ 1,005,510
	<u>1,888,369</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,840,802</u>	<u>\$ 3,687,250</u>	<u>\$ 1,005,510</u>
Business-type activities:			
School Food services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,300</u>

Accounts receivable - September 30, 2002

	<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 \$98,577 and 119,219 at September 30, 2003 and 2002, respectively.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2003 and 2002

(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activity for the year ended September 30, 2003 and 2002 were 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>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings	39,367,284	6,623,009	-	45,990,293
Vehicles	2,845,464	-	-	2,845,464
Others	<u>785,037</u>	<u>96,867</u>	<u>-</u>	<u>881,904</u>
Total capital assets being depreciated	<u>42,997,785</u>	<u>6,719,876</u>	<u>-</u>	<u>49,717,661</u>
Less accumulated depreciation for:				
Buildings	3,348,575	919,806	-	4,268,381
Vehicles	902,836	906,895	-	1,809,731
Others	<u>395,449</u>	<u>204,200</u>	<u>-</u>	<u>599,649</u>
Total accumulated depreciation	<u>4,646,860</u>	<u>2,030,901</u>	<u>-</u>	<u>6,677,761</u>
Total capital assets being depreciated, net	<u>38,350,925</u>	<u>4,688,975</u>	<u>-</u>	<u>43,039,900</u>
Governmental activity capital assets, net	<u>\$74,998,775</u>	<u>\$ 4,688,975</u>	<u>\$ -</u>	<u>\$79,687,750</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, 2002), it has been determined that for the year ended September 30, 2003, the funding requirement for employer is 39.4331% 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, 2003 and 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>
9/30/03	\$ 7,985,986	100%
9/30/02	6,090,507	100%
9/30/01	7,261,530	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 Northern Mariana Islands Retirement Fund (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, 2003 and 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 \$36,465,730 and \$37,230,342 for PSS's operational use for the year ended September 30, 2003 and 2002, respectively. The amount actually received in cash and/or services was \$37,002,611 in 2003 and \$36,830,342 in 2002. The receivable balances at September 30, 2003 and 2002 were \$4,260,758 and \$3,684,404, respectively.

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, 2003 and 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

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 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, 2003 and 2002

(4) Contingencies, Continued

For the fiscal years ended September 30, 2003 and 2002, expenditures in the amount of \$121,628 has 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 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 Group, Inc.'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 a 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 the construction of the Tinian High School. An assessment by the current PSS Legal Counsel of the liability surrounding this case is not complete. PSS intends to 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, 2003

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
U.S. Department of Education							
Direct Programs							
CFDA# 84.330A							
Advance Placement Program	0157	\$ 107,460	\$ 1	\$ 300	\$ (937)	\$ 937	\$ 301
Advance Placement Program	0257APP2	-	-	16,684	(86,267)	86,267	16,684
Advance Placement Program	0357AP3APP	-	-	38,843	(58,908)	58,908	38,843
Subtotal CFDA# 84.330A		\$ 107,460	\$ 1	\$ 55,827	\$ (146,112)	\$ 146,112	\$ 55,828
CFDA# 84.194Q							
Bilingual Data - SEA	0272BIL2	\$ 100,000	\$ (293)	\$ 293	\$ -	\$ -	\$ -
Technical Assistant Section 11	0273BIL2	-	3,640	(3,640)	-	-	-
Subtotal CFDA# 84.194Q		\$ 100,000	\$ 3,347	\$ (3,347)	\$ -	\$ -	\$ -
CFDA# 84.318X							
Technology LEA	0059AD01	\$ -	\$ 5,438	\$ -	\$ -	\$ -	\$ 5,438
Technology SEA	0158	-	(798)	798	-	-	-
Technology LEA	0159	-	(5,844)	406	-	-	(5,438)
Technology LEA	0159AL01	-	631	(631)	(2,859)	2,859	-
Technology LEA	0159AS01	-	558	(558)	-	-	-
Technology LEA	0159AS02	-	16	(16)	-	-	-
Technology LEA	0159DB01	-	-	-	(5,496)	5,496	-
Technology LEA	0159EH02	-	11,797	(11,797)	-	-	-
Technology LEA	0159JM01	-	-	-	(5,708)	5,708	-
Technology LEA	0159RL01	-	4,112	(4,112)	-	-	-
Subtotal CFDA# 84.318X		\$ -	\$ 15,910	\$ (15,910)	\$ (14,063)	\$ 14,063	\$ -
CFDA# 84.276A							
Goals 2000-1 SEA	2962	\$ -	\$ 167	\$ -	\$ -	\$ -	\$ 167
Goals 2000-LEA	2963EW2	-	299	-	-	-	299
Goals 2000-LEA	2963PT	-	(6,423)	-	-	-	(6,423)
Goals 2000-LEA	2963EM	-	2,135	-	-	-	2,135
Goals 2000-LEA	2963PT2	-	3,822	-	-	-	3,822
Goals 2000-1 SEA	0062	-	565	(565)	-	-	-
Goals 2000 - LEA	0063	-	2,189	(2,189)	-	-	-
Goals 2000 - LEA	0063E01	-	2,174	(2,174)	(244)	244	-
Goals 2000 - LEA	0063FH1	-	178	(178)	(4,958)	4,958	-
Goals 2000 - LEA	0063FT1	-	475	(475)	-	-	-
Goals 2000 - LEA	0063GB1	-	7,321	(7,321)	(291)	291	-
Goals 2000 - LEA	0063HM1	-	7,600	(7,600)	(4,824)	4,824	-
Goals 2000 - LEA	0063JV1	-	8,223	(8,223)	(446)	446	-
Goals 2000 - LEA	0063KP1	-	130	(130)	(3,212)	3,212	-
Goals 2000 - LEA	0063LB1	-	1,373	(1,373)	-	-	-
Goals 2000 - LEA	0063MG1	-	287	(287)	-	-	-
Goals 2000 - LEA	0063NN1	-	162	(162)	-	-	-
Goals 2000 - LEA	0063TS1	-	40	(40)	(2,084)	2,084	-
Subtotal CFDA# 84.276A		\$ -	\$ 30,717	\$ (30,717)	\$ (16,059)	\$ 16,059	\$ -
CFDA# 84.922A							
CG - T6 Northern Marianas Academy	0012B9	\$ 4,868,486	\$ (9)	\$ -	\$ -	\$ -	\$ (9)
Strategies 1 - SE	0101SE	-	1	(1)	-	-	-
Strategies 1 - ST	0101ST	-	246,238	(246,238)	-	-	-
Strategies 1 - PI	0103PI	-	1	(1)	-	-	-
Strategies 4 - Staff Development	0104SD	-	(1)	1	-	-	-
DF - Dandan Elementary School	0107A01	-	1	(1)	-	-	-
Total		4,868,486	246,231	(246,240)	-	-	(9)

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
<u>U.S. Department of Education</u>							
<u>Direct Programs</u>							
<u>CFDA# B4.922A</u>							
Balance forwarded:		\$ 4,868,486	\$ 246,231	\$ (246,240)	\$ -	\$ -	\$ (9)
DF- Garapan Elementary School	0107A02	-	(1)	1	-	-	-
DF - Hopwood Junior High School	0107A04	-	78	(78)	-	-	-
DF - Marianas High School	0107A06	-	1	(1)	-	-	-
DF - Oleai Elementary School	0107A07	-	-	(27)	-	-	(27)
DF - San Antonio Elem. School	0107A10	-	1	(1)	-	-	-
DF - San Vicente Elem. School	0107A11	-	1	(1)	-	-	-
DF - Kagman Elementary School	0107A17	-	(1)	1	-	-	-
EIE - Garapan Elementary School	0109A02	-	(1)	1	-	-	-
EIE - Oleai Elementary School	0109A07	-	533	(506)	-	-	27
EIE - San Vicente Elementary School	0109A11	-	71	(71)	-	-	-
EIE - Eucon International School	0109B02	-	1	(1)	-	-	-
EIE - Grace Christian Saipan	0109B05	-	750	(750)	-	-	-
EIE - Mount Carmel School	0109B08	-	1	(1)	-	-	-
EIE - Saipan International School	0109B15	-	8,607	(8,607)	-	-	-
EIE - Golden Harvest International	0109B18	-	1	(1)	-	-	-
EIE - Curriculum Acquisition	0109C02	-	1	(1)	-	-	-
EIE - Curriculum Identification	0109C03	-	8	(8)	-	-	-
EIE - Public School System	0109PSS	-	490,119	(490,119)	-	-	-
CG - T6 Grace Christian Rota	0112B04	-	(1)	1	-	-	-
CG - T6 Mount Carmel School	0112B08	-	1,410	(1,410)	-	-	-
CG - T6 Sister Remedios Pre-School	0112B16	-	1	(1)	-	-	-
Class Size Reduction	0114	-	91,046	(91,046)	-	-	-
CG Personnel T6	0119	-	1,162,807	(1,162,807)	-	-	-
Strategies 1 - CAS	0201CAS2	-	3,681	(3,681)	(6,738)	6,738	-
Strategies 1 - WMA	0201WMA2	-	(246,238)	246,238	(25,014)	25,014	-
Strategies 1 - SAT	0201SAT2	-	1,530	(1,530)	(6,935)	6,935	-
Strategies 1 - SEA	0201SEA2	-	-	-	(219)	219	-
Strategies 1 - CSA	0205CSA2	-	-	-	(10,937)	10,937	-
DF - Hopwood Junior High School	0207A042	-	-	-	(5,097)	5,097	-
DF - Marianas High School	0207A062	-	2,144	(2,144)	(20,553)	20,553	-
DF - Oleai Elementary School	0207A072	-	1,322	(1,322)	(4,577)	4,577	-
DF - San Antonio Elementary School	0207A102	-	-	-	(1,509)	1,509	-
DF - San Vicente Elementary School	0207A112	-	1	(1)	(1,314)	1,314	-
DF - Tinian Elementary School	0207A132	-	-	-	(8,966)	8,966	-
DF - WSR Elementary School	0207A152	-	2,388	(2,388)	(908)	908	-
DF - Kagman Elementary School	0207A172	-	-	-	(8,884)	8,884	-
DF - Kagman High School	0207A192	-	(1)	1	(536)	536	-
DF - Eucon International School	0207B022	-	1	(1)	(2,109)	2,109	-
DF - Northern Marianas Academy	0207B092	-	699	(699)	(438)	438	-
DF - NMC Lab School	0207B102	-	-	-	(1,989)	1,989	-
Drug Free - ADMIN.	0207C012	-	1	(1)	-	-	-
EIE - Dandan Elementary School	0209A012	-	1	(1)	-	-	-
EIE - Garapan Elementary School	0209A022	-	-	-	(7,756)	7,756	-
EIE - GTC Elementary School	0209A032	-	-	-	(4,698)	4,698	-
EIE - Hopwood Junior High School	0209A042	-	1	(1)	-	-	-
EIE - Koblerville Elementary School	0209A052	-	155	(155)	-	-	-
EIE - Marianas High School	0209A062	-	-	-	(2,372)	2,372	-
EIE - Oleai Elementary School	0209A072	-	250	(250)	(4,538)	4,538	-
EIE - San Antonio Elementary School	0209A102	-	-	-	(1,429)	1,429	-
EIE - San Vicente Elementary School	0209A112	-	-	-	(1,726)	1,726	-
EIE - Tinian Elementary School	0209A132	-	410	(410)	-	-	-
EIE - Tinian High School	0209A142	-	-	-	(6,913)	6,913	-
EIE - WSR Elementary School	0209A152	-	1	(1)	(13,294)	13,294	-
EIE - Kagman Elementary School	0209A172	-	-	-	(13,578)	13,578	-
EIE - Sinapalo Elementary School	0209A182	-	1	(1)	(6,250)	6,250	-
EIE - Eucon International School	0209B022	-	19,257	(19,257)	(109,081)	109,081	-
EIE - Grace Christian Saipan	0209B032	-	-	-	(4,377)	4,377	-
EIE - Grace Christian Rota	0209B042	-	4,454	(4,454)	(5,379)	5,379	-
EIE - Grace Christian Tinian	0209B052	-	-	197	(23,299)	23,299	197
EIE - Joshua Generation Academy	0209B062	-	-	-	(43,154)	43,154	-
EIE - Mount Carmel School	0209B082	-	2,266	(2,266)	(7,029)	7,029	-
Total		4,868,486	1,793,988	(1,793,800)	(361,596)	361,596	188

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
U.S. Department of Education							
Direct Programs							
CFDA# 84.922A							
Balance forwarded:		\$ 4,868,486	\$1,793,988	\$ (1,793,800)	\$ (361,596)	\$ 361,596	\$ 188
EIE - Northern Marianas Academy	0209B092	-	4,786	(4,787)	(17,203)	17,203	(1)
EIE - Saipan Community School	0209B112	-	-	-	(32,803)	32,803	-
EIE - San Francisco De Borja	0209B122	-	-	-	(429)	429	-
EIE - Saint Joseph School Tinian	0209B142	-	-	-	(1,366)	1,366	-
EIE - Saipan International School	0209B152	-	5,604	(5,604)	(29,730)	29,730	-
EIE - Sister Remedios Pre-School	0209B162	-	4,329	(4,329)	(5,047)	5,047	-
EIE - Whispering Palms School	0209B172	-	3,936	(3,937)	(6,834)	6,834	(1)
EIE - Golden Harvest International	0209B182	-	-	-	(3,894)	3,894	-
EIE - Brilliant Star Montessori	0209B192	-	-	-	(5,064)	5,064	-
EIE - Curriculum Acquisition	0209C022	-	2,068	(2,068)	(949)	949	-
EIE - Parental Involvement	0209C032	-	305	(305)	(103)	103	-
EIE - Public School System	0209P882	-	(255,747)	270,158	(1,073,053)	1,073,053	14,411
CG T6 - Eucon International School	0212B022	-	416	(416)	(16,108)	16,108	-
CG T6 - Grace Christian Saipan	0212B032	-	608	(600)	(2,975)	2,975	8
CG T6 - Grace Christian Rota	0212B042	-	523	(523)	(7,771)	7,771	-
CG T6 - Grace Christian Tinian	0212B052	-	1	(1)	(16,128)	16,128	-
CG T6 - Joshua Generation Academy	0212B062	-	-	-	(506)	506	-
CG T6 - Mount Carmel School	0212B082	-	620	(620)	(65,351)	65,351	-
CG T6 - Northern Marianas Academy	0212B092	-	1	(1)	(1,151)	1,151	-
CG T6 - NMC Lab School	0212B102	-	-	-	(5,253)	5,253	-
CG T6 - Saint Joseph School Tinian	0212B142	-	-	-	(6,630)	6,630	-
CG T6 - Saipan International School	0212B152	-	3,319	(3,319)	(14,712)	14,712	-
CG T6 - Sister Remedios Pre School	0212B162	-	25,859	(25,859)	(1,887)	1,887	-
CG T6 - Whispering Palms School	0212B172	-	1	(1)	-	-	-
CG T6 - Golden Harvest International	0212B182	-	-	-	(10,667)	10,667	-
CG T6 - Brilliant Star Montessori	0212B192	-	8,476	(8,476)	(4,077)	4,077	-
CT T6 - Admin.	0210ADM2	-	1	(1)	(47)	47	-
Class Size Reduction	0214CSR2	-	(54,682)	54,682	-	-	-
CG Personnel T6	0219CGP2	-	(1,077,238)	1,077,238	(1,490,297)	1,490,297	-
CG T6 - CAS	0219CAS2	-	469	(469)	-	-	-
CG T6 Staff Development	02194SD2	-	2,842	(2,842)	(2,814)	2,814	-
Academic Achievement Disad.	031AAD3AAD	-	-	236	(398,669)	398,669	236
Advanced Development Inst.	031AAD3ADI	-	-	570	(25,728)	25,728	570
CIA Professional Development	031AAD3CPD	-	-	-	(19,209)	19,209	-
JROTC	031AAD3JRT	-	-	39	(9,067)	9,067	39
MATHLAND	031AAD3MAL	-	-	-	(63,754)	63,754	-
Student Academic Competition	031AAD3SAC	-	-	581	(75,262)	75,262	581
Student Accountability Plan Assess.	031AAD3SAP	-	-	2,092	(360,232)	360,232	2,092
Standards Based Education	031AAD3SBE	-	-	1,506	(44,130)	44,130	1,506
State Data Plan	031AAD3SDM	-	-	-	(4,575)	4,575	-
Distance Education Program	031DEP3DEP	-	-	1,353	(70,554)	70,554	1,353
Education Technology Program	031ETP3ETP	-	-	6,050	(100,522)	100,522	6,050
General Professional Development	031GPD3GPD	-	-	7,152	(111,486)	111,486	7,152
Limited English Proficiency	031LEP3LEP	-	-	2,232	(111,867)	111,867	2,232
Parental Involvement Program	031PIP3PIP	-	-	327	(40,754)	40,754	327
Reading First Program	031RFP3RFP	-	-	42,198	(1,281,029)	1,281,029	42,198
Teacher Professional Development	031TPD3TPD	-	-	1,511	(65,350)	65,350	1,511
Teacher Recruitment & Retention	031TRR3TRR	-	-	157	(17,017)	17,017	157
State Administration Accreditation	032SAA3SAA	-	-	529	(39,045)	39,045	529
State Administration Report	032SAR3SAR	-	-	(239)	(13,503)	13,503	(239)
State Technical Assistance Operation	032STO3STO	-	-	-	(26,430)	26,430	-
AAD - Personnel	033AAD3LEA	-	-	93,836	(894,701)	894,701	93,836
LFP - Personnel	033LEP3LEP	-	-	7,488	(113,002)	113,002	7,488
PIP - Personnel	033PIP3LEA	-	-	4,891	(60,058)	60,058	4,891
RFP - Personnel	033RFP3LEA	-	-	1,827	(8,125)	8,125	1,827
SAA - Personnel	034SAA3SEA	-	-	4,880	(66,986)	66,986	4,880
STP - Personnel	034STP3SEA	-	-	20,284	(268,853)	268,853	20,284
AAD/T1 - CMS	035AAD3A01	-	-	267	(51,983)	51,983	267
AAD/T1 - DAN	035AAD3A02	-	-	2	(23,247)	23,247	2
AAD/T1 - GES	035AAD3A03	-	-	1,795	(111,348)	111,348	1,795
AAD/T1 - GTC	035AAD3A04	-	-	351	(30,354)	30,354	351
Total		4,868,486	470,485	(253,965)	(7,691,285)	7,691,285	216,520

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
U.S. Department of Education							
Direct Programs							
CFDA# 84.922A							
Balance forwarded:		\$ 4,868,486	\$ 470,485	\$ (253,965)	\$ (7,691,285)	\$ 7,691,285	\$ 216,520
AAD/T1 - HJH	035AAD3A05	-	-	1,479	(65,195)	65,195	1,479
AAD/T1 - KAG	035AAD3A06	-	-	15	(97,728)	97,728	15
AAD/T1 - KES	035AAD3A07	-	-	1,444	(41,758)	41,758	1,444
AAD/T1 - KHS	035AAD3A08	-	-	370	(71,696)	71,696	370
AAD/T1 - MHS	035AAD3A09	-	-	(13,246)	(74,179)	74,179	(13,246)
AAD/T1 - OES	035AAD3A10	-	-	123	(57,380)	57,380	123
AAD/T1 - RJH	035AAD3A11	-	-	-	(3,752)	3,752	-
AAD/T1 - RHS	035AAD3A12	-	-	449	(14,318)	14,318	449
AAD/T1 - SAS	035AAD3A13	-	-	338	(17,951)	17,951	338
AAD/T1 - SES	035AAD3A14	-	-	1,057	(23,492)	23,492	1,057
AAD/T1 - SHS	035AAD3A15	-	-	1,326	(65,614)	65,614	1,326
AAD/T1 - SVS	035AAD3A16	-	-	-	(73,326)	73,326	-
AAD/T1 - TAN	035AAD3A17	-	-	984	(25,719)	25,719	984
AAD/T1 - TES	035AAD3A18	-	-	157	(36,882)	36,882	157
AAD/T1 - THS	035AAD3A19	-	-	330	(22,233)	22,233	330
AAD/T1 - WSR	035AAD3A20	-	-	-	(74,015)	74,015	-
AAD/T1 - KJH	035ETP3A05	-	-	718	(10,685)	10,685	718
AAD/T1 - SVS	035ETP3A16	-	-	63	(3,785)	3,785	63
AAD/T1 - MHS	035LEP3A09	-	-	89	(1,319)	1,319	89
AAD/T1 - KES	035PIP3A07	-	-	37	(1,115)	1,115	37
AAD/T1 - SVS	035PIP3A16	-	-	-	(536)	536	-
AAD/T1 - CMS	035SDF3A01	-	-	3,349	(3,349)	3,349	3,349
AAD/T1 - KAG	035SDF3A06	-	-	55	(2,027)	2,027	55
AAD/T1 - KES	035SDF3A07	-	-	511	(7,605)	7,605	511
AAD/T1 - MHS	035SDF3A09	-	-	3,698	(5,467)	5,467	3,698
AAD/T1 - SAS	035SDF3A13	-	-	-	(1,295)	1,295	-
AAD/T1 - SVS	035SDF3A16	-	-	126	(4,245)	4,245	126
AAD/T1 - WSR	035SDF3A20	-	-	-	(1,495)	1,495	-
IAP/SEA - ADMIN.	036IAP3ADM	-	-	257	(9,326)	9,326	257
CG: CSR Personnel - SEA	037CSR3SEA	-	-	20,548	(293,908)	293,908	20,548
CG: CSR Personnel - LEA	038CSR3LEA	-	-	115,758	(227,940)	227,940	115,758
IAP - SFB	039IAP3SFB	-	-	736	(736)	736	736
Subtotal CFDA# 84.922A		\$ 4,868,486	\$ 470,485	\$ (113,194)	\$ (9,031,356)	\$ 9,031,356	\$ 357,291
CFDA# 84.215U							
Christa McAuliffe Grant	0045CS	\$ 24,764	\$ (578)	\$ -	\$ -	\$ -	\$ (578)
Christa McAuliffe Grant	0045HS	-	(205)	-	-	-	(205)
Christa McAuliffe Grant	0045MA	-	(961)	-	-	-	(961)
Christa McAuliffe Grant	0045MR	-	(52)	-	-	-	(52)
Christa McAuliffe Grant	0045RA	-	(1,818)	-	-	-	(1,818)
Christa McAuliffe Grant	0045RF	-	(118)	-	-	-	(118)
Christa McAuliffe Grant	0045RG	-	(105)	-	-	-	(105)
Christa McAuliffe Grant	0145	-	(5,000)	-	-	-	(5,000)
Christa McAuliffe Grant	0145OS1	-	2,500	-	-	-	2,500
Christa McAuliffe Grant	0145MH1	-	2,500	-	-	-	2,500
Christa McAuliffe Grant	0245PKW2	-	(133)	122	(122)	122	(11)
Subtotal CFDA# 84.215U		\$ 24,764	\$ (3,970)	\$ 122	\$ (122)	\$ 122	\$ (3,848)
CFDA# 84.256A							
Reading Master Kit (TFAS)	0345RK3RMK	-	-	39,665	(39,665)	39,665	39,665
Subtotal CFDA# 84.256A		\$ -	\$ -	\$ 39,665	\$ (39,665)	\$ 39,665	\$ 39,665

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
CFDA# 84.027							
SPED - Admin	0184	\$ 3,161,954	\$ (1)	\$ 1	\$ -	\$ -	\$ -
SPED Handicapped Children LEA	0185	-	1	(1)	-	-	-
SPED Handicapped Children SEA	0283SPE2	-	4,555	(4,555)	(411,893)	411,893	-
SPED - Admin	0284SPE2	-	6,975	(6,975)	(32,133)	32,133	-
SPED Handicapped Children LEA	0285SPE2	-	153,476	(153,476)	(1,101,176)	1,101,176	-
SPED Pacific Grant	0286SPE2	-	37,918	(37,918)	-	-	-
SPED Handicapped Children SEA	0383SE3SPE	-	-	119,007	(545,189)	545,189	119,007
SPED - Admin	0384AD3SPE	-	-	4,477	(91,129)	91,129	4,477
SPED Handicapped Children LEA	0385LE3SPE	-	-	192,850	(1,503,198)	1,503,198	192,850
SPED Pacific Grant	0386PG3SPE	-	-	14,556	(154,433)	154,433	14,556
Subtotal CFDA# 84.027		\$ 3,161,954	\$ 202,924	\$ 127,966	\$ (3,839,151)	\$ 3,839,151	\$ 330,890
CFDA# 84.181							
SPED Infant & Toddlers	0088	\$ 401,540	\$ (21,721)	\$ -	\$ -	\$ -	\$ (21,721)
SPED Infant & Toddlers	0188	-	21,721	-	-	-	21,721
SPED Infant & Toddlers	0288SPE2	-	30,229	(30,229)	(144,603)	144,603	-
SPED Infant & Toddlers	0388IF3SPE	-	-	31,211	(349,046)	349,046	31,211
Subtotal CFDA# 84.181		\$ 401,540	\$ 30,229	\$ 982	\$ (493,649)	\$ 493,649	\$ 31,211
CFDA# 84.000							
NCES Computers	2289	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 1
Common Core - Data	2652	-	(524)	-	-	-	(524)
NCES Computers	2389	-	(310)	310	(310)	310	-
Common Core - Data	2552	-	(3,063)	174	(174)	174	(2,889)
Common Core - Data	2665	-	(1,862)	1,018	(1,018)	1,018	(844)
Common Core - Data	2689	-	(412)	412	(412)	412	-
Common Core - Data	2252	-	21,103	-	-	-	21,103
Comparability NCES	2789	-	(24,330)	1,884	(1,884)	1,884	(22,446)
Common Core - Data	2865	-	(1,374)	1,374	(1,374)	1,374	-
Common Core - Data	2965	-	(1,150)	1,150	(1,150)	1,150	-
Comparability NCES	2989	-	(28,565)	-	-	-	(28,565)
Common Core - Data	0065	-	(19,953)	15,981	(15,981)	15,981	(3,972)
Common Core - Data	0165	-	(29,742)	4,935	(4,935)	4,935	(24,807)
Data Improvement - NCES	0089	-	(15,000)	11,954	(16,954)	16,954	(3,046)
Common Core - Data	0265CCD2	-	(28,000)	-	-	-	(28,000)
Common Core - Data	365CC3CCD	-	-	(21,000)	-	-	(21,000)
Comparability NCES	0289NCE2	-	(12,500)	-	-	-	(12,500)
Subtotal CFDA# 84.000		\$ -	\$ (145,681)	\$ 18,192	\$ (44,192)	\$ 44,192	\$ (127,489)
CFDA# 84.185							
R.C. Byrd School Program	0374RB3RCE	\$ -	\$ -	\$ -	\$ (245)	\$ 245	\$ -
R.C. Byrd School Program	0474RB4RCE	-	-	-	(53,755)	53,755	-
Subtotal CFDA# 84.185		\$ -	\$ -	\$ -	\$ (54,000)	\$ 54,000	\$ -
Total U.S. Department of Education		\$ 8,664,204	\$ 603,962	\$ 79,586	\$ (13,678,369)	\$ 13,678,369	\$ 683,548

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
U.S. Department of Health and Human Services							
Direct Programs							
CFDA# 93.600							
Headstart Basic	0281HDS2	\$ 1,578,455	\$ 205,439	\$ (205,439)	\$ (289,203)	\$ 289,203	\$ -
Headstart Training	0282HDS2	-	27	(27)	(617)	617	-
Headstart Admin.	0330AD3HDS	-	-	1,987	(56,538)	56,538	1,987
Headstart Basic	0331BA3HDS	-	-	84,468	(1,359,605)	1,359,605	84,468
Headstart Training	0332TR3HDS	-	-	-	(47,719)	47,719	-
Headstart Basic	0472BA4HDS	-	-	3,620	(3,620)	3,620	3,620
Subtotal CFDA# 93.600		\$ 1,578,455	\$ 205,466	\$ (115,391)	\$ (1,757,302)	\$ 1,757,302	\$ 90,075
CFDA# 93.575							
Child Care Before & After School	0094	\$ 1,636,489	\$ (20)	\$ -	\$ -	\$ -	\$ (20)
Child Care Administration	0190	-	2,308	(2,308)	(2,453)	2,453	-
Child Care Certificates	0191	-	-	-	(14,252)	14,252	-
Child Care Quality & Activity	0192	-	-	-	(6,008)	6,008	-
Child Care School Age/R&R	1093	-	-	-	-	-	-
Child Care Before & After School	1094	-	(1)	1	-	-	-
Child Care Infant & Toddler	1095	-	-	-	(235)	235	-
Child Care Quality Expansion	1096	-	1	(1)	(700)	700	-
Child Care Administration	0290CCP2	-	5,499	(5,158)	(39,352)	39,352	341
Child Care Certificates	0291CCP2	-	1,713	1,337	(496,253)	496,253	3,050
Child Care Quality & Activity	0292CCP2	-	1,837	(1,837)	(61,041)	61,041	-
Child Care School Age/R&R	0293CCP2	-	1	(1)	(384)	384	-
Child Care Before & After School	0294CCP2	-	721	(721)	(90,164)	90,164	-
Child Care Infant & Toddler	0295CCP2	-	-	(1,204)	(34,135)	34,135	(1,204)
Child Care Quality Expansion	0296CCP2	-	1,204	-	(74,738)	74,738	1,204
Child Care Administration	0390AD3CCP	-	-	4,649	(40,878)	40,878	4,649
Child Care Certificates	0391CC3CCP	-	-	-	(466,924)	466,924	-
Child Care Quality & Activity	0392QA3CCP	-	-	4,268	(7,503)	7,503	4,268
Child Care School Age/R&R	0393RR3CCP	-	-	-	(788)	788	-
Child Care Before & After School	0394AF3CCP	-	-	-	(400,000)	400,000	-
Child Care Infant & Toddler	0395IF3CCP	-	-	1	(20,714)	20,714	1
Child Care Quality Expansion	0396QE3CCP	-	-	1	(71,198)	71,198	1
Subtotal CFDA# 93.575		\$ 1,636,489	\$ 13,263	\$ (973)	\$ (1,827,720)	\$ 1,827,720	\$ 12,290
CFDA# 93.938							
Aids-HIV	0061	\$ 160,481	\$ 475	\$ -	\$ -	\$ -	\$ 475
Aids-HIV Media	0160	-	(122)	122	-	-	-
Aids-HIV	0161	-	(475)	-	-	-	(475)
Aids-HIV	0261HIV2	-	4,811	(4,811)	(122,670)	122,670	-
Aids-HIV	0361HI3HIV	-	-	3,421	(65,342)	65,342	3,421
Subtotal CFDA# 93.938		160,481	4,689	(1,268)	(188,012)	188,012	3,421
Total U. S. Department of Health and Human Services		\$ 3,375,425	\$ 223,418	\$ (117,632)	\$ (3,773,034)	\$ 3,773,034	\$ 105,786
U.S. Department of Agriculture							
Direct Programs							
CFDA #10.555							
USDA TEFAP	0175	\$ 4,653,527	\$ (2,045)	\$ -	\$ -	\$ -	\$ (2,045)
FNS Breakfast Lunch Program	0177	-	190,614	(190,614)	-	-	-
FNS State Admin. Expense	0178	-	(2)	2	-	-	-
FNS Nutrition Education	0179	-	-	-	-	-	-
FNS Equip. & Facility Improvement	0180	-	4,406	(4,406)	-	-	-
FNS Breakfast Lunch Program	0277FNS2	-	(30,953)	30,953	(2,034,912)	2,034,912	-
Total		4,653,527	162,020	(164,065)	(2,034,912)	2,034,912	(2,045)

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/02	Adjustments	Cash Receipts FY 03	Expenditures FY 03	Receivable From Grantor (Deferred Revenue) at 09/30/03
U.S. Department of Agriculture							
Direct Programs							
CFDA #10.555							
Balance forwarded:		\$ 4,653,527	\$ 162,020	\$ (164,065)	\$ (2,034,912)	\$ 2,034,912	\$ (2,045)
FNS State Admin. Expense	0278FNS2	-	3,685	(3,685)	(3,522)	3,522	-
FNS Equip. & Facility Improvement	0280FNS2	-	6,528	(6,528)	(46,265)	46,265	-
FNS Breakfast Lunch Program	0377BL3FNS	-	-	17,593	(2,197,956)	2,197,956	17,593
FNS State Admin. Expense	0378AD3FNS	-	-	3,752	(75,237)	75,237	3,752
FNS Nutrition Education	0379NE3FNS	-	-	-	(35,972)	35,972	-
FNS Equip. & Facility Improvement	0380EF3FNS	-	-	-	(70,352)	70,352	-
Total U.S. Department of Agriculture		\$ 4,653,527	\$ 172,233	\$ (152,933)	\$ (4,464,216)	\$ 4,464,216	\$ 19,300
U.S. Department of Transportation							
Direct Programs							
CFDA #20.509							
Federal Transit Bus	0270BUS2	\$ 170,265	\$ 75,833	\$ 94,432	\$ (94,432)	\$ 94,432	\$ 170,265
Federal Transit Bus	0370BU3BUS	-	-	26,193	(26,193)	26,193	26,193
Total U.S. Department of Transportation		\$ 170,265	\$ 75,833	\$ 120,625	\$ (120,625)	\$ 120,625	\$ 196,458
Other							
Direct Programs							
CFDA# 94.006A							
Americorps - Admin.	0238AMC2	\$ 269,269	\$ -	\$ -	\$ (322)	\$ 322	\$ -
Americorps	0239AMC2	-	2,723	(322)	(92,198)	92,198	2,401
Subtotal CFDA# 94.006A		269,269	2,723	(322)	(92,520)	92,520	2,401
CFDA# 84.352A							
School Facilities Renovation	0140	\$ -	\$ -	\$ -	\$ (2,500)	\$ 2,500	\$ -
School Facilities Renovation	0141	-	1,943	(1,943)	-	-	-
SFR - Garapan Elementary School	0141GES	-	-	-	-	-	-
SFR - Gregorio T. Camacho Elem. Schoo	0141GTC	-	-	-	(7,200)	7,200	-
SFR - Hopwood Junior High School	0141HJH	-	-	-	-	-	-
SFR - Koblerville Elementary School	0141KES	-	2,314	(2,314)	(10,491)	10,491	-
SFR - Marianas High School	0141MHS	-	-	-	-	-	-
SFR - Oleai Elementary School	0141OES	-	304	(304)	(2,487)	2,487	-
SFR - Rota Elementary School	0141RES	-	-	-	(9,997)	9,997	-
SFR - San Antonio Elementary School	0141SAS	-	861	(862)	(26,583)	26,583	(1)
SFR - San Vicente Elementary School	0141SVS	-	554	(554)	(1,696)	1,696	-
SFR - Tanapag Elementary School	0141TAN	-	6,925	(6,925)	-	-	-
SFR - Tinian High School	0141THS	-	-	(1)	(8,500)	8,500	(1)
SFR - WSR Elementary School	0141WSR	-	-	-	(28,469)	28,469	-
Subtotal CFDA# 84.352A		\$ -	\$ 12,901	\$ (12,903)	\$ (97,923)	\$ 97,923	\$ (2)
Total Other Programs		\$ 269,269	\$ 15,624	\$ (13,225)	\$ (190,443)	\$ 190,443	\$ 2,399
Total Federal Grants Fund		\$ 17,132,690	\$1,091,070	\$ (83,579)	\$ (22,226,687)	\$ 22,226,687	\$1,007,491

PUBLIC SCHOOL SYSTEM

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

(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 Education for fiscal year 2003. It is applicable to all federal grant programs under the U.S. Department of Education and was 7.2% of payroll expenditures for the year ended September 30, 2003.

PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

Year Ended September 30, 2003

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, 2003

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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, 2003 and have issued my report thereon dated March 26, 2004. 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 amounts 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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.

Scott MacGinnis & Company
Commonwealth of the Northern Mariana Islands
March 26, 2004

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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, 2003. 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. 03-1 through 03-8 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding 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, 2003.

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.

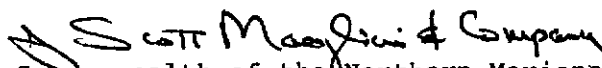
I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, 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. 03-1 through 03-8.

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. 03-1, 03-2, and 03-5 through 03-8 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, 2003, and have issued my report thereon dated March 26, 2004. 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 35 through 41) 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.


Commonwealth of the Northern Mariana Islands
March 26, 2004

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

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: Unqualified on all federal programs except Consolidated Grants, Special Education and Headstart

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, 2003

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	\$ 9,031,356
10.555	Nutrition Assistance Grant	4,464,216
84.027	Special Education Program	3,839,151
93.575	Child Care and Development Block Grant	1,827,720
93.600	Head Start Program	<u>1,757,302</u>
	Total Federal Expenditures-Major Programs	<u>\$20,919,745</u>

Represents 94% of the total awards expended

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

\$ 666,800

3% of the total awards expended

Auditee qualified as low-risk auditee

 yes X no

SECTION II -- FINANCIAL STATEMENTS FINDINGS

No matters were noted as reportable conditions for the fiscal year 2003.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 03-1

<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 statues 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 failed to properly conduct evaluation of the programs under this Grant to ensure its effectiveness in meeting its purposes and objectives.</p> <p><u>Cause:</u> The cause of the above condition is PSS lacks a system that will properly monitor, implement and evaluate the effectiveness of the activities performed under this program to ensure that the stated goals and objectives are met.</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 the State Educational Agency (SEA).</p> <p><u>Recommendation:</u> PSS should develop an internal control system that would specify the detailed procedures in carrying out the programs under this grant. Also, an individual should be assigned to take charge of the monitoring that will ensure that the purposes and objectives of this grant are met.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 03-1, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922A	<p><u>Prior Year Status:</u> The above condition was cited as a finding in the Single Audit for fiscal years 2000 to 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> PSS agrees with the finding. PSS has recently hired a Federal Monitoring Officer whose services will be dedicated in evaluating the effectiveness of the different programs and ensuring their adherence to the procedures prescribed by the Secretary of Education.</p> <p>An employment contract was provided for review validating the corrective action taken. The Federal Monitoring Officer will begin employment with PSS on May 3, 2004.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Consolidated Grants to Insular Areas

Finding No. 03-2

<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 private schools for use in the approved innovative assistance programs. An inventory will be maintained for all materials sent to the private schools.</p> <p><u>Condition:</u> PSS does not maintain an inventory of materials sent to the private 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 years 2001 and 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> PSS concurs. Accurate inventory of materials sent to the private schools in prior years was non-existent given the difficulty of employing a full-time trained Federal Monitoring Officer. With the employment of the Monitoring Officer, this non-compliance will be rectified with a rigorous system that will document, monitor and evaluate the activities of the grantee agencies.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 03-3

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria:</u> Certain general requirements under the Comprehensive System of Personnel Development (CSPD) were enumerated in the Eligibility Document of the Special Education Program.</p> <p><u>Condition:</u> PSS lacks a system that will ensure all of the general requirements under this program are being carried out as planned.</p> <p><u>Cause:</u> The cause of the above condition is that PSS failed to develop an effective monitoring system that would keep track all the activities under the federally funded programs and that policies and procedures exists is consistent with the requirements of the grant.</p> <p><u>Effect:</u> A lack of an effective monitoring system prevents PSS from properly carrying out its programs' goals and objectives as both the State Educational Agency (SEA) and Local Educational Agency (LEA).</p> <p><u>Recommendation:</u> PSS should develop an effective internal control system that would assist them in meeting the goals and objectives of the program grants as required by the Federal grant.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 03-3, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<u>Auditee Response and Corrective Action Plan:</u> PSS concurs. A CSPD Coordinator was recently hired to implement the activities and objectives of the Comprehensive System of Personnel Development for the Special Education Program. The CSPD Coordinator submitted a detailed report of CSPD activities to the auditor on March 5, 2004. Not listed in the report is the recruitment of an off-island Special Education School Counselor, and on-island Special Education Teacher.	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 03-4

CFDA No. Findings/Noncompliance

Questioned
Costs

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 the Commonwealth Health Center, the Department of Mental Health, the Office of Vocational Rehabilitation Services and the Division of Youth Services.

Condition:

There was no Memorandum of Understanding (MOU) established with the Department of Mental Health, Commonwealth Health Center and the Division of Youth Services for the fiscal year 2003. The MOU expired September 30, 2000. As justified by PSS, no MOU was considered necessary after this date because services performed by these agencies should be with no-charge. Thus, no MOU was 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, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 03-4, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Effect:</u> 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.</p> <p><u>Recommendation:</u> The Special Education Program should update and make the necessary changes on documenting its plans and programs identified in the State Plan.</p> <p><u>Prior Year Status:</u> The above condition was cited as a finding in the Single Audit for fiscal years 2000 to 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> PSS agrees with the finding. The FY 2004 Eligibility Document (State Plan) will be updated to correct and resolve this finding. In addition, PSS already drafted and signed a Memorandum of Agreement with the Division of Youth Services.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-5

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u> Head Start's educational program is designed to meet the needs of each child, the community served, and its ethnic and cultural characteristics.</p> <p>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.</p> <p><u>Condition:</u> PSS entered into an agreement with the Department of Health and Northern Marianas College providing the required services that every child is entitled to receive under this program. However, the related parties involved did not sign the Memorandum of Agreement provided.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> Since the Memorandum of Agreement (MOA) is not yet considered to be official, there is no clear agreement yet or definite policies and procedures validating that PSS has already enforced the comprehensive health program as required under Headstart.</p> <p><u>Recommendation:</u> PSS should ensure that the above-mentioned MOA be properly endorsed by all related parties to make it official. Thus, each eligible recipient will then be receiving the necessary services they are entitled to.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-5, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<u>Auditee Response and Corrective Action Plan:</u> The MOA is currently with the Northern Marianas College for signature. PSS has already followed up and asserts that the MOA will be signed by the related parties to speed up the implementation of the comprehensive health program as required under the Headstart program.	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-6

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u> As stated in the 45 CFR section 1306.30c, the facilities used by Early Head start and Head Start grantees for regularly scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing.</p> <p>The local licensing requirements applicable to Headstart are:</p> <ol style="list-style-type: none">1. Fire Safety Inspection from the Department of Public Safety.2. Facilities Inspection by the Bureau of Environmental Health. <p><u>Condition:</u></p> <ol style="list-style-type: none">a. Two or 16.67% out of twelve Headstart centers were only inspected for fire safety.b. Ten or 83.33% out of twelve Headstart centers were only inspected for facilities inspection. <p><u>Cause:</u> The cause of this condition is that PSS failed to follow-up and coordinate the required inspection of Headstart facilities with the concerned agencies.</p> <p><u>Effect:</u> The effect of the above condition is that all Headstart centers may be regarded as not yet fully licensed to operate. This is a non-compliance with the federal requirements.</p> <p><u>Recommendation:</u> PSS should ensure that all Headstart centers be properly inspected to ensure that the centers are in compliance with the local and federal requirements.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-6, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<u>Auditee Response and Corrective Action Plan:</u> PSS agrees with the finding. The Fire Division of the Department of the Public Safety conducted a follow-up fire safety inspection of the nine Headstart centers in Saipan on March 15 th and 16 th of 2004. The Tinian Headstart was previously inspected on last October 15, 2003.	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-7

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u> As stated in the 45 CFR section 1306.30c, grantees must comply with applicable State and local requirements concerning licensing. One of the requirements includes an approved fire safety inspection from the Department of Public Safety.</p> <p><u>Condition:</u> The two Headstart centers inspected by the Department of Public Safety failed to meet the fire safety standards.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is that Headstart centers may be hazardous for the children and expose them to possible accidents or danger. This is non-compliance with the local and federal requirements.</p> <p><u>Recommendation:</u> PSS should ensure that all Headstart facilities meet the fire safety standard requirements of the Department of Public Safety to avoid any potential accident.</p> <p><u>Auditee Response and Corrective Action Plan:</u> Based on the follow-up fire safety inspection conducted by the Fire Division of the Department of Public Safety, an approved disposition in accordance with the Uniform Fire Code was granted to the nine Headstart centers in Saipan per reports dated March 15th and 16th of 2004. For the Tinian Headstart Center, a fire safety certification was issued on October 15, 2003 stating that the center has met the fire safety requirements as set forth by Public Law 1-8.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-8

CFDA No:

Findings/Noncompliance

Questioned
Costs

93.600

\$ -

Criteria:

As stated in the 45 CFR section 1306.30c, grantees must comply with applicable State and local requirements concerning licensing. PSS is required to comply with the Bureau of Environmental Health minimum standards and Federal regulations.

Condition:

All Headstart centers inspected were noted to be substandard, some of which were identified to be in violation of Federal regulations that are as follows:

- a. No built-in restroom, it is recommended to have at least one restroom accessible to students.
- b. Improper storage of cleaning equipment, cleaning compounds and sanitizing agents.
- c. Cobweb built-up on ceiling corners, stained and unclean floor carpet needs to be cleaned and maintained regularly.
- d. Disorganized construction materials and unsecured abandoned building within the center's perimeter and disorganized construction equipment and not elevated.
- e. No built-in hand washing basin (at least one hand washing basin is required for every classroom).
- f. No playground.
- g. Hand washing basin without paper towel and liquid soap.
- h. Uncollected fallen rotten fruits.
- i. Dirty air-con filter and grill.
- j. Dusty glass windows.

Cause:

The cause of this condition is that PSS has no written policies and procedures on cleaning, sanitizing, and general maintenance of the Headstart centers.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Headstart Program

Finding No. 03-8, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Cause, Continued:</u> Also, PSS failed to monitor the centers to ensure that they comply with the local and federal requirements.</p> <p><u>Effect:</u> The effect of the above condition is that PSS may not be providing a clean and orderly environment conducive to learning for the children. This is non-compliance with the local and federal requirements concerning licensing.</p> <p><u>Recommendation:</u> PSS should take an immediate corrective action for the cited violations and ensure that all Headstart facilities meet the standard requirements of the Bureau of Health and Environmental Health and that they comply with the Federal regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u> A contract for preventive maintenance and repair work of all the Saipan Headstart facilities was awarded to System International Construction under purchase order numbers 28995 OL and 29434 OL. The scope of work addresses the deficiencies and violations cited by the Division of Public Health and Department of Public Safety. All Headstart Centers are now staffed with qualified coordinators who are tasked with overseeing the daily operation of the centers and ensuring total compliance with the local and federal requirements.</p>	\$ -
	Total Questioned Costs	<u>\$ -</u>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2002 Audit Findings

Finding No. 02-1

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, 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.

Corrective action: Resolved. 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

Finding No. 02-2

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.

Corrective action: Resolved. During the year, the management of PSS performed an analysis of their current accounts. This helped them ensure that at the end of each reporting period, generated financial reports represent the accurate information that fair and correct financial decisions can be made out of it. For the audit of FY 2003, no finding with the same condition was identified.

Finding No. 02-3

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 2002.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 02-4

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

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

Corrective action: Resolved. Food and nutrition services of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Food and Nutrition Assistance Program. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 02-5

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

- 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.

Corrective action: Resolved. Childcare & Development Block Grant Program of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Food and Nutrition Assistance Program. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 02-6

Condition: PSS does not prepare an annual report that would detail progress toward its goals/objectives.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

Finding No. 02-7

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

Corrective action: Resolved. The 2002 and 2003 annual report was submitted to USDE last Nov 17, 2003.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 02-8

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

Corrective action: Resolved. The Federal Program Office of PSS took the necessary measures to ensure that they would comply with the reporting deadlines of the quarterly performance reports as required by Food and Nutrition. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 02-9

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.

Corrective action: With the multi-year proposal, the audit of the FY 2003 has already started in December 2003. The planned date for its submission will be on May 2004. This will be a month early before the deadline, which is on June 2004. The management of PSS has made an extensive effort to ensure that all schedules and supporting documents have been provided to speed up the completion of the audit.

Finding No. 02-10

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

Corrective action: Resolved. PSS submitted the 2002 annual report to the federal agency as required by the Department of Health and Human Services.

Finding No. 02-11

Condition: No evaluation is being done for the aforementioned activities.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 02-12

Condition: Reports are not maintained to document the activities mentioned above.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

Finding No. 02-13

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

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities. This condition was still considered and identified as a finding in the 2003 audit report as Finding No. 03-01.

Finding No. 02-14

Condition: PSS does not maintain an inventory of materials sent to the schools.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Audit of fiscal year 2003 as Finding No. 03-2.

Finding No. 02-15

Condition: The Federal Program Office did visit schools during school years 2001 - 2002 but no documentation of the dates were logged. They were only able to document the meeting with all school on Safe & Drug Free issues on May 10, 2002.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 02-16

Condition: PSS was not able to provide the Annual Child Count for the year 2002.

Corrective action: Resolved. PSS provided the annual child count for the year 2003. This reflects that a system is currently in place to ensure that all requirements on the Federal regulations and activities or services to be performed as indicated on the State Plan are all being complied with.

Finding No. 02-17

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

Corrective action: Resolved. Based on the IDEA Part B & C Self Assessment Report of the Special Education of PSS, it is not a requirement for public agencies to develop services plans for each and every parentally placed private school child with a disability residing in the LEA's jurisdiction regardless of whether that child receives services from LEA.

Finding No. 02-18

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4.

Finding No. 02-19

Condition: 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.

Corrective action: Resolved. During the fiscal year 2003, the Headstart of PSS was able to coordinate with the related agencies of the program for children with disabilities to ensure that all children that needs their service were considered and fully accounted for.

Finding No. 02-20

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 02-20, Continued

Corrective action: A Memorandum of Agreement (MOA) was executed between the Department of Health and the Headstart program of PSS. The MOA accommodated the needs of the children enrolled under the Headstart on their comprehensive health program. However, this MOA is not yet fully executed as this has not yet been signed by both parties. This was considered as Finding No. 03-5 in the 2003 audit report.

Finding No. 02-21

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.

Corrective action: Resolved. With the hiring of the Disabilities Service Manager and the Health and Disabilities Service Coordinator, the process of assessing the children including the initial screening will be properly addressed and implemented.

Finding No. 02-22

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.

Corrective action: Resolved. The administrative regulations on childcare providers have been promulgated on December 12, 2003.

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.

Corrective action: Resolved. 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: Resolved. During the year, the management of PSS performed an analysis of their current accounts. This helped them ensure that at the end of each reporting period, generated financial reports represent the accurate information that fair and correct financial decisions can be made out of it. For fiscal year audit of 2003, no finding with the same condition was identified.

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.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

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.

Corrective action: Resolved. Food and nutrition services of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Food and Nutrition Assistance Program. For fiscal year audit of 2003, no finding with the same condition was identified.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 01-5, Continued

b. 3 applicants or 12% of those tested do not have birth certificates to proof that children were under the age of 13.

Corrective action: Resolved. Childcare & Development Block Grant Program of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Child Care and Development Block Grant Program. For fiscal year audit of 2003, no finding with the same condition was identified.

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.

Corrective action: Resolved. Headstart Program of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Headstart Program. For fiscal year audits of 2003 and 2002, no finding with the same condition was identified.

Finding No. 01-7

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

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

Finding No. 01-8

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

Corrective action: The 2002 and 2003 annual report was subsequently submitted to the U.S. Department of Education last November 17, 2003.

Finding No. 01-9

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, 2000	03/09/01	37 days

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 01-9, Continued

Condition, Continued

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

Corrective action: Resolved. The Federal Program Office of PSS took the necessary measures to ensure that they would comply with the reporting deadlines of the quarterly performance reports as required by Food and Nutrition. During the audit of FY 2003, no finding with the same condition was identified.

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.

Corrective action: With the multi-year proposal, the audit of the FY 2003 has already started in December 2003. The planned date for its submission will be on May 2004. This will be a month early before the deadline, which is on June 2004. The management of PSS has made an extensive effort to ensure that all schedules and supporting documents have been provided to speed up the completion of the audit.

Finding No. 01-11

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

Corrective Action: PSS was able to provide the current year annual report as required by the Department of Health and Human Services. This results to compliance on the reporting requirements of Childcare funds.

Finding No. 01-12

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

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

Finding No. 01-13

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

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 01-13, Continued

Corrective Action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

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.

Corrective Action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities. This condition was still considered and identified as a finding in the 2003 audit report as Finding No. 03-01.

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Audit of fiscal year 2003 as Finding No. 03-2.

Finding No. 01-16

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

Corrective Action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

Finding No. 01-17

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

Corrective action: Resolved. PSS was able to provide the annual child count for the year 2003. This reflects that a system is currently in place to ensure

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 01-17, Continued

that all requirements on the Federal regulations and activities or services to be performed as indicated on the State Plan are all being complied with.

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4.

Finding No. 01-19

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

Corrective action: Resolved. Based on the IDEA Part B & C Self Assessment Report of the Special Education of PSS, it is not a requirement for public agencies to develop services plans for each and every parentally placed private school child with a disability residing in the LEA's jurisdiction regardless of whether that child receives services from LEA.

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.

Corrective action: During the fiscal year 2003, site visits were conducted as documented in their CIMP report.

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.

Corrective action: Resolved. The administrative regulations on childcare providers have been promulgated on December 12, 2003.

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

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 01-23, Continued

necessary system and procedures that will provide concrete data and statistics regarding children with disabilities.

Corrective action: During the fiscal year 2003, the Headstart of PSS was able to coordinate with the related agencies of the program for children with disabilities to ensure that all children that needs their service were considered and fully accounted for.

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.

Corrective action: A Memorandum of Agreement (MOA) was executed between the Department of Health and the Headstart program of PSS. The MOA accommodated the needs of the children enrolled under the Headstart on their comprehensive health program. However, this MOA is not yet fully executed as this has not yet been signed by both parties. This was considered as Finding No. 03-5 in the 2003 audit report.

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.

Corrective action: Resolved. 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

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.

Corrective action: Resolved. During the year, the management of PSS performed an analysis of their current accounts. This helped them ensure that at the end of each reporting period, generated financial reports represent the accurate information that fair and correct financial decisions can be made out of it.

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities.

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.

Corrective action: Resolved. Food and nutrition services of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Food and Nutrition Assistance Program. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 00-11

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

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

Corrective action: Resolved. Child Care and Development Block Grant of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in Child Care and Development Block Grant. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 00-14

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

Corrective action: The 2002 and 2003 annual report was subsequently submitted to the U.S. Department of Education last November 17, 2003.

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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

Corrective action: Resolved. The Federal Program Office of PSS took the necessary measures to ensure that they would comply with the reporting deadlines of the quarterly performance reports as required by Food and Nutrition. During the audit of FY 2003, no finding with the same condition was identified.

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.

Corrective action: With the multi-year proposal, the audit of the FY 2003 has already started in December 2003. The planned date for its submission will be on May 2004. This will be a month early before the deadline, which is on June 2004. The management of PSS has made an extensive effort to ensure that all schedules and supporting documents have been provided to speed up the completion of the audit.

Finding No. 00-17

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

Corrective Action: Resolved. PSS was able to provide the current year annual report as required by the Department of Health and Human Services. This results to compliance on the reporting requirements of Childcare funds.

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.

Corrective Action: During the FY 2003 audit, all program managers under the Consolidated Grants provided a report summarizing the activities performed, goals achieved, evaluation of the activities held and future objectives that still has to be met for the improvement of the programs. For the FY 2004, a quarterly non-fiscal report is required from each program managers in response to the need of a system that will document, monitor and evaluate its various activities. This condition was still considered and identified as a finding in the 2003 audit report as Finding No. 03-01.

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: Resolved. Based on the IDEA Part B & C Self Assessment Report of the Special Education of PSS, it is not a requirement for public agencies to develop services plans for each and every parentally placed private school child with a disability residing in the LEA's jurisdiction regardless of whether that child receives services from LEA.

Finding No. 00-20

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

Corrective action: Resolved. PSS was able to provide the annual child count for the year 2003. This reflects that a system is currently in place to ensure that all requirements on the Federal regulations and activities or services to be performed as indicated on the State Plan are all being complied with.

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Audit of fiscal year 2003 as Finding No. 03-3.

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.

Corrective action: During the fiscal year 2003, site visits were conducted as documented in their CIMP report.

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4.

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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: A Memorandum of Agreement (MOA) was executed between the Department of Health and the Headstart program of PSS. The MOA accommodated the needs of the children enrolled under the Headstart on their comprehensive health program. However, this MOA is not yet fully executed as this has not yet been signed by both parties. This was considered as Finding No. 03-5 in the 2003 audit report.

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.

Corrective action: A Memorandum of Agreement (MOA) was executed between the Department of Health and the Headstart program of PSS. The MOA accommodated the needs of the children enrolled under the Headstart on their comprehensive health program. However, this MOA is not yet fully executed as this has not yet been signed by both parties. This was considered as Finding No. 03-5 in the 2003 audit report.

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.

Corrective action: Resolved. 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

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.

Corrective action: 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. This is actually a one-time occurrence and should be a non-issue on subsequent fiscal periods.

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.

Corrective action: During the fiscal year 2003, site visits were conducted as documented in their CIMP report.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

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.

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4.

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.

Corrective action: Enhanced effort has already been made to ensure that 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.

Corrective action: Resolved. Headstart Program of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in the Headstart Program. For fiscal year audits of 2003 and 2002, no finding with the same condition was identified.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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>

Corrective action: Unresolved. PSS management has already 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

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>

Corrective Action: Resolved. For fiscal years 2000 to 2003, 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 2003 ties up with amount in the general ledger. Variance noted above was subsequently corrected in FY 2000.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: Enhanced efforts were already made in fiscal years 2000 to 2003 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 2003 audits.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: Resolved. For the fiscal years 2000 to 2003, 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 2000 to 2003 ties up with amount in the general ledger. The difference noted was subsequently corrected in FY 2000.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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, 2003

Finding No. 99-29, Continued

Corrective action: Resolved. Enhanced efforts were made in fiscal years 2000 to 2003 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 2003 ties up with amount in the general ledger. The variance noted above was subsequently closed and reconciled in FY 2000.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: Resolved. 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 2003 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. The variance noted above was subsequently corrected in the FY 2000 audit. b 74

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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, 2003

Finding No. 99-31, Continued

Corrective action: Resolved. 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 2003 audits, the cumulative expenditures reported per PMS-272 ties up with amount in the general ledger. The variance noted above was subsequently corrected and reconciled in the FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: Resolved. 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 2003 audits, the cumulative expenditures reported per PMS-272 agrees with amount in the general ledger and timely submission of the reports was adhered to. The variance noted above was subsequently corrected and reconciled in the FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 99-33, Continued

Corrective action: Resolved. 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 2003 audits, the cumulative expenditures reported per ACF-696 and PMS-272 ties up with amount in the general ledger. The variance noted above was subsequently corrected and reconciled in the FY 2000 audit.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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

Corrective action: Resolved. Submission of the report was late due to the unavailability of the 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 2003, as there was no finding of the same condition identified during the 2000 to 2003 audits.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: Resolved. 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 2003. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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>

Corrective action: 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 2000 to 2003 audits. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

Finding No. 98-4

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

Corrective action: 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. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

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.

Corrective action: 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 years 1999 to 2003. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: Resolved. 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. From this policy, the management exercised strict adherence fully correcting the findings noted above. During the audit of FY 2003, no finding with the same condition was identified.

Finding No. 98-14

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

Corrective action: 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. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

Finding No. 98-15

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

Corrective action: Enhanced efforts have already been 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. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 98-16, Continued

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.

Corrective action: Resolved. Enhanced efforts have been 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 2001 to 2003 audits. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: During the fiscal year 2003, site visits were conducted as documented in their CIMP report.

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. 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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 98-18, Continued

Corrective action: For the current year, no corrective action yet was taken to fully correct this finding. The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4.

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.

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.

Corrective action: Resolved. Child Care and Development Block Grant of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in Child Care and Development Block Grant. For fiscal year audit of 2003, no finding with the same condition was identified.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 98-20, Continued

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.

Corrective action: Resolved. 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 2000 to 2003 audits. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: Resolved. Enhanced efforts have been made 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.

The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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	<u>\$ 8,206.06</u>

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

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 98-28, Continued

Corrective action: 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 years 1999 to 2003. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: 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 years 1999 to 2003. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 98-30, Continued

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.

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.

Corrective action: No corrective action yet has been made on this finding. However, with the improved system of PSS, non-occurrence of the same finding for four consecutive years was noted.

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

Corrective action: No corrective action yet has been made on this finding. However, with the improved system of PSS, non-occurrence of the same finding for four consecutive years was noted.

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.

Corrective action: With the multi-year proposal, the audit of the FY 2003 has already started in December 2003. The planned date for its submission will be on May 2004. This will be a month early before the deadline, which is on June 2004. The management of PSS has made an extensive effort to ensure that all schedules and supporting documents have been provided to speed up the completion of the audit.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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>

Corrective action: Resolved. 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 2003 audits, the cumulative expenditures reported per SF-269 ties up with amount in the general ledger. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. The variance noted above that was carried forward to FY 1999 was subsequently corrected and reconciled in FY 2000 audit.

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.

Corrective action: Resolved. Enhanced efforts were already made to prepare and retain all required reports. In fiscal years 2000 to 2003 audits, PSS was found to be in adherence to the federal reporting requirements. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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, 2003

Finding No. 98-37, Continued

Corrective action: Resolved. 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 2003 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. The variance noted above that was carried forward to FY 1999 was subsequently corrected and reconciled in FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: Resolved. 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 2003 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. The variance noted above that was carried forward to FY 1999 was subsequently corrected and reconciled in FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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>

Corrective action: Resolved. 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 2003 audits. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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>

Corrective action: Resolved. 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 2003 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. The variance noted above that was carried forward to FY 1999 was subsequently corrected and reconciled in FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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>

Corrective action: Resolved. 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 2003 audits, the cumulative expenditures reported per SF-269 ties up with amount in the general ledger. The variance noted above that was carried forward to FY 1999 was subsequently corrected and reconciled in FY 2000 audit. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: PSS moved in 1996 and some documents were misplaced. Currently, extra efforts are being made to file supporting documentation promptly and maintain these files. With a non-occurrence of the same finding for four consecutive years, an improved system of the PSS is merely reflected.

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.

Corrective action: No immaterial adjustments made to fund balance have been made since the fiscal year audit of 2000.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: 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.

Corrective action: Enhanced efforts are made to prepare monthly reconciliation/schedule at the end of the fiscal year. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: This is a document-filing problem that required changes both in personnel and procedures to satisfactorily correct the situation. Enhanced efforts have already been made to ensure that files are organized and more complete. No finding has been identified during the fiscal year audit of 2000 to 2003. The non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

Finding No. 97-12

Condition: From a total of \$593,483 of non-payroll direct expenditures, a sample of ten items, with a total value of \$224,065, was tested of which two items were found to have the following deficiencies:

1. A sole source purchase (C7009301) with a value of \$120,000 (APV #277184, check #80310) did not include any written justification of the reasons for no estimates being obtained from other sources, as well as no indication that the service provided can only be obtained from this provider. Additionally, documentation indicates that the services provided under this contract were performed in a previous fiscal year but funds were not encumbered or expanded until fiscal year 1997.
2. One expenditure (P61034) for \$3,400 (check #72597) did not have adequate supporting documentation.

Corrective action: 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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 97-12, Continued

Enhanced efforts have been made to file all supporting documentation for expenditures and secure these documents numerically filed in locked filing cabinets.

Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

Finding No. 97-13

Condition: From total grant payroll expenditures of \$1,192,121, a sample of 25 items, with a total value of \$25,102, was tested. Of these, one employee (13065) did not have adequate documentation to justify salary for the pay period ended July 5, 1007. Based on the sample, annual salary is estimated to be \$22,555.

Corrective action: 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 singled hard copy that constitutes the employee master file.

Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

Finding No. 97-15

Condition: From total grant payroll expenditures of \$2,097,064, a sample of 25 paychecks with a value of \$23,977 was tested. Of these, one (employee #7117) did not have adequate documentation to justify salary for the pay period ended February 1, 1997. Based on gross pay tested, annual salary is estimated to be \$13,678.

Corrective action: 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.

Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

Finding No. 97-16, Continued

Corrective action: 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.

Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

Corrective action: Resolved. 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. Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS.

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.

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.

Corrective action: Resolved. Child Care and Development Block Grant of PSS improved their current system to ensure that all of the necessary documentation is received before a child is enrolled in Child Care and Development Block Grant. For fiscal year audit of 2003, no finding with the same condition was identified.

Finding No. 97-21

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

Corrective action: Resolved. PSS have subsequently prepared an annual report for fiscal year 1997.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2003

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.

Corrective action: With the multi-year proposal, the audit of the FY 2003 has already started in December 2003. The planned date for its submission will be on May 2004. This will be a month early before the deadline, which is on June 2004. The management of PSS has made an extensive effort to ensure that all schedules and supporting documents have been provided to speed up the completion of the audit.

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.

Corrective action: 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.

Corrective action: 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 to 2003 audits. Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

Finding No. 97-31

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

Corrective action: 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 to 2003 audits. Moreover, the non-occurrence of the same finding for four consecutive years merely reflected an improved system of the PSS. Resolved.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Questioned Costs
Year Ended September 30, 2003

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 1997	\$ 915,727	\$ -	\$ -	\$ 846,418	\$ 69,309
1998	491,117	-	-	438,798	52,319
1999	169,426	-	-	169,426	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
Total prior year questioned costs at September 30, 2003	\$ 1,576,270	\$ -	\$ -	\$ 1,454,642	\$ 121,628
Questioned costs for fiscal year ending 2003	-	-	-	-	-
Total unresolved questioned costs at September 30, 2003	<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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April 22, 2004

Commissioner of Education
Rita Hocog Inos, Ed.D

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 2003.

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

Finding No. 03-1

We concur. We have recently hired a Federal Monitoring Officer whose services will be dedicated to evaluating the effectiveness of the different programs and ensuring their adherence to the procedures prescribed by the Secretary of Education. An employment contract will be provided for your review to validate the corrective action taken. The Federal Monitor will begin employment with PSS on May 3, 2004.

Finding No. 03-2

We agree with this finding. Accurate inventory of materials sent to the private schools in prior years was non-existent given the difficulty of employing a full-time trained Federal Monitoring Officer. With the employment of the Monitoring Officer, this non-compliance will be rectified with a rigorous system that will document, monitor and evaluate the activities of the grantee agencies.

Finding No. 03-3

We concur. We have recently hired a CSPD Coordinator to implement the activities and objectives of the Comprehensive System of Personnel Development for the Special Education Program. The CSPD Coordinator submitted a detailed report of CSPD activities to the auditor on March 5, 2004. Not listed in the report is the recruitment of an off-island Special Education School Counselor, and on-island Special Education Teacher.

Finding No. 03-4

We concur. The FY 2004 Eligibility Document (State Plan) will be updated correcting and resolving this finding. In addition, we have already drafted and signed a Memorandum of Agreement with the Division of Youth Services.

Finding No. 03-5

We concur. The Memorandum of Agreement is currently with the Northern Marianas College for signature. PSS has already followed up and asserts that the MOA will be signed by the related parties to speed up the implementation of the comprehensive health program as required under the Headstart program.

Finding No. 03-6

We agree with the finding. The Fire Division of the Department of the Public Safety conducted a follow-up fire safety inspection of the nine Headstart centers in Saipan on March 15th and 16th of 2004. A copy of these reports will be provided for your review validating the corrective action taken. The Tinian Headstart was previously inspected on October 15, 2003.

Finding No. 03-7

We concur. In reference to the response made in Finding No. 03-6, an approved disposition in accordance with the Uniform Fire Code was granted to the nine Headstart centers in Saipan based on the follow-up fire safety inspection conducted by the Fire Division of the Department of Public Safety on March 15th and 16th of 2004. For the Tinian Headstart Center, a fire safety certification was issued on October 15, 2003 stating that the center has met the fire safety requirements as set forth by Public Law 1-8.

Finding No. 03-8

We agree with the finding. A contract for preventive and maintenance and repair work of all the Saipan Headstart facilities was awarded to System International Construction under purchase order numbers 28995 OL and 29434 OL. The scope of work addresses the deficiencies and violations cited by the Division of Public Health and Department of Public Safety.

All Headstart Centers are now staffed with qualified coordinators who are tasked with overseeing the daily operation of the centers and ensuring total compliance with the local and federal requirements.