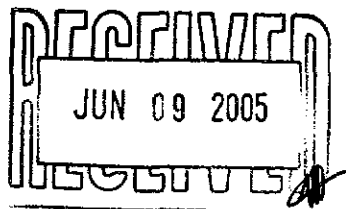


PUBLIC SCHOOL SYSTEM

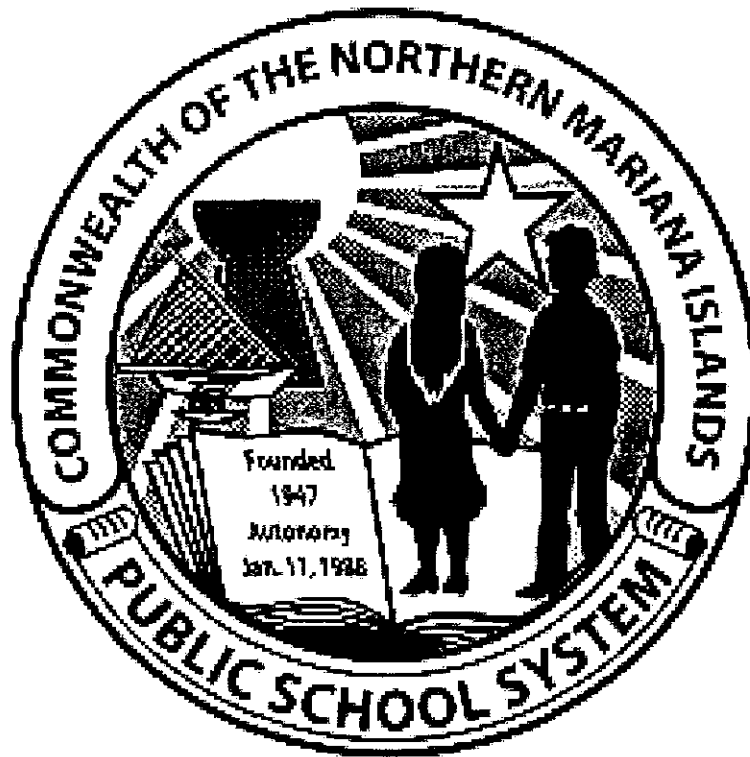
REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS
IN ACCORDANCE WITH
OMB CIRCULAR A-133

Years Ended September 30, 2004 and 2003



Commonwealth of the Northern Mariana
Islands
Public School System

2004 Annual Financial Report



Fiscal Year ended September 30, 2004
P. O. Box 501370
Saipan, MP 96950

PUBLIC SCHOOL SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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PUBLIC SCHOOL SYSTEM
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

Dino 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

Ambrose Bennett
Teacher Representative

April 22, 2005

Commissioner of Education
Rita Hocog Inos, Ed.D

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, 2004, 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. There are three non-voting members of the Board, the Non-public School Representative, Student Representative and Teacher Representative. Although the CNMI collects all taxes, the Board determines how the school system will spend the funds generated for schools.

III

Board of Education

Telephone : (670) 664-3727
Fax : (670) 664-3711

website: <http://www.saipan.com/gov/branches/pss/index.htm>

Commissioner of Education
Telephone : (670) 664-3700
Fax : (670) 664-3798

The CNMI government cannot modify the school system's budget unless a change in the budgetary law is passed by the Legislative branch and concurred by the Executive Branch. The CNMI government is not 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 2003-2004, it is serving over 11,000 students from pre-school through 12th grade in 12 elementary schools, 5 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 three appointed non-voting representatives. Three voting members are from from Saipan; one voting member is from Rota; and one voting member is from Tinian. The public elects the voting members, who serve four-year terms, on an island wide basis. The Commissioner is appointed 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. All schools are accredited through the Western Association of Schools and Colleges.

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. The Islands of Saipan, Rota and Tinian were 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, making Saipan, Rota and Tinian the Commonwealth of the Northern Mariana Islands.

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 2003-2004 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.

Capital Improvements

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 begun 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.

Funding for the Public Schools

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.

Enrolments

The students enrolled in the Public School System have increased from 9,500 in 1998 to 11,000 in 2004. This represents a 15.7% increase in six years. The teachers have increased from 464 in 1998 to 554 in 2004. Teachers funded by consolidated federal funds increased from 37 teachers in 1998 to 68 teachers in 2004. Federal funds also paid for 72 Special Education teachers in FY2004. The federal funds in 2004 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.

Internal Control

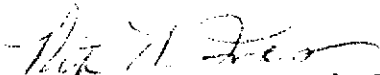
The management of the school system is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the school system are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of 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.


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 M. Borja, D.B.A.
Deputy Commissioner
Administration


Richard Waldo, CPA
Director of Finance

PUBLIC SCHOOL SYSTEM

PRINCIPAL OFFICIALS

Year ended September 30, 2004

BOARD OF EDUCATION

	<u>Position</u>	<u>Term Expires</u>
Mr. Roman C. Benavente	Chairperson	2008
Mr. Egredino Jones	Vice Chairman	2008
Ms. Marja Lee Taitano	Secretary/Treasurer	2008
Mr. Herman T. Guerrero	Member	2006
Ms. Frances H. Diaz	Member	2006
Mr. Scott Norman	Non Public School Representative	2005
Ms. Ambrose Bennett	Teacher Representative	2008

OFFICERS OF THE SCHOOL SYSTEM

Rita Hocog Inos, Ed. D.	Commissioner of Education
Dr. David Borja	Deputy Commissioner for Administration
Ms. Rita A. Sablan	Acting Associate Commissioner for Secondary Education
Mr. Richard Waldo, CPA	Director of Finance
Mr. Tim Thornburgh	Federal Programs Officer
Mr. Charley Kenty	Human Resources Officer

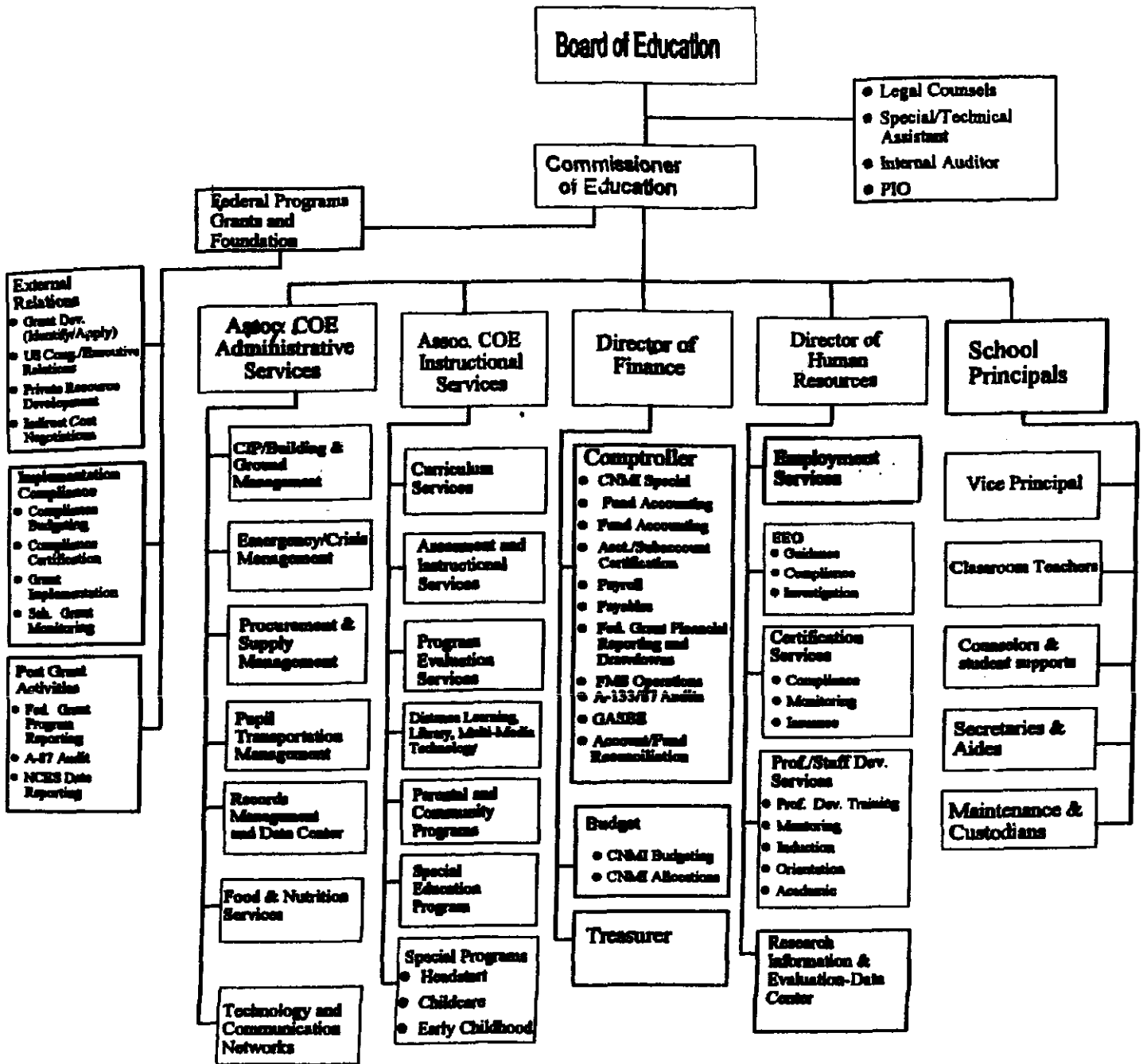
OFFICIALS ISSUING REPORT

Mr. Richard Waldo, CPA	Director of Finance
Ms. Florida A. Grizzard	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, 2004 and 2003

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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Tel. No. (680) 488-8615
Fax No. (680) 488-8616

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, 2004 and 2003, 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 respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate fund information of PSS as of September 30, 2004 and 2003, 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.

In accordance with the *Government Auditing Standards*, I have also issued my report dated March 18, 2005 on my consideration of the PSS' internal control over financial reporting and on my tests of its compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (*MD & A*) and Budgetary Comparison Information on pages 3 to 10 and pages 16 to 17, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 individual 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.

J. Scott Maglian & Company

Commonwealth of the Northern Mariana Islands
March 18, 2005

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, 2004. This information should be read in conjunction with the audited financial statements included in this report (pages 11 to 14).

Financial Highlights

- The Public School System enrollment of 11,244 students has an insignificant decrease of 7 students from previous year's enrollment of 11,251.
- The government's total net assets increased by \$330,274 primarily due to the increase in the current assets position of the Public School System.
- As of the close of the current fiscal year, the school system's total net assets is \$83,502,632. This includes the capital assets net of accumulated depreciation at \$80,098,158.

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*, *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 a reconciliation, explains the relationship (or differences) between them.

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

Financial Analysis of the School System as a Whole

Net assets is an indicator of the fiscal health of the School System. Assets for governmental activities exceeded liabilities by approximately \$83,486,328 as of September 30, 2004. The largest component of net assets is invested in capital assets disclosing an amount of \$80,098,158 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, 2004

	2004		2003	
	Governmental Activities	Business-type Activities	Total	Total
Current Assets	\$ 8,355,324	\$ 55,800	\$ 8,411,124	\$ 7,049,520
Capital improvement projects in progress	1,907,967	-	1,907,967	1,888,369
Capital assets, net of accumulated depreciation	<u>80,098,158</u>	<u>41,201</u>	<u>80,139,359</u>	<u>79,687,750</u>
TOTAL ASSETS	<u>\$ 90,361,449</u>	<u>\$ 97,001</u>	<u>\$ 90,458,450</u>	<u>\$ 88,625,639</u>
Current and other liabilities	\$ 2,605,642	\$ 80,697	\$ 2,686,339	\$ 1,302,017
Accrued leave liability	<u>4,269,479</u>	<u>-</u>	<u>4,269,479</u>	<u>4,151,264</u>
TOTAL LIABILITIES	<u>6,875,121</u>	<u>80,697</u>	<u>6,955,818</u>	<u>5,453,281</u>
Investment in capital assets	80,098,158	41,201	80,139,359	79,687,750
Restricted for:				
Encumbrances	9,034,872	198,878	9,233,750	8,152,222
Capital improvement projects in progress	1,907,967	-	1,907,967	1,888,369
Unrestricted	<u>(7,554,669)</u>	<u>(223,775)</u>	<u>(7,778,444)</u>	<u>(6,555,983)</u>
TOTAL NET ASSETS	<u>83,486,328</u>	<u>16,304</u>	<u>83,502,632</u>	<u>83,172,358</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 90,361,449</u>	<u>\$ 97,001</u>	<u>\$ 90,458,450</u>	<u>\$ 88,625,639</u>

Comparison of Fiscal Years 2003 and 2004 Statement of Net Assets

Most of the assets and liabilities for the fiscal years ended October 31, 2004 and 2003 did not significantly change. Current liabilities increased by \$1.3 million dollars. This increase was due to untimely transfers of cash for operational purposes. Cash also increased by \$1 million dollars. This was due to an increase in the Federal Indirect Charge account.

Exhibit I
PSS Budget FY04

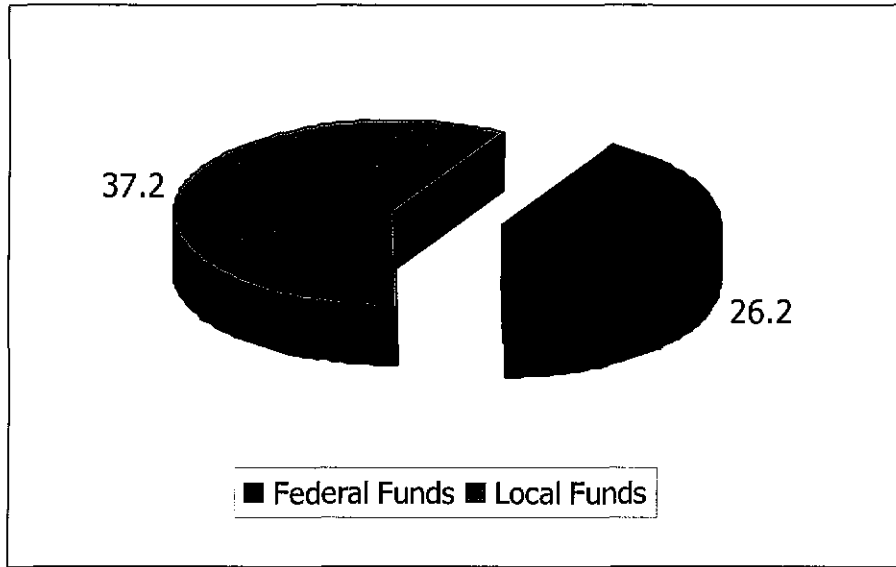
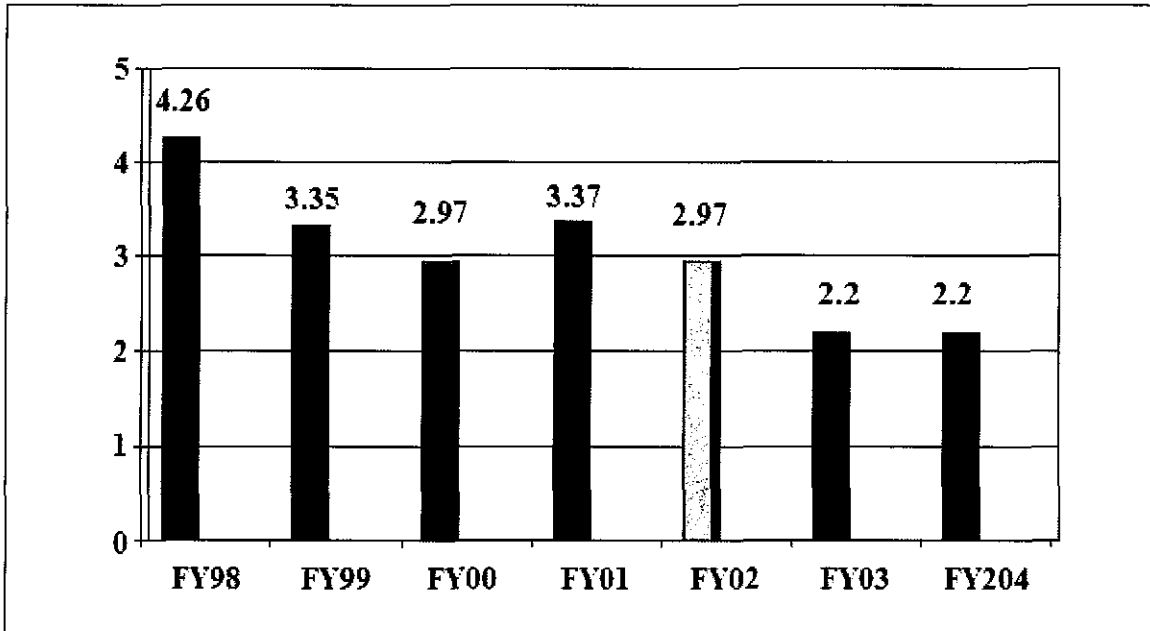


Exhibit II
PSS Operations Cost



Federal and Local Budget Review

As can be seen by a review of the graphs presented above, Federal funding budget is \$26.7 million in 2004. This amount does not agree to actual Federal Funding because of unexpended Federal funds that flow into FY2005. The Local funds for Operations dropped from \$4.6 million in 1998 to \$2.2 million in 2004.

For FY2004, PSS shows an annual budget of \$2.2 million for operations.

PSS budget has remained flat at \$37.2 million since 1998. The actual cash budget is only \$36.08 million. This amount is net of the 2% Deficit Reduction by the CNMI government (\$744,000), and the 1% reduction to support the Office of Public Auditor (\$372,000). The payroll has climbed significantly from \$31.5 million in FY2001 to \$34.3 million in FY2004. After the \$34.3 million payroll for fiscal year 2004, cash budget allocable for operations is just \$1.78 million, which is \$420 thousand short against the \$2.2 annual budget for operations.

In FY2001, PSS had over \$3.0 million cash for operations. Due to tight cash budget, PSS has not performed routine repairs and maintenance for the last two fiscal years. The 14 buses on Saipan in 2001 were reduced to 9 buses in 2004, as PSS is not adequately funded for bus repairs. The \$1.78 million is not enough to keep our schools painted, electrically and structurally safe.

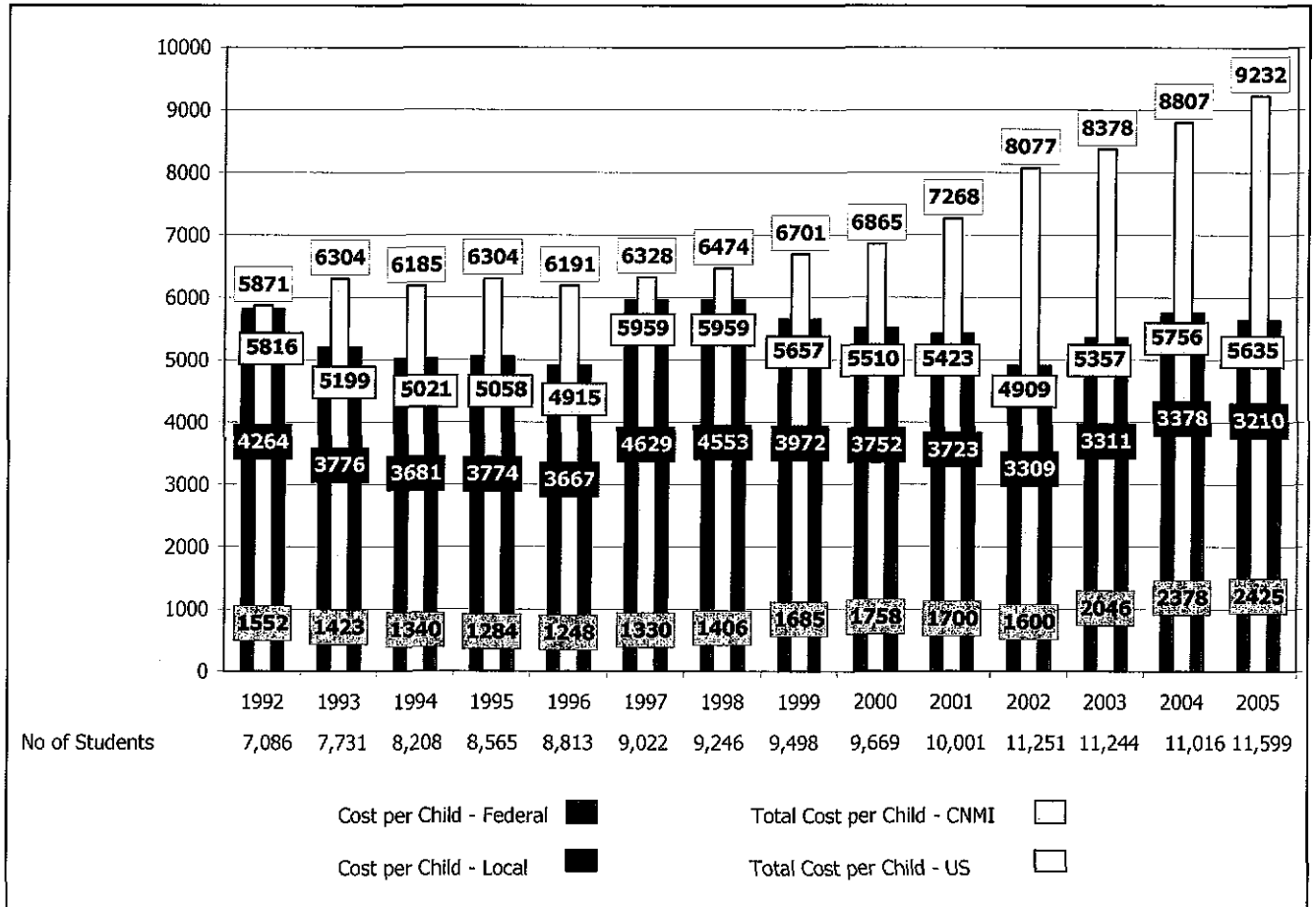
<u>Year</u>	<u>Total Funding</u>	<u>Federal Funding</u>		<u>Local Funding</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1990	\$29,555,215	\$10,000,000	34%	\$19,555,215	66%
1991	35,407,990	10,000,000	28%	25,407,990	72%
1992	41,214,621	11,000,000	27%	30,214,621	73%
1993	40,194,355	11,000,000	27%	29,194,355	73%
1994	41,214,621	11,000,000	27%	30,214,621	73%
1995	43,320,500	11,000,000	25%	32,320,500	75%
1996	43,320,500	11,000,000	25%	32,320,500	75%
1997	53,763,700	12,000,000	22%	41,763,700	78%
1998	55,100,000	13,000,000	24%	42,100,000	76%
1999	53,730,342	16,000,000	30%	37,730,342	70%
2000	53,280,342	17,000,000	32%	36,280,342	68%
2001	54,230,342	17,000,000	31%	37,230,342	69%
2002	55,230,342	18,000,000	33%	37,230,342	67%
2003	60,230,342	23,000,000	38%	37,230,342	62%
2004	60,730,342	23,500,000	39%	37,230,342	61%

The contribution of local funding to the total funding has varied between 61% to 78% for the 15-year period from 1990 to 2004. The CNMI government must increase its local funding in FY2005 to adequately fund the Operations Budget for the Public School System.

Exhibit III

COST PER CHILD

Public School Cost Per Child: Comparing CNMI to US Average



Key: National - total costs are actual expenditures for 1992-2001 (Source: CES)
 National - total costs 2002-2005 are projections (Source: NCES)
 CNMI - total costs 1992-2003 are actual expenditures (Source: PSS FBO)
 CNMI - total costs 2004-2005 are projections (Source: PSS FBO)

The enrollment in 1992 was 7100 students while the enrollment in 2004 was 11,000 students. With this increase in enrollment and local funding remaining constant, locally funded cost per child dropped from \$4,264 in 1992 to \$3,210 in 2004.

The total cost per child in CNMI of \$5,635 is \$3,597 or 39% lower than the \$9,232 cost per child in the mainland US.

In 1998 PSS operated 16 schools with a total budget of \$37 million with approximately 9000 students. Since 1998, PSS has added six schools: Dandan Elementary, Kagman Elementary and High Schools, Sinapalo Elementary, ChaCha Middle School and Saipan Southern High School.

In FY2004, PSS operated 22 schools with approximately 11000 students with the same \$37 million budget. These new schools received their budgets from existing schools. The cost for these schools in FY2004 is \$8.0 million. Approximately \$2.0 million is the reduction in total budget due to transferring teachers from the old schools to the new schools. However, all the general and administration costs of these schools were financed by reducing Central Office and reducing other existing schools' budgets. Some of the teacher costs of these new schools were financed by reallocating Federal funds. Under the new budget rules passed by the legislature, the Commissioner of Education is the responsible spending authority. This flexibility has enabled the Public School System to respond to any school's needs without the permission of the CNMI government.

All emergency repairs and maintenance of all schools are handled by the Commissioner's Office. Urgent request for a new teacher is handled by local transfer from another school, or by requesting the Federal Programs Office to provide the necessary funds.

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. 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 seven 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 \$34 million and the Federal provides approximately \$5 million. The Board, the Commissioner and the staff are aware of the economic pitfalls. All of these factors, as well as the Commonwealth's budget difficulties, were considered in preparing the Board's budget for the 2005 fiscal year. The Board's budget for \$50 million for FY2005 was created to upgrade the older schools' electrical systems, and to upgrade the structural safety of the older schools. PSS will cut expenditures and reduce or eliminate lower priority services, but it will protect core instructional programs and the personnel associated with them.

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 CPA
Director of Finance-PSS
PO Box 501370
Saipan, MP 96950

PUBLIC SCHOOL SYSTEM

Statements of Net Assets
September 30, 2004 and 2003

	Governmental Activities	Business-type Activities	Total	
			2004	2003
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,081,656	\$ -	\$ 3,081,656	\$ 1,705,695
Receivable from CNMI	4,294,171	-	4,294,171	3,704,568
Receivable from Federal agencies	641,202	55,800	697,002	1,007,492
Other receivables	-	-	-	3,332
Advances, net	318,957	-	318,957	457,301
Due from other funds	19,338	-	19,338	171,132
Total current assets	8,355,324	55,800	8,411,124	7,049,520
Noncurrent assets:				
Capital improvement projects in progress	1,907,967	-	1,907,967	1,888,369
Capital assets, net of accumulated depreciation	80,098,158	41,201	80,139,359	79,687,750
TOTAL ASSETS	\$ 90,361,449	\$ 97,001	\$ 90,458,450	\$ 88,625,639
LIABILITIES				
Current liabilities:				
Accrued payroll and others	\$ 1,186,202	\$ 4,085	\$ 1,190,287	\$ 959,083
Vouchers payable	1,400,426	-	1,400,426	8,015
Deferred revenue	17,863	55,800	73,663	168,595
Due to other funds	-	20,812	20,812	-
Other liabilities	1,151	-	1,151	166,324
Total current liabilities	2,605,642	80,697	2,686,339	1,302,017
Noncurrent liabilities:				
Accrued leave liability	4,269,479	-	4,269,479	4,151,264
TOTAL LIABILITIES	6,875,121	80,697	6,955,818	5,453,281
NET ASSETS				
Investment in capital assets	80,098,158	41,201	80,139,359	79,687,750
Restricted for:				
Encumbrances	9,034,872	198,878	9,233,750	8,152,222
Capital improvement projects in progress	1,907,967	-	1,907,967	1,888,369
Unrestricted	(7,554,669)	(223,775)	(7,778,444)	(6,555,983)
TOTAL NET ASSETS	83,486,328	16,304	83,502,632	83,172,358
TOTAL LIABILITIES & NET ASSETS	\$ 90,361,449	\$ 97,001	\$ 90,458,450	\$ 88,625,639

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Activities
For the Years Ended September 30, 2004 and 2003

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Government Activities	Business Type Activities	Total	
						2004	2003
Governmental activities:							
Instruction:							
Regular	\$ 27,947,516	\$ -	\$ -	\$ (27,947,516)	\$ -	\$(27,947,516)	\$(28,492,154)
Special education	9,498,140	-	6,599,096	(2,899,044)	-	(2,899,044)	(3,026,347)
Co-curricular	1,071,321	-	158,587	(912,734)	-	(912,734)	-
Student services	5,514,859	-	5,619,920	105,061	-	105,061	9,642
Total instruction	44,031,836	-	12,377,603	(31,654,233)	-	(31,654,233)	(31,508,859)
Support services:							
General administration	2,786,086	-	2,692,966	(93,120)	-	(93,120)	(291,933)
School administration	4,675,723	-	520,916	(4,154,807)	-	(4,154,807)	(4,297,834)
Other support	183,760	-	-	(183,760)	-	(183,760)	(1,043,434)
Community	2,477,069	-	2,477,069	-	-	-	-
Individual programs	868,703	-	708,047	(160,656)	-	(160,656)	(685,584)
Depreciation - unallocated	1,339,215	-	-	(1,339,215)	-	(1,339,215)	(2,030,013)
Total support services	12,330,556	-	6,398,998	(5,931,558)	-	(5,931,558)	(8,348,798)
Total governmental activities	56,362,392	-	18,776,601	(37,585,791)	-	(37,585,791)	(39,857,657)
Business-type activities:							
Food services							
Total business-type activities	4,899,434	142,745	4,762,718	-	6,029	6,029	93,511
Total school district	\$ 61,261,826	\$ 142,745	\$ 23,539,319	(37,585,791)	6,029	(37,579,762)	(39,764,146)
Unrestricted CNMI appropriations				37,209,928	-	37,209,928	37,794,725
Miscellaneous, unrestricted				140,316	-	140,316	25,071
Subtotal, general revenues				37,350,244	-	37,350,244	37,819,796
Changes in Net Assets				(235,547)	6,029	(229,518)	(1,944,350)
Current year restatement				551,644	8,148	559,792	-
Net assets - beginning				83,170,231	2,127	83,172,358	85,116,708
Net assets - ending				\$ 83,486,328	\$ 16,304	\$ 83,502,632	\$ 83,172,358

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Balance Sheets
Governmental Funds
September 30, 2004 and 2003

	General	Capital	Non-major	Total Governmental Funds	
	Fund	Projects Fund	Funds	2004	2003
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 3,081,656	\$ -	\$ -	\$ 3,081,656	\$ 1,705,695
Receivables from CNMI	4,280,940	51,281	13,231	4,345,452	3,697,250
Receivables from Federal	208,320	-	641,202	849,522	1,005,510
Other receivables	-	-	114,723	114,723	283,657
Advances, net	-	-	96,054	96,054	177,535
Due from other funds	603,045	-	1,261,007	1,864,052	2,838,996
	8,173,961	51,281	2,126,217	10,351,459	9,698,643
Capital improvement projects in progress	-	1,888,369	-	1,888,369	1,888,369
TOTAL ASSETS	\$ 8,173,961	\$ 1,939,650	\$ 2,126,217	\$ 12,239,828	\$ 11,587,012
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accrued payroll and others	\$ 1,204,918	\$ -	\$ -	\$ 1,204,918	\$ 954,998
Vouchers payable	1,400,074	-	352	1,400,426	352
Deferred revenues	42,189	-	57,099	99,288	555,829
Due to other funds	1,262,163	-	583,702	1,845,865	882,837
Other liabilities	-	-	-	-	1,637,094
TOTAL LIABILITIES	3,909,344	-	641,153	4,550,497	4,031,110
FUND BALANCES:					
Reserved for:					
Encumbrances	950,138	-	8,084,734	9,034,872	8,048,616
Unreserved:					
Capital Improvement projects	-	1,939,650	-	1,939,650	1,888,369
Undesignated	3,314,480	-	(6,599,670)	(3,285,190)	(2,381,083)
	3,314,480	1,939,650	(6,599,670)	(1,345,540)	(492,714)
TOTAL FUND BALANCES	4,264,618	1,939,650	1,485,064	7,689,332	7,555,902
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,173,962	\$ 1,939,650	\$ 2,126,217		

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 \$ 88,311,932
Accumulated depreciation is 8,194,176 80,117,756 79,681,538

Capital improvement project funded by the CNMI Government reported as current financial resources in the governmental fund balance sheets. (51,281) -

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 (4,269,479) (4,151,264)

Total net assets - governmental activities \$ 83,486,328 \$ 83,086,176

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, 2004 and 2003

	General	Capital	Non-Major	Total Governmental Funds	
	Fund	Projects Fund	Funds	2004	2003
REVENUES:					
Federal	\$ -	\$ 19,598	\$ 16,069,133	\$ 16,088,731	\$ 17,852,238
Local	140,316	51,281	2,687,870	2,879,467	1,291,006
TOTAL REVENUES	140,316	70,879	18,757,003	18,968,198	19,143,244
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	27,947,516	-	-	27,947,516	28,492,154
Special	2,931,628	-	6,579,498	9,511,126	8,702,925
Co-curricular	926,251	-	145,070	1,071,321	98,192
Student services	-	-	5,619,920	5,619,920	9,031,356
	31,805,395	-	12,344,488	44,149,883	46,324,627
Supporting services:					
General administration	264,493	-	2,469,312	2,733,805	1,569,940
School administration	4,141,290	-	534,433	4,675,723	4,606,253
Individual programs	627,756	-	708,047	1,335,803	685,584
Other	269,611	-	-	269,611	1,129,285
	5,303,150	-	3,711,792	9,014,942	7,991,062
Community services	-	-	2,477,069	2,477,069	2,630,128
Capital Outlay:					
Equipment & Vehicles	-	19,598	-	19,598	89,767
TOTAL EXPENDITURES	37,108,545	19,598	18,533,349	55,661,492	57,035,584
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(36,968,229)	51,281	223,654	(36,693,294)	(37,892,340)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	37,209,928	-	-	37,209,928	31,171,716
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	241,699	51,281	223,654	516,634	(6,720,624)
(INCREASE) DECREASE IN RESERVE FOR ENCUMBRANCES	(171,337)	-	(649,207)	(820,544)	(3,429,932)
CURRENT YEAR RESTATEMENTS	1,107,975		(1,656,891)	(548,916)	402,076
UNRESERVED FUND BALANCE, beginning of year	2,136,143	1,888,369	(4,517,226)	(492,714)	9,255,766
UNRESERVED FUND BALANCE, end of year	3,314,480	1,939,650	(6,599,670)	(1,345,540)	(492,714)
RESERVE FOR ENCUMBRANCES	950,138	-	8,084,734	9,034,872	8,048,616
FUND BALANCE, end of the year	\$ 4,264,618	\$ 1,939,650	\$ 1,485,064	\$ 7,689,332	\$ 7,555,902

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, 2004 and 2003

	2004	2003
Total net change in fund balances - governmental funds	\$ 516,634	\$ (6,720,624)
Amounts reported for governmental activities in the statement of activities is different because:		
Certain activities in the capital improvement project fund are reported in statement of changes in fund balance.	(51,281)	-
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	\$ 638,315	
Depreciation expense	(1,339,215)	(700,900)
	(700,900)	4,682,763
Changes in net assets of governmental activities	\$ (235,547)	\$ (2,037,861)

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, 2004

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES	\$ -	\$ 140,316	\$ 140,316
Total revenues	-	140,316	140,316
EXPENDITURES:			
Current operations:			
Instructional programs:			
Regular	28,192,780	27,947,516	245,264
Special	2,887,904	2,931,628	(43,724)
Co-curricular	-	926,251	(926,251)
Supporting services:			
General administration	353,299	264,493	88,806
School administration	4,207,111	4,141,290	65,821
Individual programs	701,836	627,756	74,080
Other	866,998	269,611	597,387
Total expenditures	37,209,928	37,108,545	101,383
Deficiency of revenues over expenditures	(37,209,928)	(36,968,229)	241,699
Other financing sources :			
Operating transfers in	37,209,928	37,209,928	-
Excess of revenues and other financing sources over expenditures and other financing uses	-	241,699	241,699
Current year restatements		1,107,975	1,107,975
Other change in fund balance:			
Reserve for encumbrances	-	(171,337)	(171,337)
FUND BALANCE, beginning of year	-	2,136,143	2,136,143
FUND BALANCE, end of year	\$ -	\$ 3,314,480	\$ 3,314,480

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, 2004

(With Comparative Actual Amounts for the fiscal year ended September 30, 2003)

	2004		Variance	2003
	Budget	Actual	Favorable (Unfavorable)	Actual
REVENUES	\$ -	\$ 140,316	\$ 140,316	\$ 25,071
Total revenues	<u>-</u>	<u>140,316</u>	<u>140,316</u>	<u>25,071</u>
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	28,192,780	27,947,516	245,264	28,492,154
Special	2,887,904	2,931,628	(43,724)	3,106,472
Co-curricular	-	926,251	(926,251)	-
Supporting services:				
General administration	353,299	264,493	88,806	260,295
School administration	4,207,111	4,141,290	65,821	4,297,834
Individual programs	701,836	627,756	74,080	685,584
Other	866,998	269,611	597,387	1,129,285
Total expenditures	<u>37,209,928</u>	<u>37,108,545</u>	<u>101,383</u>	<u>37,971,624</u>
Deficiency of revenues over expenditures	(37,209,928)	(36,968,229)	241,699	(37,946,553)
Other financing sources :				
Operating transfers in	<u>37,209,928</u>	<u>37,209,928</u>	<u>-</u>	<u>37,794,725</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	241,699	241,699	(151,828)
Current year restatements		1,107,975	1,107,975	402,076
Other change in fund balance:				
Reserve for encumbrances	-	(171,337)	(171,337)	171,521
FUND BALANCE, beginning of year	<u>-</u>	<u>2,136,143</u>	<u>2,136,143</u>	<u>1,714,374</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ 3,314,480</u>	<u>\$ 3,314,480</u>	<u>\$ 2,136,143</u>

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Net Assets
Enterprise Funds - Food and Nutrition Program
September 30, 2004 and 2003

	2004	2003
<u>ASSETS</u>		
Current assets:		
Due from grantor agencies	\$ -	\$ 19,300
Due from other funds	55,800	-
Total current assets	55,800	19,300
Capital assets, net of accumulated depreciation	41,201	6,212
TOTAL ASSETS	\$ 97,001	\$ 25,512
<u>LIABILITIES</u>		
Current liabilities:		
Accrued payroll and others	\$ 4,085	\$ 4,085
Deferred revenue	55,800	19,300
Due to other funds	20,812	-
Total current liabilities	80,697	23,385
<u>NET ASSETS</u>		
Investment in capital assets	41,201	6,212
Reserved for encumbrances	198,878	198,878
Unrestricted	(223,775)	(202,963)
TOTAL NET ASSETS	16,304	2,127
TOTAL LIABILITIES AND NET ASSETS	\$ 97,001	\$ 25,512

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Food sales	\$ -	\$ -
TOTAL OPERATING REVENUES	<u>-</u>	<u>-</u>
OPERATING EXPENSES:		
Business supporting services:		
Salaries	245,990	253,604
Supplies	222,340	204,361
Contractual services	<u>4,243,585</u>	<u>3,878,702</u>
	<u>4,711,915</u>	<u>4,336,667</u>
Other supporting services:		
Employee benefits	68,760	69,356
Indirect costs	<u>118,759</u>	<u>80,834</u>
	<u>187,519</u>	<u>150,190</u>
TOTAL OPERATING EXPENSES	<u>4,899,434</u>	<u>4,486,857</u>
OPERATING LOSS	<u>(4,899,434)</u>	<u>(4,486,857)</u>
NON-OPERATING REVENUES:		
Federal regular USDA grants	4,762,718	4,464,216
Miscellaneous	<u>142,745</u>	<u>116,152</u>
TOTAL NON-OPERATING REVENUES	<u>4,905,463</u>	<u>4,580,368</u>
NET INCOME	6,029	93,511
Prior period adjustment	8,148	-
NET ASSETS, beginning of year	<u>2,127</u>	<u>(91,384)</u>
NET ASSETS, end of year	<u>\$ 16,304</u>	<u>\$ 2,127</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Payments to employees for services	\$ (245,990)	\$ (253,604)
Payments to suppliers for goods and services	(4,465,925)	(4,083,063)
Payments for other operating expenses	<u>(165,976)</u>	<u>(236,601)</u>
Net cash used in operating activities	<u>(4,877,891)</u>	<u>(4,573,268)</u>
Cash flows from non-capital financing activities:		
Federal regular USDA grants	<u>4,762,718</u>	<u>4,464,216</u>
Net cash provided by non-capital financing activities	<u>4,762,718</u>	<u>4,464,216</u>
Cash flows from investing activities:		
Capital expenditures	(27,572)	(7,100)
Interest income	<u>142,745</u>	<u>116,152</u>
Net cash provided by investing activities	<u>115,173</u>	<u>109,052</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, 2004 and 2003

	Federal Grants	Local Donations	CNMI Grants	Indirect Costs	Total	
	Fund	Fund	Fund	Fund	2004	2003
ASSETS						
Receivables from CNMI	\$ -	\$ (1,508)	\$ 14,739	\$ -	\$ 13,231	\$ 1,005,510
Receivables from Federal	317,604	45,834	-	277,764	641,202	
Other receivables	110,637	4,086	-	-	114,723	279,766
Advances, net	96,054	-	-	-	96,054	
Due from other funds	890,617	370,390	-	-	1,261,007	2,339,060
	<u>\$ 1,414,912</u>	<u>\$ 418,802</u>	<u>\$ 14,739</u>	<u>\$ 277,764</u>	<u>\$ 2,126,217</u>	<u>\$ 3,624,336</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Vouchers payable	\$ 352	\$ -	\$ -	\$ -	\$ 352	\$ 352
Deferred Revenue	-	46,577	-	10,522	57,099	149,854
Due to other funds	-	68,464	-	515,238	583,702	721,541
Total liabilities	<u>352</u>	<u>115,041</u>	<u>-</u>	<u>525,760</u>	<u>641,153</u>	<u>871,747</u>
Fund balances (deficit):						
Reserved for encumbrances	7,452,188	632,546	-	-	8,084,734	7,269,815
Unreserved	(6,037,628)	(328,785)	14,739	(247,996)	(6,599,670)	(4,517,226)
Total fund balances	<u>1,414,560</u>	<u>303,761</u>	<u>14,739</u>	<u>(247,996)</u>	<u>1,485,064</u>	<u>2,752,589</u>
	<u>\$ 1,414,912</u>	<u>\$ 418,802</u>	<u>\$ 14,739</u>	<u>\$ 277,764</u>	<u>\$ 2,126,217</u>	<u>\$ 3,624,336</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, 2004 and 2003

	Federal	Local	CNMI	Indirect	Total	
	Grants	Donations	Grants	Costs	Non-major funds	
	Fund	Fund	Fund	Fund	2004	2003
REVENUES:						
Federal	\$ 16,088,731	\$ -	\$ -	\$ 1,169,856	\$ 17,258,587	\$ 17,762,471
Other local	-	1,518,014	-	-	1,518,014	1,265,935
TOTAL REVENUES	16,088,731	1,518,014	-	1,169,856	18,776,601	19,028,406
EXPENDITURES:						
Current operations:						
Instructional programs:						
Regular	-	-	-	-	-	-
Special	6,599,096	-	-	-	6,599,096	5,596,453
Co-curricular	145,070	-	-	-	145,070	98,192
Student services	5,619,920	-	-	-	5,619,920	9,031,356
	<u>12,364,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,364,086</u>	<u>14,726,001</u>
Supporting services:						
General administration	5,096	1,141,618	-	1,322,598	2,469,312	1,309,645
School administration	534,433	-	-	-	534,433	308,419
Individual programs	708,047	-	-	-	708,047	-
Other	-	-	-	-	-	-
	<u>1,247,576</u>	<u>1,141,618</u>	<u>-</u>	<u>1,322,598</u>	<u>3,711,792</u>	<u>1,618,064</u>
Community services	<u>2,477,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,477,069</u>	<u>2,630,128</u>
TOTAL EXPENDITURES	16,088,731	1,141,618	-	1,322,598	18,552,947	18,974,193
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	376,396	-	(152,742)	223,654	54,213
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	376,396	-	(152,742)	223,654	54,213
INCREASE (DECREASE) IN RESERVE FOR ENCUMBRANCES	(101,687)	(547,520)	-	-	(649,207)	(3,601,453)
CURRENT YEAR RESTATEMENTS	642,061	(618,066)	(247,588)	(1,433,298)	(1,656,891)	-
FUND BALANCE, beginning of year	(6,578,002)	460,405	262,327	1,338,044	(4,517,226)	(969,986)
FUND BALANCE, end of year	\$ (6,037,628)	\$ (328,785)	\$ 14,739	\$ (247,996)	\$ (6,599,670)	\$ (4,517,226)

See accompanying notes to financial statements.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(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.

The PSS basic 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).

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 CMNI 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 (15%) 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.

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.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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 results of 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 - Accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These were previously reported as Special Revenue Funds.

The Commissioner of Education has directed that indirect costs of the general fund expended for federal grant activity be accounted for in a 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.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

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.

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.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

All governmental and business-type activities and enterprise funds of the Board follow the Financial Accounting Standards Board (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.

Pursuant to the approved policies and regulations of the Public School System, the Policy 3100 outlines PSS' general budgetary procedures. A summary of the key budgetary steps and data reflected in the financial statements are as follows:

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

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.

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.

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
Land & Building improvements	15 years
Vehicles	8 years
Others	5-8 years

2. 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.

3. 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, 2004 and 2003 were \$4,269,479 and \$4,151,264, respectively. No expenditure is reported for these amounts. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

4. Compensated Absences, Continued

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.

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

Unreserved - the 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 2004 and 2003 consists of several elements as follows:

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

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

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

<u>Description</u>	<u>2004</u>	<u>2003</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):	\$ 88,311,932	\$ 86,358,411
less accumulated depreciation	<u>(8,194,176)</u>	<u>(6,676,873)</u>
Net capital assets	80,117,756	79,681,538
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>(4,269,479)</u>	<u>(4,151,264)</u>
Total adjustment	<u>\$ 75,848,277</u>	<u>\$ 75,530,274</u>

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 2004 and 2003 pertains to the following:

<u>Description</u>	<u>2004</u>	<u>2003</u>
Certain activities in the Capital Improvement Project fund is reported in the statement of changes in fund balance	(\$ 51,281)	\$ -
Capital outlay expenditures recorded in the Statement of Activities.	638,315	6,712,776
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	<u>(1,339,215)</u>	<u>(2,030,013)</u>
Total adjustments	<u>(\$ 752,181)</u>	<u>\$ 4,682,763</u>

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(3) Detail Notes on all Funds

Cash

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2004 and 2003, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$2,914,758 and \$1,082,579, respectively. From these deposits, \$522,562 in 2004 and \$687,664 in 2003 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.

Accounts Receivable

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(3) Detail Notes on all Funds, Continued

Accounts Receivable, Continued

Receivables at the government-wide level at September 30, 2004 and 2003, are as follows:

Accounts receivable - September 30, 2004

	<u>Due from other Funds (Internal Balances)</u>	<u>Receivable from CNMI</u>	<u>Receivable from Federal</u>
Governmental activities:			
General Fund	\$ 19,338	\$ 4,280,940	\$ 641,202
Other governmental activities	<u> -</u>	<u>13,231</u>	<u> -</u>
Sub - total	<u>19,338</u>	<u>4,294,171</u>	<u>641,202</u>
Business-type activities:			
School Food services	<u> -</u>	<u> -</u>	<u>55,800</u>
Total	<u>\$ 19,338</u>	<u>\$ 4,294,171</u>	<u>\$ 697,002</u>

Accounts receivable - September 30, 2003

	<u>Due from other Funds (Internal Balances)</u>	<u>Receivable from CNMI</u>	<u>Receivable from Federal</u>
Governmental activities:			
General Fund	\$ 140,384	\$ 3,687,250	\$ -
Other governmental activities	(<u>53,307</u>)	<u>17,318</u>	<u>988,192</u>
Sub - total	<u>87,077</u>	<u>3,704,568</u>	<u>988,192</u>
Business-type activities:			
School Food services	<u>84,055</u>	<u> -</u>	<u>19,300</u>
Total	<u>\$ 171,132</u>	<u>\$ 3,704,568</u>	<u>\$ 1,007,492</u>

Travel Advances

The Board of Education's policy considers travel advances as a 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 \$130,761 and \$98,577 at September 30, 2004 and 2003, respectively.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activity for the year ended September 30, 2004 and 2003 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:				
Land, buildings & improvements	45,990,293	632,034	-	46,622,327
Vehicles	2,845,464	669,828	-	3,515,292
Others	<u>881,904</u>	<u>768,473</u>	<u>-</u>	<u>1,650,377</u>
Total capital assets being depreciated	<u>49,717,661</u>	<u>2,070,335</u>	<u>-</u>	<u>51,787,996</u>
Less accumulated depreciation for:				
Land, buildings & improvements	4,268,381	937,829	-	5,206,210
Vehicles	1,809,731	373,175	-	2,182,906
Others	<u>599,649</u>	<u>307,724</u>	<u>-</u>	<u>907,373</u>
Total accumulated depreciation	<u>6,677,761</u>	<u>1,618,728</u>	<u>-</u>	<u>8,296,489</u>
Total capital assets being depreciated, net	<u>43,039,900</u>	<u>451,607</u>	<u>-</u>	<u>43,491,507</u>
Governmental activity capital assets, net	<u>\$79,687,750</u>	<u>\$ 451,607</u>	<u>\$ -</u>	<u>\$80,139,357</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, 2003), it has been determined that for the year ended September 30, 2004, the funding requirement for employer is 36.7727% 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, 2004 and 2003

(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</u> <u>Ended</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage of Required</u> <u>Contribution Contributed</u>
9/30/04	\$ 8,391,306	100%
9/30/03	7,985,986	100%
9/30/02	6,090,507	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, 2004 and 2003

(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 revenue when entitlement occurs. Federal reimbursement-type grants are recorded as revenues when the related expenditures or expenses are incurred.

Transfer in from CNMI Government

Pursuant to Public Law 10-34, the CNMI government appropriated \$36,093,631 and \$36,465,730 for PSS' operational use for the year ended September 30, 2004 and 2003, respectively. The amount received in cash and/or services was \$34,915,144 in 2004 and \$37,002,611 in 2003. A year-end adjustment of \$587,642 was deducted in the 2004 receivable balance to reflect the direct transfer made by the CNMI Government on September 30, 2003 but was credited by the bank after the cut-off date. The receivable balances at September 30, 2004 and 2003 were \$4,278,095 and \$3,687,250 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' Non-major Funds as of September 30, 2004 and 2003 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.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements
September 30, 2004 and 2003

(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.

For fiscal years ended September 30, 2004 and 2003, 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.

(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.

(6) Current year restatements

During the year, the Company analyzed the interfund transactions of all group fund accounts and identified various dormant accounts for review. This review required the need to adjust and eliminate various transactions from each of the related fund accounts. As a result, PSS made some current year restatements to conform to the current financial presentation of the interfund account balances. These restatements were reflected on the Statement of Net Assets of the governmental funds.

In addition, based on the review of the updated fixed assets ledger, PSS failed to include some prior years acquisitions in the ledger previously maintained. As result, a net adjustment of \$559,792 was made in the Statement of Net Assets for the fiscal year period ending September 30, 2004. The adjustment made was reflected under the government-wide statement for financial statement presentation purposes.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2004

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
U.S. Department of Education							
Direct Programs							
CFDA# 84.330A							
Advance Placement Program	0157	\$ 107,460	\$ 500	\$ (300)	\$ -	\$ -	\$ -
Advance Placement Program	0257APF2	-	16,684	(16,684)	-	-	-
Advance Placement Program	0357AP3APP	-	38,843	(38,843)	-	-	-
Subtotal CFDA# 84.330A		\$ 107,460	\$ 55,827	\$ (55,827)	\$ -	\$ -	\$ -
CFDA# 11.550							
Public Telecomm. Fac. Program	0482PT4FTF	\$ 140,156	\$ -	\$ 94,933	\$ (94,933)	\$ 94,933	\$ 94,933
Subtotal CFDA# 11.550		\$ 140,156	\$ -	\$ 94,933	\$ (94,933)	\$ 94,933	\$ 94,933
Direct Programs							
CFDA# 84.922A							
Strategies 1 - SEA	0201SEA2	\$ 4,868,486	\$ -	\$ -	\$ (81)	\$ 81	\$ -
DF - Marianas High School	0207A062	-	-	-	(1,487)	1,487	-
EIE - Eucon International School	0209B022	-	-	-	(3,151)	3,151	-
EIE - Grace Christian Saipan	0209B032	-	-	-	(1,163)	1,163	-
EIE - Grace Christian Rota	0209B042	-	-	-	(3,459)	3,459	-
EIE - Grace Christian Tinian	0209B052	-	197	(197)	(7,027)	7,027	-
EIEI - Joshua Generation Academy	0209B062	-	-	-	(710)	710	-
EIE - Northern Marianas Academy	0209B092	-	(1)	1	(989)	989	-
EIE - Whispering Palms School	0209B172	-	(1)	1	-	-	-
EIE - Public School System	0209PSS2	-	14,411	(14,411)	(120,873)	120,873	-
CG T6 - Grace Christian Saipan	0212B032	-	8	(8)	(5,570)	5,570	-
CG T6 - Grace Christian Tinian	0212B042	-	-	-	(3,228)	3,228	-
CG T6 - Mount Carmel School	0212B082	-	-	-	(16)	16	-
CG T6 - San Francisco De Borja	0212B122	-	-	-	(1,661)	1,661	-
Academic Achievement Disad.	031AAD3AAD	-	236	(236)	(36,439)	36,439	-
Advanced Development Inst.	031AAD3ADI	-	570	(570)	-	-	-
JROTC	031AAD3JRT	-	39	(39)	-	-	-
MATHLAND	031AAD3MAL	-	-	-	(10,722)	10,722	-
Student Academic Competition	031AAD3SAC	-	581	(581)	(884)	884	-
Student Accountability Plan Assess.	031AAD3GAP	-	2,092	(2,092)	(74,740)	74,740	-
Standards Based Education	031AAD3SBE	-	1,506	(1,506)	(32,668)	32,668	-
Distance Education Program	031DEP3DEP	-	1,353	(1,353)	(133,164)	133,164	-
Education Technology Program	031ETP3ETP	-	6,784	(6,784)	(95,841)	95,841	-
General Professional Development	031GPD3GPD	-	7,152	(7,152)	(5,036)	5,036	-
Limited English Proficiency	031LEP3LEP	-	2,232	(2,232)	(14,528)	14,528	-
Parental Involvement Program	031PIP3PIP	-	327	(327)	(4,109)	4,109	-
Reading First Program	031RFP3RFP	-	42,198	(42,198)	(358,732)	358,732	-
Safe Drug Free	031SDF3SDF	-	-	-	(13,462)	13,462	-
Teacher Professional Development	031TPD3TPD	-	1,511	(1,511)	(834)	834	-
Teacher Recruitment & Retention	031TRR3TRR	-	157	(157)	-	-	-
State Administration Accreditation	032SAA3SAA	-	529	(529)	(787)	787	-
State Administration Report	032SAR3SAR	-	(240)	240	-	-	-
State Technical Assistance Operation	032STO3STO	-	1	(1)	-	-	-
AAO - Personnel	033AAD3LEA	-	93,836	(93,836)	-	-	-
LEP - Personnel	033LEP3LEA	-	7,488	(7,488)	-	-	-
PIP - Personnel	033PIP3LEA	-	4,376	(4,376)	-	-	-
RFP - Personnel	033RFP3LEA	-	1,827	(1,827)	-	-	-
SAA - Personnel	034SAA3SEA	-	4,880	(4,880)	-	-	-
STP - Personnel	034STP3SEA	-	20,284	(20,284)	-	-	-
AAO/T1 - CMS	035AAD3A01	-	267	(267)	(13,267)	13,267	-
AAO/T1 - DAN	035AAD3A02	-	2	(2)	(60,667)	60,667	-
AAO/T1 - GES	035AAD3A03	-	1,795	(1,795)	(139,479)	139,479	-
AAO/T1 - GTC	035AAD3A03	-	351	(351)	(14,217)	14,217	-
AAO/T1 - HJH	035AAD3A04	-	1,479	(1,479)	(37,096)	37,096	-
AAO/T1 - KAG	035AAD3A05	-	15	(15)	(1,889)	1,889	-
AAO/T1 - KES	035AAD3A06	-	1,444	(1,444)	(6,453)	6,453	-
AAO/T1 - KHS	035AAD3A07	-	370	(370)	(45,681)	45,681	-
AAO/T1 - MHS	035AAD3A08	-	(13,246)	13,246	(58,216)	58,216	-
AAO/T1 - OES	035AAD3A09	-	123	(123)	(10,032)	10,032	-
Balance carried forward		\$ 4,868,486	\$ 206,933	\$ (206,933)	\$ (1,318,358)	\$ 1,318,358	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
<u>U.S. Department of Education</u>							
<u>Direct Programs</u>							
<u>CFDA# 84.922A</u>							
Balance brought forward		\$ 4,868,486	\$ 206,933	\$ (206,933)	\$ (1,318,358)	\$ 1,218,358	\$ -
AAD/T1 - RJH	035AAD3A10	-	-	-	(12,146)	12,146	-
AAD/T1 - RHS	035AAD3A11	-	449	(449)	(11,987)	11,987	-
AAD/T1 - SAS	035AAD3A12	-	338	(338)	(15,669)	15,669	-
AAD/T1 - SES	035AAD3A13	-	1,057	(1,057)	(9,651)	9,651	-
AAD/T1 - SHS	035AAD3A14	-	1,326	(1,326)	(43,539)	43,539	-
AAD/T1 - SVS	035AAD3A15	-	-	-	(5,821)	5,821	-
AAD/T1 - TAN	035AAD3A16	-	984	(984)	(640)	640	-
AAD/T1 - TES	035AAD3A17	-	157	(157)	(3,466)	3,466	-
AAD/T1 - THS	035AAD3A18	-	330	(330)	(6,225)	6,225	-
AAD/T1 - WSR	035AAD3A19	-	-	-	(1,836)	1,836	-
AAD/T1 - HJH	035AAD3A20	-	718	(718)	-	-	-
AAD/T1 - MHS	035ETP3A05	-	-	-	(2,316)	2,316	-
AAD/T1 - SVS	035ETP3A09	-	63	(63)	-	-	-
AAD/T1 - MHS	035ETP3A16	-	89	(89)	-	-	-
AAD/T1 - KES	035LEP3A09	-	552	(552)	-	-	-
AAD/T1 - CMS	035PIP3A07	-	3,349	(3,349)	-	-	-
AAD/T1 - KAG	035SDF3A06	-	55	(55)	-	-	-
AAD/T1 - KES	035SDF3A07	-	511	(511)	(3,248)	3,248	-
AAD/T1 - MHS	035SDF3A09	-	3,698	(3,698)	-	-	-
AAD/T1 - SVS	035SDF3A16	-	126	(126)	-	-	-
AAD/T1 - HJH	035TPD3A05	-	-	-	(874)	874	-
IAP/SEA - ADMIN.	036IAP3ADM	-	257	(257)	-	-	-
CG: CGR Personnel - SEA	037CSR3SEA	-	20,548	(20,548)	(186,736)	186,736	-
CG: CGR Personnel - LEA	038CSR3LEA	-	115,758	(115,758)	(1,450,319)	1,450,319	-
	029IAP3GCR	-	-	-	(2,855)	2,855	-
	039IAP3GCS	-	-	-	(61,296)	61,296	-
	039IAP3GHI	-	-	-	(858)	858	-
	039IAP3SCS	-	-	-	(34,074)	34,074	-
IAP - SFB	039IAP3SFB	-	736	(736)	(6,362)	6,362	-
	039IAP3SIS	-	-	-	(31,584)	31,584	-
State Assessment - Admin.	040SAS4ADM	-	-	101	(26,604)	26,604	101
State Assess. - Bil. Ed. Proficiency	040SAS4BEP	-	-	2,977	(2,977)	2,977	2,977
State Assess. - English Lang. Learner	040SAS4ELL	-	-	2,910	(2,910)	2,910	2,910
State Assess. - SEA/LEA	040SAS4LEA	-	-	250	(66,124)	66,124	250
State Assess. - SAT10	040SAS4SAT	-	-	2,032	(3,790)	3,790	2,032
State Assess. - Assess. Scoring Ctr.	040SAS4ASC	-	-	246	(182,738)	182,738	246
	040SAS4ERC	-	-	-	(858)	858	-
State Assess. - Reading First Assess.	040SAS4RFA	-	-	2,192	(2,857)	2,857	2,192
State Assess. - Training	040SAS4TRG	-	-	20,237	(42,014)	42,014	20,237
State Assess. - Standard Based Rpt. C	040SAS4GBR	-	-	3,624	(11,524)	11,524	3,624
State Assess. - Standard Based Assess	040SAS4SBA	-	-	1,480	(19,826)	19,826	1,480
State Assess. - Data Management System	040DMS4DMS	-	-	52	(2,757)	2,757	52
State Assess. - DMS Training	040DMS4TRG	-	-	200	(2,503)	2,503	200
State Assess. - Personnel	041SAS4SAP	-	-	14,960	(365,130)	365,130	14,960
IAP/T5 - Admin.	043IAP4ADM	-	-	1,267	(26,309)	26,309	1,267
IAP/T5 - Advanced Placement Program	043IAP4APP	-	-	804	(25,979)	25,979	804
IAP/T5 - SEA/LEA	043IAP4LEA	-	-	762	(6,894)	6,894	762
IAP/T5 - National Forensic League	043IAP4NFL	-	-	1,402	(77,143)	77,143	1,402
IAP/T5 - Professional Develop. Progra	043IAP4PDP	-	-	9,909	(9,909)	9,909	9,909
IAP/T5 - Social Studies & Science	043IAP4SSS	-	-	50	(40,382)	40,382	50
IAP/T5 - Training Novice Teachers	043IAP4TNT	-	-	5,830	(35,939)	35,939	5,830
IAP/T5 - Bilingual	043IAP4BIL	-	-	2,963	(7,792)	7,792	2,963
IAP/T5 - Accreditation Admin.	043IAP4ACA	-	-	476	(8,667)	8,667	476
IAP/T5 - Accreditation Report	043IAP4ACR	-	-	4,306	(4,306)	4,306	4,306
IAP/T5 - Public School Prof. Dev. Pro	043PUB4PDP	-	-	64,361	(64,361)	64,361	64,361
IAP/T5 - CMS	043PUB4A01	-	-	(6,075)	-	-	(6,075)
IAP/T5 - DAN	043PUB4A02	-	-	(5,183)	-	-	(5,183)
IAP/T5 - GTC	043PUB4A04	-	-	7,388	(21,145)	21,145	7,388
	043PUB4A05	-	-	-	(2,348)	2,348	-
IAP/T5 - KAG	043PUB4A06	-	-	(6,367)	(2,701)	2,701	(6,367)
IAP/T5 - KES	043PUB4A07	-	-	41	(38,121)	38,121	41
IAP/T5 - KHS	043PUB4A08	-	-	(2,469)	-	-	(2,469)
Balance carried forward		\$ 4,868,486	\$ 358,034	\$ (227,308)	\$ (4,314,468)	\$ 4,314,468	\$ 130,726

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
U.S. Department of Education							
Direct Programs							
CFDA# 84.922A							
Balance brought forward		\$ 4,868,486	\$ 358,034	\$ (227,308)	\$ (4,214,468)	\$ 4,214,468	\$ 120,726
IAP/T5 - MHS	043PUB4A09	-	-	2,612	(12,016)	12,016	2,612
IAP/T5 - OES	043PUB4A10	-	-	(1,751)	(8,312)	8,312	(1,751)
IAP/T5 - RJH	043PUB4A11	-	-	1,868	(10,748)	10,748	1,868
IAP/T5 - RHS	043PUB4A12	-	-	31	(1,263)	1,263	31
IAP/T5 - SAS	043PUB4A13	-	-	(4,856)	-	-	(4,856)
IAP/T5 - SES	043PUB4A14	-	-	(9,278)	(2,680)	2,680	(9,278)
IAP/T5 - SHS	043PUB4A15	-	-	(1,662)	(4,331)	4,331	(1,662)
IAP/T5 - SVS	043PUB4A16	-	-	345	(12,256)	12,256	345
IAP/T5 - TAN	043PUB4A17	-	-	(9,278)	(7,033)	7,033	(9,278)
IAP/T5 - TES	043PUB4A18	-	-	(1,654)	-	-	(1,654)
IAP/T5 - THS	043PUB4A19	-	-	(1,971)	-	-	(1,971)
IAP/T5 - WSR	043PUB4A20	-	-	771	(8,176)	8,176	771
IAP/T5 - EIS	043PVT4B05	-	-	1,137	(24,166)	24,166	1,137
IAP/T5 - GCS	0430VT4B06	-	-	1,526	(22,722)	22,722	1,526
IAP/T5 - GCT	043PVT4B08	-	-	1,901	(28,428)	28,428	1,901
IAP/T5 - GHI	043PVT4B09	-	-	701	(4,903)	4,903	701
IAP/T5 - JGA	043PVT4B11	-	-	2,144	(2,144)	2,144	2,144
IAP/T5 - MCS	043PVT4B13	-	-	10	(154)	154	10
IAP/T5 - SCS	043PVT4B15	-	-	63	(935)	935	63
IAP/T5 - SFB	043PVT4B16	-	-	100	(3,587)	3,587	100
IAP/T5 - Accreditation Personnel	044IAP4ACC	-	-	2,654	(64,634)	64,634	2,654
IAP/T5 - Class Size Reduction	044IAP4CSR	-	-	110,890	(1,086,964)	1,086,964	110,890
Subtotal CFDA# 84.922A		\$ 4,868,486	\$ 358,034	\$ (131,005)	\$ (5,619,920)	\$ 5,619,920	\$ 227,029
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	0245PKW2	-	(11)	-	-	-	(11)
Subtotal CFDA# 84.215U		\$ 24,764	\$ (3,848)	\$ -	\$ -	\$ -	\$ (3,848)
CFDA# 84.256A							
Reading Master Kit (TFAS)	0345RK3RHK	\$ -	\$ 39,665	\$ (39,665)	\$ (291,497)	\$ 291,497	\$ -
Reading Master Kit (TFAS)	0498RK4RHK	-	-	1,910	(3,519)	3,519	1,910
Subtotal CFDA# 84.256A		\$ -	\$ 39,665	\$ (37,755)	\$ (295,016)	\$ 295,016	\$ 1,910
CFDA# 84.364A							
Library Reading First	0347LR3LRF	\$ -	\$ -	\$ -	\$ (7,985)	\$ 7,985	\$ -
	0497LR4LRF	-	-	-	(5,532)	5,532	-
Subtotal CFDA# 84.364A		\$ -	\$ -	\$ -	\$ (13,517)	\$ 13,517	\$ -
CFDA# 84.027							
SPED Handicapped Children SEA	0383SE3SPE	\$ 3,161,954	\$ 119,007	\$ (119,007)	\$ (493,380)	\$ 493,380	\$ -
SPED - Admin	0384AD3SPE	-	4,477	(4,477)	(127,517)	127,517	-
SPED Handicapped Children LEA	0385LE3SPE	-	192,850	(192,850)	(1,612,508)	1,612,508	-
SPED Pacific Grant	0386PG3SPE	-	14,556	(14,556)	-	-	-
Balance carried forward		\$ 3,161,954	\$ 330,890	\$ (330,890)	\$ (2,233,405)	\$ 2,233,405	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
U.S. Department of Education							
Direct Programs							
CFDA# 84.922A							
Balance brought forward		\$ 3,161,954	\$ 330,890	\$ (330,890)	\$ (2,233,405)	\$ 2,233,405	\$ -
SPED Handicapped Children SEA	0483SE4SPE	-	-	27,105	(595,426)	595,426	27,105
SPED - Admin	0484AD4SPE	-	-	4,521	(36,924)	36,924	4,521
SPED Handicapped Children LEA	04815LE4SPE	-	-	141,422	(2,020,597)	2,020,597	141,422
Subtotal CFDA# 84.027		\$ 3,161,954	\$ 330,890	\$ (157,842)	\$ (4,886,352)	\$ 4,886,352	\$ 173,048
CFDA# 84.181							
SPED Infant & Toddlers	0388IF3SPE	\$ 401,540	\$ 31,211	\$ (31,211)	\$ (113,769)	\$ 113,769	\$ -
SPED Infant & Toddlers	0488IF4SPE	-	-	15,231	(403,465)	403,465	15,231
Subtotal CFDA# 84.181		\$ 401,540	\$ 31,211	\$ (15,980)	\$ (517,234)	\$ 517,234	\$ 15,231
CFDA# 84.000							
Common Core - Data	2552	\$ -	\$ (2,889)	\$ 2,889	\$ (2,889)	\$ 2,889	\$ -
Common Core - Data	2665	-	(844)	844	(844)	844	-
Comparability NCES	2789	-	(22,446)	19,049	(19,049)	19,049	(3,397)
Comparability NCES	2889	-	-	-	(44,924)	44,924	-
Comparability NCES	2989	-	(28,565)	(76)	-	-	(28,641)
Common Core - Data	0065	-	(3,972)	3,972	(3,972)	3,972	-
Common Core - Data	0165	-	(24,807)	3,713	(3,713)	3,713	(21,094)
Data Improvement - NCES	0089	-	(3,046)	-	-	-	(3,046)
Common Core - Data	0265CCD2	-	(28,000)	-	-	-	(28,000)
Common Core - Data	0365CC3CCD	-	(21,000)	-	-	-	(21,000)
Comparability NCES	0289MCE2	-	(12,500)	(4,321)	(8,179)	8,179	(16,621)
Subtotal CFDA# 84.000		\$ -	\$ (148,069)	\$ 26,070	\$ (83,570)	\$ 83,570	\$ (121,999)
CFDA# 84.185							
R.C. Byrd School Program	0474RB4RCB	\$ -	\$ -	\$ -	\$ (6,245)	\$ 6,245	\$ -
R.C. Byrd School Program	0574RB5RCB	-	-	-	(55,255)	55,255	-
Subtotal CFDA# 84.185		\$ -	\$ -	\$ -	\$ (61,500)	\$ 61,500	\$ -
Total U.S. Department of Education		\$ 8,704,360	\$ 663,710	\$ (277,406)	\$ (11,572,042)	\$ 11,572,042	\$ 386,304

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
U.S. Department of Health and Human Services							
Direct Programs							
CFDA# 93.600							
Headstart Admin.	0330AD3HDS	\$ 1,578,455	\$ 1,987	\$ (1,987)	\$ (1,109)	\$ 1,109	\$ -
Headstart Basic	0331BA3HDS	-	84,468	(84,468)	(41,407)	41,407	-
Headstart Admin.	0471AD4HDS	-	-	-	(34,697)	34,697	-
Headstart Basic	0472BA4HDS	-	3,620	(100,029)	(1,378,836)	1,378,836	(96,409)
Headstart Correcting Deficiency	0472CD4HDS	-	-	1,284	(93,703)	93,703	1,284
	0472CO4HDS	-	-	-	(12,020)	12,020	-
	0472PA4HDS	-	-	-	(5,997)	5,997	-
Headstart Technology	0472TE4HDS	-	-	-	(4,419)	4,419	-
Headstart Cluster Training	0473CT4HDS	-	-	-	(8,000)	8,000	-
Headstart Training	0473TR4HDS	-	-	-	(46,927)	46,927	-
Headstart Training Supplemental	0473TT4HDS	-	-	-	(43,262)	43,262	-
Headstart Construction	0475PI4HDS	-	-	-	(42,367)	42,367	-
Subtotal CFDA# 93.600		\$ 1,578,455	\$ 90,075	\$ (185,200)	\$ (1,712,744)	\$ 1,712,744	\$ (95,125)
CFDA# 93.575							
Child Care Administration	0290CCP2	\$ 1,636,489	\$ 341	\$ (341)	\$ -	\$ -	\$ -
Child Care Administration	0390AD3CCP	-	4,649	(4,649)	(40,948)	40,948	-
Child Care Certificates	0391CC3CCP	-	-	-	(384,284)	384,284	-
Child Care Quality & Activity	0392QA3CCP	-	4,268	(1,743)	(57,958)	57,958	2,525
Child Care School Age/R&R	0393RR3CP	-	-	-	(14,112)	14,112	-
Child Care Infant & Toddler	0395IP3CCP	-	1	(1)	(57,214)	57,214	-
Child Care Quality Expansion	0396QE3CCP	-	1	-	(58,193)	58,193	1
Child Care Administration	0490AD4CCP	-	-	1,785	(39,520)	39,520	1,785
Child Care Certificates	0491CC4CCP	-	-	630	(844,823)	844,823	630
Child Care Quality & Activity	0492QA4CCP	-	-	6,418	(6,418)	6,418	6,418
Child Care School Age/R&R	0493RR4CCP	-	-	860	(1,025)	1,025	860
Child Care Before & After School	0494AF4CCP	-	-	-	(303,029)	303,029	-
Child Care Infant & Toddler	0495IP4CCP	-	-	-	(59,444)	59,444	-
Child Care Quality Expansion	0496QE4CCP	-	-	(1)	(11,285)	11,285	(1)
Subtotal CFDA# 93.575		\$ 1,636,489	\$ 9,260	\$ 2,958	\$ (1,878,253)	\$ 1,878,253	\$ 12,218
CFDA# 93.938							
Aids-HIV	0361HI3HIV	\$ 160,481	\$ 3,421	\$ (3,421)	\$ (31,481)	\$ 31,481	\$ -
Aids-HIV	0481HI4HIV	-	-	1,824	(50,101)	50,101	1,824
Subtotal CFDA# 93.938		\$ 160,481	\$ 3,421	\$ (1,597)	\$ (81,582)	\$ 81,582	\$ 1,824
Total U. S. Department of Health and Human Services		\$ 3,375,425	\$ 102,756	\$ (183,839)	\$ (3,672,579)	\$ 3,672,579	\$ (81,083)
U.S. Department of Agriculture							
Direct Programs							
CFDA #10.555							
USDA TEFAP	0175	\$ 4,653,527	\$ (2,045)	\$ -	\$ -	\$ -	\$ (2,045)
FNS Breakfast Lunch Program	0377BL3FNS	-	17,593	(17,593)	(2,538,059)	2,538,059	-
FNS State Admin. Expense	0378AD3FNS	-	3,752	(3,752)	(1,862)	1,862	-
FNS Nutrition Education	0379NE3FNS	-	-	-	(55,060)	55,060	-
FNS Equip. & Facility Improvement	0380EF3FNS	-	-	-	(7,105)	7,105	-
FNS Breakfast Lunch & Snacks Program	0477BL4FNS	-	-	61,576	(1,999,678)	1,999,678	61,576
FNS State Admin. Expense	0478AD4FNS	-	-	(3,732)	(83,800)	83,800	(3,732)
FNS Nutrition Education	0479NE4FNS	-	-	-	(214)	214	-
FNS Equip. & Facility Improvement	0480EF4FNS	-	-	1	(76,940)	76,940	1
Total		\$ 4,653,527	\$ 19,300	\$ 36,500	\$ (4,762,718)	\$ 4,762,718	\$ 55,800
Total U.S. Department of Agriculture		\$ 4,653,527	\$ 19,300	\$ 36,500	\$ (4,762,718)	\$ 4,762,718	\$ 55,800

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2004

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount	Receivable From Grantor (Deferred Revenue) at 09/30/03	Adjustments	Cash Receipts FY 04	Expenditures FY 04	Receivable From Grantor (Deferred Revenue) at 09/30/04
U.S. Department of Transportation							
Direct Programs							
CFDA #20.509							
Federal Transit Bus	0270BUS2	\$ 170,265	\$ 170,265	\$ (170,265)	\$ -	\$ -	\$ -
Federal Transit Bus - Admin	0370AD3BUS	-	-	1,419	(4,637)	4,637	1,419
Federal Transit Bus	0370BU3BUS	-	26,193	(16,408)	(703,410)	703,410	9,783
Total U.S. Department of Transportation		\$ 170,265	\$ 196,458	\$ (185,254)	\$ (708,047)	\$ 708,047	\$ 11,204
Other							
Direct Programs							
CFDA# 94.006A							
Americorps - Admin.	0238AMC2	\$ 269,269	\$ -	\$ -	\$ (2,521)	\$ 2,521	\$ -
Americorps	0239AMC2	-	2,401	(2,401)	(125,368)	125,368	-
Americorps	0499AM4AMC	-	-	1,179	(3,078)	3,078	1,179
Subtotal CFDA# 94.006A		\$ 269,269	\$ 2,401	\$ (1,222)	\$ (130,967)	\$ 130,967	\$ 1,179
CFDA# 84.352A							
SFR - Koblerville Elementary School	0141KES	\$ -	\$ -	\$ -	\$ (2,464)	\$ 2,464	\$ -
SFR - Oleai Elementary School	0141OES	-	-	-	(530)	530	-
SFR - San Antonio Elementary School	0141SAS	-	(1)	1	(1,402)	1,402	-
SFR - Tanapag Elementary School	0141TAN	-	-	-	(700)	700	-
Subtotal CFDA# 84.352A		\$ -	\$ (1)	\$ 1	\$ (5,096)	\$ 5,096	\$ -
Total Other Programs		\$ 269,269	\$ 2,400	\$ (1,221)	\$ (136,063)	\$ 136,063	\$ 1,179
Total Federal Grants Fund		\$ 17,172,846	\$ 984,624	\$ (611,220)	\$ (20,851,449)	\$ 20,851,449	\$ 373,404

PUBLIC SCHOOL SYSTEM

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law 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 2004. It is applicable to all federal grant programs under the U.S. Department of Education and was 15.7% of payroll expenditures for the year ended September 30, 2004.

PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

Year Ended September 30, 2004

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, 2004

J. Scott Magliari
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**Independent Auditor's Report on Internal Control
Over Financial Reporting and On Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

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, 2004 and have issued my report thereon dated March 18, 2005. 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect PSS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 04-1, 04-4, 04-5 and 04-7.

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 caused by error or fraud 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider Finding Nos. 04-1 and 04-7 to be material weaknesses.

Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 04-1, 04-2, 04-3 and 04-6.

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

J. Scott Maglian & Company

Commonwealth of the Northern Mariana Islands
March 18, 2005

J. Scott Magliari
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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 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, 2004. The PSS' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. 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 Findings, item numbers 04-8 through 04-20 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding allowable costs or principles, procurement, suspension and debarment, program income, reporting, special tests and provisions and equipment and real property management that are applicable to its Consolidated Grants to Insular Areas, Nutrition Assistance Grant, Special Education, Head Start, Child Care and Development Block Grant and Federal Transit Bus major programs. Compliance with such requirements is necessary, in my opinion, for PSS to comply with the 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, 2004.

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. 04-11, 04-12, 04-13, 04-15, 04-16, 04-17, 04-18, 04-19 and 04-20.

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, I believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

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), as of and for the year ended September 30, 2004, and have issued my report thereon dated March 18, 2005. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 36 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except as described in the aforementioned report, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of PSS, the Board of Education, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

J. Scott Magliani & Company

Commonwealth of the Northern Mariana Islands
March 18, 2005

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION I -- SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Qualified on all major federal programs

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

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

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	\$ 9,846,884
10.555	Nutrition Assistance Grant	5,315,601
84.027	Special Education Program	4,419,970
93.600	Head Start Program	2,522,488
93.575	Child Care and Development Block Grant	1,722,749
20.509	Federal Transit Bus	<u>763,824</u>
	Total Federal Expenditures-Major Programs	<u>\$24,591,516</u>
	Percentage of total awards tested	<u>94%</u>

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

\$ 625,543

3% of the total awards expended

Auditee qualified as low-risk auditee

 yes X no

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Preparation of Budget

Finding No. 04-1

Criteria

Pursuant to the approved policies of PSS regarding financial management, it is the expressed intent of the Board of Education to comply with the provisions of any and all applicable laws that relate to the preparation and presentation of budgets and budgeting process.

Accordingly, the preparation of the annual budget shall follow an accounting system that provides the basis for proper budgetary control. Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted.

Condition

PSS maintains its books by fund type, one of which is the General fund. This fund covers the following expenditure accounts: Payroll, Housing and All Others. Such funding is based on the continuing resolution of Public Law 13-24, with an annual appropriation of \$37,209,928. A weekly monitoring of the budget versus actual expenditures is carried out on a lump-sum basis by PSS. This procedure helps PSS manage its available funds for future spending.

However, for the FY 2004, PSS failed to include a budgetary comparison of its general fund activities in the financial statements. Based on the review of the fund certification inquiry, various accounts showed negative variances. Although a direct control on the PSS' total available funds exists, the inclusion of the budget prepared in its financial statements is necessary based on the policies approved by the Board of Education.

Context

Audit procedures performed for Budget preparation in accordance with Government Auditing Standards.

Effect

The review of the financial statements showed unfavorable variances. This reflects possible unauthorized expenditures since PSS failed to monitor the budget on an account basis.

Cause

PSS monitors the general fund activities on a lump-sum basis. Since they focused more on the availability of funds rather than evaluating costs and program objectives, the main purpose of the budgeting process was eventually disregarded.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Preparation of Budget, Continued

Finding No. 04-1, Continued

Recommendation

Budgeting in the government sector is an element of fiscal policy and is much more than setting the financial goals for the coming year. A comprehensive budget process incorporates a long-term perspective and establishes linkages to broad organizational goals. It focuses budget decisions on results and outcomes. A budget must also involve and promote effective communication to ensure that incentives to government management and employees are ultimately provided.

I recommend that PSS properly monitor its budget-to-actual expenditures, analyze significant variances and recommend options for handling such. PSS should move beyond the traditional concept of expenditure control. It is not simply an exercise of balancing revenues and expenditures one year at a time. Rather, the process is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals.

Auditee Response and Corrective Action Plan

PSS will enter the original budget per business unit, any adjustment is to be made at the end of the fiscal year to analyze and compare any significant variances budget to actual expenditures.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Procurement Regulations

Finding No. 04-2

Criteria

Actual purchases of government activities for services with deliveries or performance to be scheduled and are valued above \$10,000 must be executed by a contract.

Condition

Various transactions were noted to be services performed on a regular basis by certain vendors that should have been executed by a contract but were availed through issuance of monthly purchase orders. The related amount of the various procured services found to be in noncompliance with PSS procurement rules and regulations totaled \$112,789.

Context

In relation to audit finding no. 04-8, vendors who provided services to PSS on a regular basis were identified. Reviewed the account ledgers of each vendor and computed the total services procured in FY 2004. Total purchases made to each vendor exceeding the \$10,000 scope were accounted for as non-compliance with PSS procurement rules and regulations of PSS.

Effect

The effect of the above condition is non-compliance of the PSS procurement regulation, a violation of the applicable state laws and regulations and federal requirements.

Cause

Due to the understanding that the average monthly fees of these regular services are within the small purchases limit, PSS failed to recognize the need to execute a contract on this type of purchase.

Recommendation

In order to comply with PSS procurement laws and regulations, I recommend that a contract be executed on these kinds of purchases.

Auditee Response and Corrective Action Plan

PSS concurs. This condition has been corrected by executing a contract of purchases for transactions above \$10,000.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Leave for Certified Employees

Finding No. 04-3

Criteria

Pursuant to the Employment Rules and Regulations of the PSS, any annual leave accrued or earned may be cashed-out upon separation from PSS. Separation shall mean that the employee will not work for the PSS for at least six consecutive months.

Condition

Based on the review of the time & pay history of randomly selected PSS employees, we noted two employees who received their lump sum payment for the annual leave earned but went back to PSS for employment within the separation period stated. The lump sum payment made to the identified employees totaled to \$18,067.

Context

On the conduct of test of internal control over payroll, review of the employees' time & pay history was considered as part of examination. The payroll module of the current financial management system of PSS was scanned and reviewed for unusual transactions. Based on auditor's judgment, we randomly selected employees and examined their related time & pay history ledger.

Effect

The effect of the above condition is overpayment of benefits.

Cause

There was no strict enforcement of PSS' policies and procedures on employment related matters.

Recommendation

PSS should adhere to its Employment Rules and Regulations. In this situation, PSS should make arrangements with the identified employees on the return of the lump sum payment made, such as, payroll deduction or direct application on their annual leave.

Auditee Response and Corrective Action Plan

PSS concurs. This is a management oversight. PSS will notify affected employees regarding the policy.

The lump sum payment of annual leave given to these employees will either be offset against their accumulated annual leave or deducted from their salary.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Work Assignment

Finding No. 04-4

Criteria

Pursuant to PSS Employee Regulations, an employee must attend work during the hours assigned by his or her supervisor. Generally, these hours will be from 7:30 AM to 11:30 AM and 12:30 PM to 4:30 PM, Monday through Friday. These hours may be changed in order to meet job demands. Also, an employee may be assigned by PSS to work at any school, any office, or any facility on the island assigned.

Condition

The current practice of PSS for the employees' time-in and time-out is the use of a bundy clock. Nine out of 57, or 16% of the total timecards examined showed manual input of the hours worked.

In addition, two timecards showed hours marked with "worked at home" and were approved for payroll. Further examined, the approved hours marked with "worked at home" totaled 42 hours. The total hours computed covered the payroll periods from January 11, 2004 through September 30, 2004. Based on the review of the contract, an employee may be assigned by PSS to work at any school, any office, or any facility on the island assigned. An employee's residence is not considered a PSS facility for any work assignment.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

Lack of specific policies on the time-in and time-out of employees and allowed locations of work assignment constitutes a weakness in the internal control over payroll.

Cause

The common practice of PSS on the use of bundy clock demonstrates the existence of a control or system on payroll. However, there is no specific policy that would serve as a basic guideline for PSS to properly implement stringent controls on employee time-in and time-out procedures.

Additionally, the employment regulation does not explicitly state the allowed locations of work assignments.

Recommendation

PSS should develop written policies and procedures that would serve as basic guidelines for PSS to properly implement controls on payroll and other related matters.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Work Assignment, Continued

Finding No. 04-4, Continued

Auditee Response and Corrective Action Plan

PSS concurs. Since there is no specific policy that employees are allowed to work at home, which is not considered as PSS facility for any work assignment, PSS will not allow any employees to work at home.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Retention and access requirement of records

Finding No. 04-5

Criteria

In accordance with OMB Circular A-102, financial records, supporting documents, statistical records and all other pertinent records must be retained for a period of three years.

Condition

PSS has 26 payroll periods in every fiscal year. In relation to Finding No. 04-4, six time cards for the payroll period of October 1, 2003 to January 10, 2004 were not provided for examination and review.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

The effect of the above condition is failure to verify if payroll disbursed were valid.

Cause

This cause of this condition is the timekeeper failed to keep the time cards within the required retention period.

Recommendation

PSS should adhere to the required retention period of financial records, supporting documents and all other pertinent records.

Auditee Response and Corrective Action Plan

PSS concurs. Timekeeper will take extra efforts to ensure that all time cards or a copy of time cards are kept in PSS file.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances

Finding No. 04-6

Criteria

PSS current policy requires the traveler to submit a travel request 5 working days prior to CNMI travel while ten working days prior to travel outside the CNMI. Upon liquidation, a travel voucher must be submitted within 10 working days after the completion of the travel with supporting documents required under the policy. Payroll deduction will be initiated within 15 working days if the traveler does not submit travel voucher and supporting documents.

Condition

PSS does not adequately monitor adherence to its travel policies based on the following:

- a. 5 out of 16, or 31.25% travel requests examined were not submitted within the stated period prior to the commencement of the travel.
- b. 1 out of 16 travelers traveled without an approved travel authorization. We noted that an approval was subsequently made for the reimbursement of the trip. This incident indicated a violation of the local and federal regulations as the cost was allocated under the federal account.
- c. In relation to the finding cited on Item b above, since the travel did not have a prior authorization, the documents examined did not have a justification memorandum for the travel, document of invitation or agenda, specific purpose, itinerary and estimated cost.
- d. 11 out of 16, or 68.75% travel vouchers were not submitted within the ten working days period upon completion of travel.
- e. 1 out of 16 travelers was paid with a per diem of two days in the amount of \$354. The two days were initially applied as annual leave based on the original justification memorandum submitted; however, an amended letter was subsequently prepared, with an approval of the two days leave as part of the trip.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 15 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to unauthorized travels, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

Cause

PSS did not adhere to its established policies and procedures on travel.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 04-6, Continued

Recommendation

PSS should strictly enforce its established policies and procedures on travel. If the current policy is found to be inadequate to suit the current needs of the PSS as well as the travelers, I recommend that the policy should be updated or improved in response to the inadequacies or concerns identified, if any, in accordance with the local laws and federal requirements.

Auditee Response and Corrective Action Plan

PSS has made tremendous efforts to inform employees of the travel policies. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy shall be strictly enforced.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

Inventory Management

Finding No. 04-7

Criteria

The fixed asset ledger maintained at the Central Office must match the appropriate records of all custodians of the fixed assets.

Condition

We identified several acquisitions recorded in the fixed assets ledger with no property cards. We also noted that various fixed assets tagged as PSS property were not entered in the fixed asset ledger as additions.

In addition, from the updated list of fixed assets provided by the Property and Inventory Control Officer, various assets were not included in the fixed assets ledger currently maintained by the Fiscal and Budget Office. This condition was resolved through proposed audit adjustments.

Cause

The cause of the above condition is lack of internal control system that would facilitate the property inventory and management of PSS. There was no proper coordination between the Procurement and Fiscal & Budget Office to ensure that appropriate records agree.

Context

Audit procedures performed for capital assets and capital expenditures in accordance with Government Auditing Standards.

Effect

Failure to maintain a property card of a specific fixed asset implies that such asset was not tagged and identified as PSS property. This could result in a possible unauthorized use of the asset.

For the identified and tagged property of PSS that was not recorded in the fixed assets ledger, the effect of this condition is understatement of fixed assets.

Recommendation

PSS should properly implement the approved policies and procedures on property inventory and management.

Auditee Response and Corrective Action Plan

PSS concurs. The discrepancies between the property cards and the listing were due to assets charged to wrong account. These were properly reclassified from contractual services to fixed asset account. In addition, our Property Custodian will conduct a physical count on the fixed asset at the school level respectively.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowable costs or principles - Head Start Program

Finding No. 04-8

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> In accordance with the Head Start Grants Administration and Financial Management, the Parent Activity fund should be spent on the basis of project relatedness. In connection with such requirement, OMB Circular A-21 Attachment J(22) and A-87 Attachment B(21) states that the costs of certain activities, including fundraising, are not allowable as charges to Federal Awards. Based on these cost principles, agencies may not use Federal funds to provide money, space or staff assistance in order to raise fund. These items have been provided using Federal resources and are subject to the above prohibition.</p> <p><u>Condition</u> We have identified four invoices that pertained to fundraising events charged under the Head Start Program. These invoices were included in one liquidation report submitted.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 40 disbursements and performed audit procedures for compliance testing of the identified major program, as required and in accordance with OMB-Circular A-133.</p> <p><u>Effect</u> Although the related amount of the disallowed activities charged under Head Start is insignificant, PSS was still found to be not in compliance with the requirements of the federal grant.</p> <p><u>Cause</u> PSS lacks administrative oversight over the allowed and disallowed activities and programs under this federal grant.</p>	\$ -



PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowable costs or principles -- Head Start Program

Finding No. 04-8, Continued

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

Recommendation

PSS should monitor all activities and programs set-up under this grant and ensure that each related cost charged under this account comply with the applicable federal regulations.

Auditee Response and Corrective Action Plan:

The food invoices in question were labeled Parent Fund Raising invoices by mistake. The activity was Parent Fund event, a formal and legitimate fund set up to pay for ordinary expenses. Parent Day is an educational day for all the parents of children enrolled at Headstart. PSS Director of Finance will inform Head Start Policy Council to stress that these activities are Parent Fund activities, and that fund raising is not in compliance with federal regulations.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement and Suspension and Debarment - Head Start Program

Finding No. 04-9

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> Actual purchases of government activities for services with deliveries or performance to be scheduled and are valued above \$10,000, must be executed by a contract.</p> <p><u>Condition</u> In 2 or 5% of the forty (40) disbursements tested, the transactions were noted to be services performed on a regular basis by a certain vendor. This pertains to the maintenance service that PSS avails monthly for all schools. During FY 2004, the total amount paid for this specific vendor charged under the Head Start program totaled \$10,588.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 40 disbursements and performed audit procedures for compliance testing of the identified major program, as required and in accordance with OMB-Circular A-133.</p> <p><u>Effect</u> The effect of the above condition is non-compliance with the PSS procurement regulations, a violation of the applicable state laws and regulations and federal requirements.</p> <p><u>Cause</u> Due to the understanding that the average monthly fees of these regular services are within the small purchases limit, PSS failed to recognize the need to execute a contract on this kind of purchase.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement and Suspension and Debarment - Head Start Program

Finding No. 04-9, Continued

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

Recommendation

PSS should execute a contract on this kind of purchase to comply with the local laws and federal requirements.

Auditee Response and Corrective Action Plan:

PSS concurs. As in finding 4-2 of similar condition, this condition has been subsequently corrected by executing a contract of purchases for transactions above \$10,000.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services

Finding No. 04-10

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

Criteria

Program income derived from this federal award represents proceeds from the sale of reduced price meals being served to some selected schools. One of the policies and procedures of PSS on food court collections at the school level is to submit all collections received to the PSS Treasurer on a weekly basis.

Condition

Two schools were identified to be not in compliance with the above-mentioned policy. Summarized below is the total amount collected by the schools that were not submitted on time.

Saipan Southern High

<u>Cash Count Date</u>	<u>Total Collections</u>	<u>Date Submitted</u>	<u>No. of weeks late</u>
10/06 - 10/10/03	\$ 420.50	10/21/03	1 week
12/09 - 12/18/03	1,079.50	12/22/03	1 week
04/19 - 04/23/04	477.25	05/04/04	1 week
08/09 - 08/27/04	<u>1,031.50</u>	08/30/04	3 weeks
Sub-total	<u>3,008.75</u>		

Marianas High School

<u>Cash Count Date</u>	<u>Total Collections</u>	<u>Date Submitted</u>	<u>No. of weeks late</u>
10/07 - 10/20/03	\$ 1,840.75	11/05/03	4 weeks
11/10 - 11/19/03	2,164.00	12/30/03	6 weeks
03/08 - 04/08/04	5,673.75	05/06/04	8 weeks
08/02 - 08/13/04	3,393.25	08/30/04	3 weeks
08/18 - 08/20/04	1,048.50	09/23/04	5 weeks
09/07 - 09/10/04	<u>1,374.20</u>	09/23/04	2 weeks
Sub-total	<u>15,494.45</u>		
Total	<u>\$ 18,503.20</u>		

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services

Finding No. 04-10, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Context</u> Based on auditor's judgment, randomly selected the months of October to December 2003, March to April and August to December 2004 for the conduct of audit procedures for program income compliance requirement.</p> <p><u>Effect</u> Untimely submission of the food court collections could imply that resources were used for other purposes than what is in accordance with the program requirements, as stated in A-102 Common Rule and OMB-Circular A-110. Such condition could result in a questioned cost for PSS.</p> <p><u>Cause:</u> Despite of the continued efforts of the Fiscal & Budget Office to ensure that this policy is strictly followed, management oversight and enforcement was not strict enough to properly implement the stated policy.</p> <p><u>Recommendation:</u> PSS should strictly enforce that food court collections be submitted on time to avoid citation of non-adherence to the approved policies and procedures of PSS and federal regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u> PSS concurs. PSS will hire a Food Court Coordinator, under the supervision of the FNS Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-11

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As indicated in the Program Description of Head Start, all service areas and child development staff must submit monthly reports to the coordinators. This will be summarized and reported to the Head Start Policy Council (HPC) monthly and will submit a copy of the report to Board of Education.</p> <p><u>Condition</u> No monthly reports were provided for examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> The required monthly reports are some of the underlying data that are to be accumulated and summarized for the completion and submission of the Annual Self-Assessment Report. Since no reports were prepared or provided, the required annual report might be considered as incomplete and inaccurate.</p> <p><u>Cause</u> The cause of the above condition is lack of administrative oversight to ensure that all requirements were met in accordance with the State Plan and Federal laws and regulations.</p> <p><u>Recommendation</u> PSS should closely monitor the requirements of the grant and improve its current system to ensure compliance with the terms and conditions of the program are met.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-11, Continued

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

Auditee Response and Corrective Action Plan
Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 2005.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-12

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As stated in the Program Description, quarterly reports are prepared and submitted to the Associate Commissioner for the Curriculum and Instruction. These reports are compiled and submitted to the Board of Education.</p> <p><u>Condition</u> No quarterly reports were provided for our review and examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> Failure to comply with the stated terms and conditions of the program demonstrates neglect on their responsibilities as a recipient of the Head Start grant.</p> <p><u>Cause</u> The cause of this condition is unknown.</p> <p><u>Recommendation</u> PSS should evaluate its current system to identify the areas for improvement, thus, address the deficiencies noted, if any, in meeting the goals and objectives of the program.</p> <p><u>Auditee Response and Corrective Action Plan</u> Head Start Policy Council and the Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-13

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As part of the monitoring and evaluation of the program, an annual Self-Assessment report is prepared. This report is a compilation of the monthly ongoing monitoring of the services provided to the eligible children and their families. Such report also documents the areas of strength and areas for improvement of the Head Start activities.</p> <p><u>Condition</u> The Annual Self-Assessment report was not prepared and provided for our review and examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> The effect of this condition is non-compliance with the terms and conditions of the grant. Failure to comply with these stated terms demonstrates neglect on their responsibilities as a recipient of the Head Start grant.</p> <p><u>Cause</u> The cause of this condition is unknown.</p> <p><u>Recommendation</u> PSS should consider evaluating its current operating system. This would help them recognize the areas of strength and areas for improvement and the strategies to address recommendations, if any, with specific timelines and evidence of completion. An improved system will assist PSS ensure grant requirements are fully met.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting -- Head Start Program

Finding No. 04-13, Continued

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

Auditee Response and Corrective Action Plan

Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly, annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005. The Self-Assessment Report for FY2004 is currently underway and will be reported out by May 1, 2005.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-14

<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>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</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>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 existing policies and procedures are consistent with the requirements of the grant.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-14, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<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> <p><u>Auditee Response and Corrective Action Plan</u> The Special Education Human Resources Officer will be directed by the Associate Commissioner for Curriculum & Instruction to generate the required Comprehensive System of Personnel Development (CSPD) plan as stated in the Eligibility document.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-15

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

Criteria

In accordance with the CNMI Special Education Program 2002-2003 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 Commonwealth Health Center (CHC) for the fiscal year 2004. From our 2003 audit, it was explained that no MOU with CHC is required because services performed by this agency should be with no charge. We cited PSS on the failure to update the documentation of its program activities identified in the State Plan.

However, in 2004, we were informed that an agreement was executed for the use of the CHC facilities. The use of facilities is for the audiologist hired by the Special Education Program Office, yet no agreement was provided to confirm compliance on this specific requirement.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-15, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</p> <p><u>Effect</u> The effect of the above condition is non-adherence to the requirements of the grants, which is a violation of the federal regulations.</p> <p><u>Cause</u> The possible cause of this condition is lack of familiarity with the specific requirements of the grants. PSS failed to coordinate with the above-mentioned party and ensure that terms and conditions of the grants are complied with.</p> <p><u>Recommendation</u> PSS should become familiar with the terms and conditions of the grant to avoid any confusion on the requirements of the federal, thus, prevent citations of non-compliance.</p> <p><u>Auditee Response and Corrective Action Plan</u> The Memorandum of Understanding regarding the services of the audiologist is completed and will be provided to auditor no later than April 8, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-16

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria</u> As stated in the Eligibility document, interagency agreements shall include procedures for resolving interagency disputes (including procedures under which PSS may initiate proceedings) under the agreement or other mechanism to secure reimbursement from other agencies or otherwise implement the provisions of the agreement or mechanism.</p> <p><u>Condition</u> The signed interagency agreement with the Department of Community and Cultural Affairs does not include procedures for resolving interagency disputes.</p> <p>PSS made an addendum to this contract in response to the required inclusion of procedures for resolving interagency disputes. However, all responsible parties have not signed the amended contract, thus, the interagency agreement is not yet fully executed.</p> <p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</p> <p><u>Effect</u> The effect of the above condition is non-adherence to the requirements of the grants, which is a violation of the federal regulations.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-16, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Cause</u> The possible cause of this condition is lack of familiarity with the specific requirements of the grants.</p> <p><u>Recommendation</u> PSS should become familiar with the terms and conditions of the grant to avoid any confusion on the requirements of the federal, thus, prevent citations of non-compliance.</p> <p><u>Auditee Response and Corrective Action Plan</u> The interagency agreement with the Department of Community and Cultural Affairs will be concluded and submitted to the auditor no later than April 8, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-17

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> Pursuant to 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. Nine of 12 or 75% Head Start centers were only inspected for fire safety.b. Four of 12 or 33.33% Head Start centers were only inspected for facilities inspection. <p><u>Context</u> Reviewed the Program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Obtained copies of the inspections made by the Department of Public Safety and Bureau of Environmental Health.</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>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions -- Head Start Program, Continued

Finding No. 04-17, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<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>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> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2003.</p> <p><u>Auditee Response and Corrective Action Plan</u> Head Start Policy Council and Board of Education will jointly hire a new Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed. Appropriate changes to the Head Start regulations are recommended. The Associate Commissioner of Curriculum and Instruction will direct these changes by May 1, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-18

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u> In accordance with 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 six Head Start centers inspected by the Department of Public Safety failed to meet the fire safety standards.</p> <p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Reviewed and examined the inspection reports to verify compliance with the local licensing requirement.</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>Cause</u> The cause of this condition is unknown.</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 and liability.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 04-18, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2003.</p> <p><u>Auditee Response and Corrective Action Plan</u> The CNMI Public Auditor acknowledged that PSS does not have authority to compel compliance and recommended a referral to the Office of the Attorney General.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-19

<u>CFDA No:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600		\$ -

Criteria

In accordance with 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

Two out of the four Head Start centers inspected were given a "B" rating, while one Head Start center was placed under the Public Health inspection. Findings and corrections noted in violation of the Federal regulations are as follows:

- a. No proof was presented to inspectors that the teachers and staffs' health examination were updated.
- b. Water reservoirs were cleaned and sanitize last school year. Water reservoir needs to be washed and sanitized every three months.
- c. Staffs were not practicing proper sanitizing procedures for water dispensers. Water dispensers need to be sanitized daily.
- d. There were no paper towel and soap for hand washing.
- e. There was not enough lighting in classroom.

Context

Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Reviewed and examined the inspection reports to verify compliance with the local licensing requirement.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 04-19, Continued

CFDA No: Findings/Noncompliance

Questioned
Costs

93.600

\$ -

Effect

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.

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. Also, PSS failed to adequately monitor the centers to ensure that they comply with the local and federal requirements.

Recommendation

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.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2003.

Auditee Response and Corrective Action Plan:

Monitor will ensure that appropriate referrals are made to the Office of the Attorney General to ensure compliance.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs

Finding No. 04-20

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

Criteria

OMB Circular A-102 requires grantees to comply with the following terms for equipment purchased with federal funds:

1. Maintain property records that include a description of the property; a serial number of other identification number; the source of the property, who holds title; the acquisition date; cost of the property; percentage of federal participation in the cost of the property; the location; use and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property.
2. Conduct a physical inventory of the property and reconcile that with the property records at least once every two years.
3. Develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, and investigate any loss, damage, or theft.
4. Develop adequate maintenance procedures to keep the property in good condition.

Condition

In FY 2004, PSS failed to reconcile the property records with the fixed assets ledger maintained in the Central Office.

PSS failed to maintain a documentation that would prove that adequate safeguards and maintenance procedures on PSS' federally funded assets were carried out in compliance with the federal property management standards.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III -- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management -- All major programs, Continued

Finding No. 04-20, Continued

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

Context

The conduct of audit procedures for compliance testing requirement of Equipment and Real Property Management in accordance with OMB Circular A-133 includes the following:

1. Inquired if a required physical inventory of fixed assets acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
2. Selected assets acquired during the audit period and traced them to property records. Verified that property records contain the required information or description about the equipment.
3. Selected a number of assets identified and made physically inspection.

Effect

The effect of the above condition is that PSS is not in compliance with the terms for equipment purchased with federal funds as stated in the OMB circular A-102.

Cause

The cause of the above condition is failure to strictly enforce the existing internal control system over fixed assets.

Recommendation

We recommend that PSS comply with the federal property management standards.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs, Continued

Finding No. 04-20, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Auditee Response and Corrective Action Plan</u> PSS concurs. This condition is same as finding no.4-7. PSS hired a Property Custodian whose main duties & responsibilities is to monitor fixed asset, thus, his agenda is to conduct a physical inventory of all fixed asset valued at \$5,000 above in all schools public and private. The Property Custodian will update list of fixed assets and to be submitted to Fiscal & Budget Office, fixed assets register and property cards reconciles.	\$ -
	Total Questioned Costs	<u>\$ -</u>

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2003 Audit Findings

Finding No. 03-1

Condition: PSS failed to properly conduct evaluation of the programs under this Grant to ensure its effectiveness in meeting its purposes and objectives.

Corrective Action: PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. In addition, the Monitor required to produce a report describing the strengths and weaknesses of the programs, outline findings and make recommendations that augment or correct the findings.

Finding No. 03-2

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

Corrective Action: During the FY 2004, PSS conducted an inventory of the materials sent to private schools. The list was provided to the auditor for reference purposes. To ensure compliance with federal and local obligations, PSS will designate a full-time employee to comply with related requirements.

Finding No. 03-3

Condition: PSS lacks a system that will ensure all of the general requirements under this program are being carried out as planned.

Corrective Action: PSS is in the processing of updating the Eligibility Document. An assessment will be made to verify compliance with the stated general requirements.

Finding No. 03-4

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.

Corrective Action: PSS submitted the required memorandum

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 03-5

Condition: 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.

Corrective Action: PSS and the related parties involved already signed the Memorandum of Agreement.

Finding No. 03-6

Condition: PSS was found to be not in compliance with the local licensing requirements applicable to Headstart.

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.

Corrective Action: 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. The Tinian Headstart was previously inspected on October 15, 2003.

Similar condition was noted in 2004 Audit, findings 04-17. Head Start Policy Council and Board of Education will jointly hire a new Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed. Appropriate changes to the Head Start regulations are recommended. The Associate Commissioner of Curriculum and Instruction will direct these changes by May 1, 2005.

Finding No. 03-7

Condition: The two Headstart centers inspected by the Department of Public Safety failed to meet the fire safety standards.

Corrective Action: 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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 03-8

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.

Corrective Action: 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.

2002 Audit Findings

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 types of training provided for the fiscal year 2002.

Corrective action: During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. In addition, the Monitor required to produce a report describing the strengths and weaknesses of the programs, outline findings and make recommendations that augment or correct the findings.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. In addition, the Monitor required to produce a report describing the strengths and weaknesses of the programs, outline findings and make recommendations that augment or correct the findings.

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: 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. Audit report for FY 2003 was released on May 2004, which is a month earlier than deadline, while audit report for FY 2004 is to be released in April 30, 2005.

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

Finding No. 02-14

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

Corrective action: During the FY 2004, PSS conducted an inventory of the materials sent to private schools. The list was provided to the auditor for reference purposes. To ensure compliance with federal and local obligations, PSS will designate a full-time employee to comply with related requirements.

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 FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 02-18

Condition: There was no Memoranda of Understanding (MOU) established with the Division of Youth Services for the year 2002. 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: The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4. PSS already submitted the required memorandum.

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.

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. PSS and the related parties involved already signed the Memorandum of Agreement.

2001 Audit Findings

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. The Monitor is also required to prepare all necessary reports.

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: 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. Audit report for FY 2003 was released on May 2004, which is a month earlier than deadline, while audit report for FY 2004 is to be released in April 30, 2005.

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. The Monitor is also required to prepare all necessary reports.

Finding No. 01-13

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

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. The Monitor is also required to prepare all necessary reports.

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. The Monitor is also required to prepare all necessary reports.

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: During the FY 2004, PSS conducted an inventory of the materials sent to private schools. The list was provided to the auditor for reference purposes. To ensure compliance with federal and local obligations, PSS will designate a full-time employee to comply with related requirements.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions. The Monitor is also required to prepare all necessary reports.

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: The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4. PSS already submitted the required memorandum.

Finding No. 01-23

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

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 01-25, 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. This was considered as Finding No. 03-5 in the 2003 audit report. PSS and the related parties involved already signed the Memorandum of Agreement.

2000 Audit Findings

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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

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: 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. Audit report for FY 2003 was released on May 2004, which is a month earlier than deadline, while audit report for FY 2004 is to be released in April 30, 2005.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 00-18, 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.

During FY 2004 PSS hired a Federal Programs Monitor, who directly reports to the Commissioner and is required to review six specific federal programs for compliance with federal regulations and grant conditions.

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: PSS is in the processing of updating the Eligibility Document. An assessment will be made to verify compliance with the stated general requirements.

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: The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4. PSS already submitted the required memorandum.

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. This was considered as Finding No. 03-5 in the 2003 audit report. PSS and the related parties involved already signed the Memorandum of Agreement.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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. This was considered as Finding No. 03-5 in the 2003 audit report. PSS and the related parties involved already signed the Memorandum of Agreement.

1999 Findings

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: The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4. PSS already submitted the required memorandum.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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</u> of <u>travel</u>	<u>Date</u> of <u>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. Similar condition was noted as findings 04-6 in FY 2004 audit.

1998 Audit Findings

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.

Corrective action: The same condition was identified in the Single audit for fiscal year 2003 as Finding No. 03-4. PSS already submitted the required memorandum.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

Finding No. 98-30

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

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

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

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

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

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. 98-33

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: 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. Audit report for FY 2003 was released on May 2004, which is a month earlier than deadline, while audit report for FY 2004 is to be released in April 30, 2005.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2004

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. 97-22

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: 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. Audit report for FY 2003 was released on May 2004, which is a month earlier than deadline, while audit report for FY 2004 is to be released in April 30, 2005.

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.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Questioned Costs
Year Ended September 30, 2004

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	-	-	-	-	-
2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total prior year questioned costs at September 30, 2004	\$ 1,576,270	\$ -	\$ -	\$ 1,454,642	\$ 121,628
Questioned costs for fiscal year ending 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total unresolved questioned costs at September 30, 2004	<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
P.O. BOX 501370
SAIPAN, MP 96950



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Teacher Representative

Commissioner of Education
Rita Hocog Inos, Ed.D

April 19, 2005

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 2004.

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. 04-1

We will enter the original budget per business unit, any adjustment is to be made at the end of the fiscal year to analyze and compare any significant variances budget to actual expenditures.

Finding No. 04-2

We concur. This condition has been corrected by executing a contract of purchases for transactions above \$10,000.

Finding No. 04-3

We concur. This is a management oversight. PSS will notify affected employees regarding the policy.

The lump sum payment of annual leave given to these employees will either be offset against their accumulated annual leave or deducted from their salary.

Finding No. 04-4

We concur. Since there is no specific policy that employees are allowed to work at home, which is not considered as PSS facility for any work assignment, PSS will not allow any employees to work at home.

Finding No. 04-5

We concur. Timekeeper will take extra efforts to ensure that all time cards or a copy of time cards are kept in PSS file.

Finding No. 04-6

PSS has made tremendous efforts to inform employees of the travel policies. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy shall be strictly enforced.

Finding No. 04-7

We concur. The discrepancies between the property cards and the listing were due to assets charged to wrong account. These were properly reclassified from contractual services to fixed asset account. In addition, our Property Custodian will conduct a physical count on the fixed asset at the school level respectively.

Finding No. 04-8

The food invoices in question were labeled Parent Fund Raising invoices by mistake. The activity was Parent Fund event, a formal and legitimate fund set up to pay for ordinary expenses. Parent Day is an educational day for all the parents of children enrolled at Headstart. PSS Director of Finance will inform Head Start Policy Council to stress that these activities are Parent Fund activities, and that fund raising is not in compliance with federal regulations.

Finding No. 04-9

We concur. As in finding 4-2 of similar condition, this condition has been subsequently corrected by executing a contract of purchases for transactions above \$10,000.

Finding No. 04-10

We concur. PSS will hire a Food Court Coordinator, under the supervision of the FNS Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed.

Finding No. 04-11

Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 2005.

Finding No. 04-12

Head Start Policy Council and the Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005.

Finding No. 04-13

Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly, annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005. The Self-Assessment Report for FY2004 is currently underway and will be reported out by May 1, 2005.

Finding No. 04-14

The Special Education Human Resources Officer will be directed by the Associate Commissioner for Curriculum & Instruction to generate the required Comprehensive System of Personnel Development (CSPD) plan as stated in the Eligibility document.

Finding No. 04-15

The Memorandum of Understanding regarding the services of the audiologist is completed and will be provided to auditor no later than April 8, 2005.

Finding No. 04-16

The interagency agreement with the Department of Community and Cultural Affairs will be concluded and submitted to the auditor no later than April 8, 2005.

Finding No. 04-17

Head Start Policy Council and Board of Education will jointly hire a new Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed. Appropriate changes to the Head Start regulations are recommended. The Associate Commissioner of Curriculum and Instruction will direct these changes by May 1, 2005.

Finding No. 04-18

The CNMI Public Auditor acknowledged that PSS does not have authority to compel compliance and recommended a referral to the Office of the Attorney General.

Finding No. 04-19

Monitor will ensure that appropriate referrals are made to the Office of the Attorney General to ensure compliance.

Finding No. 04-20

We concur. This condition is same as finding no.4-7. PSS hired a Property Custodian whose main duties & responsibilities is to monitor fixed asset, thus, his agenda is to conduct a physical inventory of all fixed asset valued at \$5,000 above in all schools public and private. The Property Custodian will update list of fixed assets and to be submitted to Fiscal & Budget Office, fixed assets register and property cards reconciles.