

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2012

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
September 30, 2012

<u>Items</u>	<u>Page No. (s)</u>
I. FINANCIAL SECTION	
A. Independent Auditor's Report on Financial Statements	1-2
Management's Discussion & Analysis	3-12
Statements of Net Assets	13
Statements of Activities	14
Balance Sheets – Governmental Funds	15
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance with the District-wide Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual	18
Notes to Financial Statements	19-38
B. Supplementary Information	
Combining Balance Sheets – Non-major Funds	39
Combining Statements of Revenues, Expenditures and Changes in Fund Balance – Non-major Funds	40

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS, Continued
September 30, 2012

<u>Items</u>	<u>Page No. (s)</u>
II. SINGLE AUDIT REPORTS	
Independent Auditor's Report on Compliance and 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	41-42
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	43-45
Schedule of Expenditures of Federal Awards	46-47
Notes to the Schedule of Expenditures of Federal Awards	48
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor's Results	49-50
Section II – Financial Statement Findings	51-76
Section III – Federal Awards Findings and Questioned Costs	77-98
III. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	99-103
IV. SUMMARY OF UNRESOLVED QUESTIONED COSTS	104



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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) Public School System (the PSS) (a component unit of the CNMI Government), as of and for the year ended September 30, 2012, which collectively comprise PSS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of PSS' management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.


I am unable to determine the propriety the balance of travel advances as of September 30, 2012 and related travel and commute expenses for the year then ended due to a significant volume of travel liquidations not yet posted. Outstanding travel advances as of September 30, 2012, presented in the accompanying Statements of Net Assets and Balance Sheets as component of other receivables, amounted to \$454,887, net of allowance for uncollectible of \$539,775.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had travel advance in the General Fund been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of PSS, as of September 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Operating Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated June 6, 2013 on my consideration of PSS' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 my audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. The individual fund financial statements, other schedules listed in the table of contents as individual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2012 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the 2012 information is fairly stated in all material respects in relation to the basic financial statements as a whole.


Saipan, Commonwealth of the Northern Mariana Islands
June 6, 2013



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

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This section of the CNMI Public School System (PSS) financial report represents management's discussion and analysis (MD&A) of the financial performance of PSS for the year ended September 30, 2012. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements and notes to the basic financial statements to further enhance their understanding of PSS' financial performance.

FINANCIAL HIGHLIGHTS

At the close of Fiscal year 2012, PSS' net assets amounted to \$ 52,633,472, a decrease of \$7,658,385, from \$60,291,857 in fiscal year 2011. This decrease was primarily due to the increase in accrued unfunded retirement contributions by \$2,797,069 and the reality that the level of support PSS is receiving from the CNMI Government is not sufficient to finance PSS operations. PSS total expenses for fiscal year 2012 amounted to \$72,443,737 with aggregate support from Federal Agencies, CNMI appropriations and other revenues of only \$64,785,352.

PSS' net assets includes capital assets, net of accumulated depreciation, of \$81,033,173, capital improvement projects in-progress of \$1,890,803 and a deficit of \$30,386,390.

PSS' enrollment of for school year 2011-2012 was 10,505 students. There was only a slight decrease from 10,590 students for school year 2011-2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Management Discussion and Analysis (MD&A)

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

District-wide Statements

The first two financial statements presented are highly condensed and are somewhat based on the accounting model used by private sector businesses.

The district-wide statements are presented on the full accrual basis of accounting and include the Statement of Net Assets and the Statement of Activities.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

Statement of Net Assets

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.

Net assets, which is 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.

Statement of Activities

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

Governmental-fund Financial Statements

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

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

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 use to keep track of specific sources of funding and spending on particular programs.

PSS' major funds are:

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

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

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

Condensed Statement of Net Assets

	Governmental Activities			
	2012	2011	Difference	% Change
Current assets	\$ 8,888,543	\$ 14,153,501	\$ (5,264,958)	(37.20)
Capital improvement projects in-progress (CIP)	1,890,803	1,890,803	-	-
Capital assets, net	<u>81,033,173</u>	<u>82,757,685</u>	<u>(1,724,512)</u>	(2.08)
Total assets	<u>\$ 91,812,519</u>	<u>\$ 98,801,989</u>	<u>\$ (6,989,470)</u>	(7.07)
Current liabilities	\$ 14,355,882	\$ 17,162,563	\$ (2,806,681)	(16.35)
Noncurrent liabilities	<u>24,823,165</u>	<u>21,347,569</u>	<u>3,475,596</u>	16.28
Total liabilities	<u>\$ 39,179,047</u>	<u>\$ 38,510,132</u>	<u>\$ 668,915</u>	1.74
Invested in capital assets	\$ 81,033,173	\$ 82,757,685	\$ (1,724,512)	(2.08)
Invested in CIP	1,890,803	1,890,803	-	-
Restricted for special purpose	1,095,886	1,109,228	(13,342)	(1.20)
Deficit	<u>(31,386,390)</u>	<u>(25,465,859)</u>	<u>(5,920,531)</u>	23.25
Net assets	<u>\$ 52,633,472</u>	<u>\$ 60,291,857</u>	<u>\$ (7,658,385)</u>	(12.70)

- Current assets decreased due to the collection of receivables from federal grantor agencies. Collections were subsequently used to payoff payable to vendors and contractors.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

- There was no completed construction in progress in fiscal year 2012. The majority of the construction contracts in fiscal year 2011 and 2012 are for repairs and maintenance of the various schools and facilities.
- The decrease in capital assets is primarily due to depreciation expense.
- Current liabilities decreased in fiscal year 2012. This is because the majority of the payables as of September 30, 2011 were for ARRA contracts that were completed in 2012.
- Noncurrent liabilities, which consist primarily of the unfunded payable to the Northern Mariana Islands Retirement Fund (Retirement Fund) increased. This is because the appropriation received by the PSS was not sufficient to meet PSS's obligations to the Retirement Fund.
- Overall deficit increased by \$5,920,531 or 23.25% from \$25,465,859 in 2011 to \$31,386,390 in 2012. This means that for PSS to pay all its creditors, including the Retirement Fund, PSS needs \$31,386,390. PSS as a public school does not generate its own revenue and relies heavily upon grants and appropriations to finance its current operations and to pay its past obligations. If the level of appropriation continue drop, it would not be sufficient to finance current operations and the deficit will continue to increase.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance

	Governmental Activities			
	2012	2011	Difference	% Change
Revenues:				
Program revenues	\$ 33,345,815	\$ 58,888,052	\$ (25,542,237)	(43.37)
General revenues	<u>31,439,537</u>	<u>29,354,159</u>	<u>2,085,378</u>	7.10
	<u>64,785,352</u>	<u>88,242,211</u>	<u>(23,456,859)</u>	(26.58)
Expenses:				
Instruction	58,446,697	69,059,544	(10,612,847)	(15.37)
Support services	<u>13,997,040</u>	<u>27,547,168</u>	<u>(13,550,128)</u>	(49.19)
	<u>72,443,737</u>	<u>96,606,712</u>	<u>(24,162,975)</u>	(25.01)
Change in net assets	(7,658,385)	(8,364,501)	706,116	(8.44)
Net assets - beginning	<u>60,291,857</u>	<u>68,656,358</u>	<u>(8,364,501)</u>	(12.18)
Net assets - ending	<u>\$ 52,633,472</u>	<u>\$ 60,291,857</u>	<u>\$ (7,658,385)</u>	(12.70)

- The overall decrease in revenues and related expenses is due the American Recovery and Reinvestment Act (ARRA) funding provided in fiscal year 2011. Majority of the projects were completed in fiscal year 2011.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

Revenues

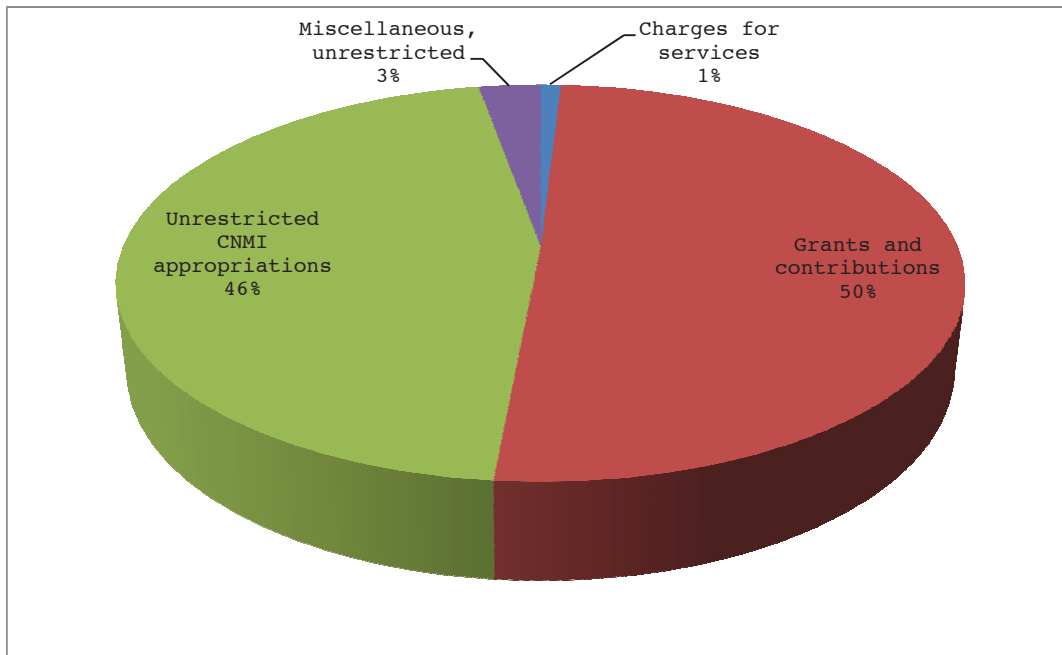
	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>% Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 592,631	\$ 812,625	\$ (219,994)	(27.07)
Grants and contributions	<u>32,753,184</u>	<u>58,075,427</u>	<u>(25,322,243)</u>	(43.60)
Total program revenues:	<u>33,345,815</u>	<u>58,888,052</u>	<u>(25,542,237)</u>	(43.37)
General revenues:				
Unrestricted CNMI appropriations	29,619,462	28,932,119	687,343	2.38
Miscellaneous, unrestricted	<u>1,820,075</u>	<u>422,040</u>	<u>1,398,035</u>	331.26
Total general revenues:	<u>31,439,537</u>	<u>29,354,159</u>	<u>2,085,378</u>	7.10
Total revenues	<u>\$ 64,785,352</u>	<u>\$ 88,242,211</u>	<u>\$ (23,456,859)</u>	(26.58)

Total revenues for fiscal year 2012 is \$64,785,352, a 26.58% decrease from fiscal year 2011. The decrease in revenue is primarily from funding received through the ARRA funds in fiscal year 2011.

Revenues are classified as either program or general.

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

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



**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

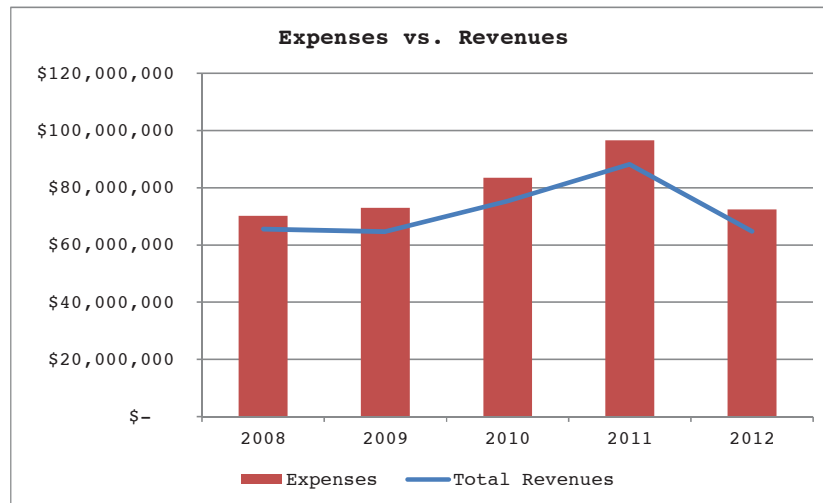
Management's Discussion and Analysis
September 30, 2012

Expenses

Total district-wide expenses by function were as follows:

	2012	2011	Difference	% Change
Instruction:				
Regular	\$ 34,421,129	\$ 45,174,554	\$ (10,753,425)	(23.80)
Special education	8,237,442	8,462,886	(225,444)	(2.66)
Co-curricular	3,239,005	2,802,450	436,555	15.58
Student services	12,549,121	12,619,654	(70,533)	(0.56)
Total instruction	<u>58,446,697</u>	<u>69,059,544</u>	<u>(10,612,847)</u>	(15.37)
Support services:				
General administration	1,698,909	2,679,072	(980,163)	(36.59)
School administration	1,498,630	1,700,295	(201,665)	(11.86)
Other support	5,005,337	11,628,731	(6,623,394)	(56.96)
Maintenance	3,282,651	8,951,259	(5,668,608)	(63.33)
Individual programs	427,230	636,537	(209,307)	(32.88)
Depreciation - unallocated	2,084,283	1,951,274	133,009	6.82
Total support services	<u>13,997,040</u>	<u>27,547,168</u>	<u>(13,550,128)</u>	(49.19)
Total expenses	<u>\$ 72,443,737</u>	<u>\$ 96,606,712</u>	<u>\$ (24,162,975)</u>	(25.01)

Total expenses decreased by \$24,162,975 or 25.01% as compared to fiscal year 2011. The significant decrease in fiscal year 2012 is due to expenditures authorized through the funding from ARRA in 2011. The ARRA funds afforded the PSS with funding for staff development and training, improvement in instruction materials, improvements and maintenance of the facilities and equipment.



The chart above shows the relationship of revenues and expenses for the past five years. The expenses exceeded revenues in all five years which resulted to PSS deficit of \$31,386,390 as of September 30, 2012.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

FUND ANALYSIS

FUND ANALYSIS					
	General Fund	Federal Fund	ARRA Fund	Non Major Fund	Total
Fund balance (Deficit), beginning of year	\$ (1,132,010)	\$ (205,833)	\$ 252,692	\$ (391,136)	\$ (1,476,287)
Fund balance (Deficit), end of year	(5,977,438)	984,186	400,513	173,319	(4,419,420)
Change in fund balance (deficit)	<u>\$ (4,845,428)</u>	<u>\$ 1,190,019</u>	<u>\$ 147,821</u>	<u>\$ 564,455</u>	<u>\$ (2,943,133)</u>
Percentage change	428%	-578%	58%	-144%	199%

The General Fund deficit continues to increase due to the accrual of unappropriated expenses. Included in these unappropriated expenses are the significant portion of the schools' utilities.

BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
EXPENDITURES:					
Personnel	\$ 27,450,393	\$ -	\$ 27,450,393	\$ 28,853,158	\$ (1,402,765)
All other	<u>2,225,000</u>	<u>(51,269)</u>	<u>2,173,731</u>	<u>5,611,732</u>	<u>(3,438,001)</u>
Total expenditures	<u>29,675,393</u>	<u>(51,269)</u>	<u>29,624,124</u>	<u>34,464,890</u>	<u>(4,840,766)</u>
OPERATING TRANSFERS-IN	<u>29,675,393</u>	<u>(51,269)</u>	<u>29,624,124</u>	<u>29,619,462</u>	<u>(4,662)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,845,428)</u>	<u>\$ (4,845,428)</u>

RECONCILIATION OF BUDGET TO GAAP BASIS

2012 Budget	
Appropriation	\$ 29,624,124
Payment of prior year appropriation	<u>1,792,056</u>
Total available appropriation	31,416,180
2012 Expenditure	
Actual (GAAP)	34,464,890
Less 2012 accrual of unappropriated utilities	<u>(3,378,354)</u>
Favorable variance	<u>\$ 329,644</u>

At initial glance, PSS appears to have over expended its appropriations. This is due to the accrual of unappropriated utilities. If the utilities expense were not recorded, PSS would have a favorable budget balance of \$329,644.

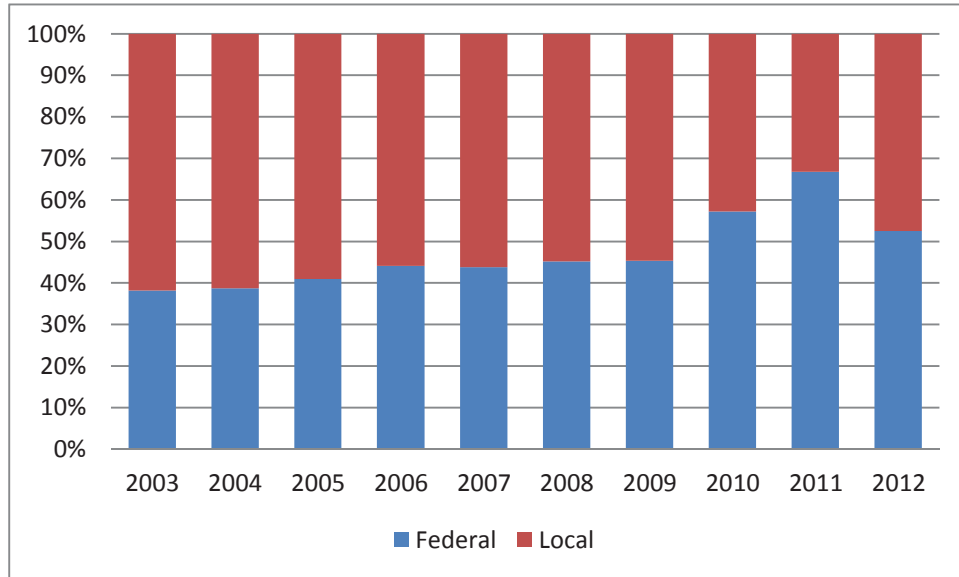
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

Federal and Local Budget Review

<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>
2003	\$60,230,342	\$23,000,000	38%	\$37,230,342	62%
2004	\$60,730,342	\$23,500,000	39%	\$37,230,342	61%
2005	\$63,032,129	\$25,801,787	41%	\$37,230,342	59%
2006	\$66,582,346	\$29,372,418	44%	\$37,209,928	56%
2007	\$65,357,368	\$28,635,954	44%	\$36,721,414	56%
2008	\$65,381,534	\$29,534,090	45%	\$35,847,444	55%
2009	\$63,308,437	\$28,706,673	45%	\$34,601,764	55%
2010	\$72,908,603	\$41,688,947	57%	\$31,219,656	43%
2011	\$87,123,334	\$58,191,215	67%	\$28,932,119	33%
2012	\$62,399,197	\$32,779,735	53%	\$29,619,462	47%



The table and the chart above show the relationship between Federal and Local funding. The Federal funding continues to increase as Local Funding decreases. The spike in Federal funding in 2010 and 2011 is due to the ARRA grant funding.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2012 and 2011 was \$81,033,173 and \$82,757,685, respectively. Depreciation expense for the 2012 and 2011 was \$2,084,283 and \$1,951,274, respectively.

More detailed information on capital assets is on pages 32 (Note 3) of the basic financial statements.

FUTURE PLANS AND ECONOMIC OUTLOOK

Federal grants have effectively funded quality education initiatives such as the one laptop per student grades 7-12, direct allocation of funds to schools for the purchase of instructional materials and supplies, teacher and school administrator evaluation systems; research-based instructional strategies and classroom best practices; continuous professional development programs; adoption of Common Core State Standards (with rigorous standards in English Language Arts and Math); and system-wide/district-wide accreditation through North Central Accreditation (for all schools, Central Office and Board of Education). To meet student technology needs, laptops are provided to each student from grades 7 to 12 and online courses are provided to assist high school students in meeting their course and graduation requirements. We can project that these federal initiatives will continue.

The challenge for the PSS includes a declining local investment in public education that is now less than \$3,000 per student. Six out of every ten children attending our public schools comes from families with incomes below the federal poverty guideline. The CNMI economy has declined from 2.7 billion in business gross receipts in 1997 to less than \$1 billion two years ago. The economic and population trends continue on a downward spiral. Yet, student achievement continues to grow with 65% of our graduating seniors planning to attend college, 30% joining the military and the rest hoping to find a job in the local economy or be a homemaker.

PSS continues to pursue a fair annual appropriation from the CNMI Government that meets or exceeds the annual maintenance of effort requirement (MOE) of the federal government. The PSS would also like to hire a few more teachers, reduce class sizes and provide funding for buses, school operations, maintenance and utilities.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2012

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:

Mr. George Palican
Director of Finance
PO Box 501370
Saipan, MP 96950

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Statement of Net Assets
September 30, 2012

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,652,001
Receivables from the CNMI Government	4,579,269
Receivables from Federal agencies	702,990
Other receivables, net	<u>954,283</u>
Total current assets	<u>8,888,543</u>
Noncurrent assets:	
Capital improvement projects in-progress	1,890,803
Capital assets, net	<u>81,033,173</u>
Total current assets	<u>82,923,976</u>
TOTAL ASSETS	<u>\$ 91,812,519</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Bank overdraft	\$ 702,457
Accounts payable and accrued expenses	11,065,656
Compensated absences due in one year	1,047,919
Deferred revenue	<u>1,539,850</u>
Total current liabilities	<u>14,355,882</u>
Noncurrent liabilities:	
Retirement contributions payable	23,077,909
Compensated absences	<u>1,745,256</u>
Total noncurrent liabilities	<u>24,823,165</u>
Total liabilities	<u>39,179,047</u>
Commitments and Contingencies	
Net Assets:	
Invested in:	
Investment in capital assets	81,033,173
Capital improvement projects in progress	1,890,803
Restricted for special purpose	1,095,886
Deficit	<u>(31,386,390)</u>
Total net assets	<u>52,633,472</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 91,812,519</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Statement of Activities
For the Year Ended September 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$34,421,129	\$ -	\$ 12,190,754	\$ (22,230,375)
Special education	8,237,442	-	6,428,363	(1,809,079)
Co-curricular	3,239,005	-	1,620,319	(1,618,686)
Student services	<u>12,549,121</u>	<u>-</u>	<u>11,277,299</u>	<u>(1,271,822)</u>
Total instruction	<u>58,446,697</u>	<u>-</u>	<u>31,516,735</u>	<u>(26,929,962)</u>
Support services:				
General administration	1,698,909	563,895	659,103	(475,911)
School administration	1,498,630	-	-	(1,498,630)
Other support	5,005,337	-	427,230	(4,578,107)
Maintenance	3,282,651	-	-	(3,282,651)
Individual programs	427,230	28,736	150,116	(248,378)
Depreciation - unallocated	<u>2,084,283</u>	<u>-</u>	<u>-</u>	<u>(2,084,283)</u>
Total support services	<u>13,997,040</u>	<u>592,631</u>	<u>1,236,449</u>	<u>(12,167,960)</u>
Total governmental activities	<u>\$72,443,737</u>	<u>\$ 592,631</u>	<u>\$ 32,753,184</u>	<u>(39,097,922)</u>
				Unrestricted CNMI appropriations
				29,619,462
				Miscellaneous, unrestricted
				<u>1,820,075</u>
Subtotal, general revenues				<u>31,439,537</u>
				Changes in Net Assets
				(7,658,385)
				Net assets - beginning
				<u>60,291,857</u>
				Net assets - ending
				<u>\$ 52,633,472</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Balance Sheets
Governmental Funds
September 30, 2012

	General Fund	Federal Funds	ARRA Funds	Non-major Funds	Total
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 2,652,001	\$ -	\$ -	\$ -	\$ 2,652,001
Receivables from CNMI	4,579,269	-	-	-	4,579,269
Receivables from Federal agencies	-	702,990	-	-	702,990
Other receivables	710,636	235,059	-	8,588	954,283
Due from other funds	<u>(2,781,947)</u>	<u>219,043</u>	<u>718,326</u>	<u>1,844,578</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,159,959</u>	<u>\$ 1,157,092</u>	<u>\$ 718,326</u>	<u>\$ 1,853,166</u>	<u>\$ 8,888,543</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Bank overdraft	\$ 702,457	\$ -	\$ -	\$ -	\$ 702,457
Accounts payable and accrued expenses	10,434,940	27,746	313,600	289,370	11,065,656
Deferred revenue	-	145,160	4,213	1,390,477	1,539,850
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>11,137,397</u>	<u>172,906</u>	<u>317,813</u>	<u>1,679,847</u>	<u>13,307,963</u>
Fund Balances:					
Unreserved	<u>(5,977,438)</u>	<u>984,186</u>	<u>400,513</u>	<u>173,319</u>	<u>(4,419,420)</u>
Total fund balances	<u>(5,977,438)</u>	<u>984,186</u>	<u>400,513</u>	<u>173,319</u>	<u>(4,419,420)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,159,959</u>	<u>\$ 1,157,092</u>	<u>\$ 718,326</u>	<u>\$ 1,853,166</u>	

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

Cost of capital assets	\$ 103,507,183	
Accumulated depreciation	<u>(22,474,010)</u>	81,033,173
Capital improvement projects		1,890,803
Accrual for unfunded retirement contribution		(23,077,909)
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds. Long-term liabilities at year-end pertains to:		
Compensated absences		<u>(2,793,175)</u>
Total net assets - governmental activities		<u>\$ 52,633,472</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2012

	General Fund	Federal Funds	ARRA Funds	Non-major Funds	Total
REVENUES:					
Federal	\$ -	\$ 27,529,279	\$ 4,429,185	\$ 794,720	\$ 32,753,184
Local	-	-	-	1,820,075	1,820,075
Charges for services	-	-	-	592,631	592,631
TOTAL REVENUES	-	27,529,279	4,429,185	3,207,426	35,165,890
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	25,212,270	8,181,900	485,342	541,617	34,421,129
Special	1,809,079	6,418,747	9,408	208	8,237,442
Co-curricular	1,618,686	1,084,352	-	535,967	3,239,005
Student services	1,271,822	10,504,145	772,711	443	12,549,121
Total instructional programs	29,911,857	26,189,144	1,267,461	1,078,235	58,446,697
Supporting services:					
General administration	1,039,806	-	93,848	565,255	1,698,909
School administration	1,498,630	-	-	-	1,498,630
Individual programs	-	150,116	-	277,114	427,230
Other	2,014,597	-	-	-	2,014,597
Total supporting services	4,553,033	150,116	93,848	842,369	5,639,366
Maintenance and capital outlays	-	-	2,920,055	722,367	3,642,422
TOTAL EXPENDITURES	34,464,890	26,339,260	4,281,364	2,642,971	67,728,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(34,464,890)	1,190,019	147,821	564,455	(32,562,595)
OTHER FINANCING SOURCES:					
Operating transfers-in	29,619,462	-	-	-	29,619,462
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(4,845,428)	1,190,019	147,821	564,455	(2,943,133)
FUND BALANCE (DEFICIT), beginning of year	(1,132,010)	(205,833)	252,692	(391,136)	(1,476,287)
FUND BALANCE (DEFICIT), end of the year	\$ (5,977,438)	\$ 984,186	\$ 400,513	\$ 173,319	\$ (4,419,420)

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures
And Changes in Fund Balance with the District-wide Statement of Activities
For the Year Ended September 30, 2012

Total net changes in fund balances - governmental funds \$ (2,943,133)

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

Accrual for unfunded retirement contribution (2,990,740)

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 statements of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 359,771	
Depreciation expense	<u>(2,084,283)</u>	<u>(1,724,512)</u>

\$ (7,658,385)

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Required Supplementary Information
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund
For the Year Ended September 30, 2012

	General Fund				Variance Favorable (Unfavorable)
	Budget			Actual	
	Original	Revision	Final		
EXPENDITURES:					
Personnel	\$ 27,450,393	\$ -	\$ 27,450,393	\$ 28,853,158	\$ (1,402,765)
All other	<u>2,225,000</u>	<u>(51,269)</u>	<u>2,173,731</u>	<u>5,611,732</u>	<u>(3,438,001)</u>
 Total expenditures	 <u>29,675,393</u>	 <u>(51,269)</u>	 <u>29,624,124</u>	 <u>34,464,890</u>	 <u>(4,840,766)</u>
 OPERATING TRANSFERS-IN	 <u>29,675,393</u>	 <u>(51,269)</u>	 <u>29,624,124</u>	 <u>29,619,462</u>	 <u>(4,662)</u>
 Excess of revenues and other financing sources over expenditures and other financing uses	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (4,845,428)</u>	 <u>\$ (4,845,428)</u>
 RECONCILIATION OF BUDGET TO GAAP BASIS					
2012 Budget					
Appropriation				\$ 29,624,124	
Payment of prior year appropriation				<u>1,792,056</u>	
Total available appropriation				31,416,180	
2012 Expenditure					
Actual (GAAP)			\$ 34,464,890		
Less 2012 accrual of unappropriated utilities			<u>(3,378,354)</u>	<u>31,086,536</u>	
 Favorable variance				 <u>\$ 329,644</u>	

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

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

The PSS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing US 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 education 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 PSS in accordance with applicable laws and BOE policies.

Pursuant to CNMI Constitutional Amendment No. 38, the public education school system is guaranteed an annual budget of not less than fifteen percent (15%) of general fund revenues of the CNMI Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for reappropriation.

B. Basis of Presentation

District-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. PSS operates only on governmental funds. It does not have any fiduciary and proprietary funds.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

Indirect expense allocations recorded 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.

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

Federal and ARRA 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

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.

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2012 follows:

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

CNMI Grants Fund - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law No. 8-2.

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

The PSS 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.

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.

District-wide Fund Financial Statements

The governmental 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Government Fund Financial Statements

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

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 and normally would not be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

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 CNMI Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

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

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

2. Capital Assets

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

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

Buildings	20-50	years
Land and building improvements	15	years
Vehicles	5	years
Others	5	years

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 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, 2012 was \$2,793,175. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

3. 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 the respective calendar year.

4. Revenues

Revenues are classified as either program or general.

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

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

5. Net Assets/Fund Balances

Net assets in the district-wide 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 represent amounts that are not appropriated, 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

6. Inter-fund balances

The inter-fund balances as of September 30, 2012 pertains to unreimbursed advances between the general fund and the other funds.

PSS uses its general fund for all of its disbursements and records due from other funds in the general fund and due to other funds in the funds whose expenses the payments were made.

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

F. New Accounting Standards

During fiscal year 2012, PSS implemented GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this Statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this Statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of PSS.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. These Statements are effected effective for financial statements for fiscal years beginning after June 15, 2013 and 2014, respectively.

G. Use of Estimates

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

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

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 2012 consist of several elements as follows:

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

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:	
Total capital assets on district-wide statements in governmental activities column	\$ 103,507,183
Accumulated depreciation	<u>(22,474,010)</u>
Net capital assets	81,033,173
Capital improvement projects	1,890,803
Accrual for unfunded retirement contribution	(23,077,909)
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:	
Compensated absences	<u>(2,793,175)</u>
Total adjustment	<u>\$ 57,052,892</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

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

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the district-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 district-wide statement of activities. The total adjustments for 2012 pertain to the following:

Accrual for unfunded retirement contribution	\$ (2,990,740)
Capital outlay expenditures recorded in the Statement of Activities.	359,771
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(2,084,283)</u>
Total adjustments	<u>\$ (4,715,252)</u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to present deposit risks as follows:

Category 1 – Deposits that are federally insured or collateralized with securities held by PSS or its agents in PSS' name.

Category 2 – Deposits that are uninsured but are fully collateralized with securities held by the pledging financial institution's trust department or agent in PSS' name.

Category 3 – Deposits that are collateralized with securities held by the pledging institution's trust department or agent but not in PSS' name and non-collateralized deposit.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosures for deposits falling under Categories 1 and 2 but retained disclosures for deposits under Category 3 that have exposure to custodial risk. PSS does not have a deposit policy for custodial risk.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(3) Detail Notes on all Funds, Continued

Cash and Cash Equivalents, continued

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, 2012 total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$6,167,303. From these deposits, \$500,000 is subject to coverage by FDIC, \$101,201 is deposited in a financial institution not subject to FDIC coverage with the remaining balance exceeding insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

Accounts Receivable

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

Travel Advances

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

Travel advances of \$454,887 as of September 30, 2012, included in the Statement of Net Assets as part of other receivables, are reported net of an allowance for doubtful accounts of \$539,775.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activity for the year ended September 30, 2012 were as follows:

	<u>2011</u>	<u>Increase</u>	<u>Retirement</u>	<u>2012</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ _____	\$ _____	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u> -</u>	<u> -</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	57,343,300	-	-	57,343,300
Vehicles	7,213,854	256,970	-	7,470,824
Other	<u>1,942,408</u>	<u>102,801</u>	<u> -</u>	<u>2,045,209</u>
Total capital assets being depreciated	<u>66,499,562</u>	<u>359,771</u>	<u> -</u>	<u>66,859,333</u>
Less accumulated depreciation for:				
Buildings and improvements	13,498,634	1,357,685	-	14,856,319
Vehicles	5,091,617	624,324	-	5,715,941
Other	<u>1,799,476</u>	<u>102,274</u>	<u> -</u>	<u>1,901,750</u>
Total accumulated depreciation	<u>20,389,727</u>	<u>2,084,283</u>	<u> -</u>	<u>22,474,010</u>
Total capital assets being depreciated, net	<u>46,109,835</u>	<u>(1,724,512)</u>	<u> -</u>	<u>44,385,323</u>
Governmental activity capital assets, net	<u>\$82,757,685</u>	<u>\$(1,724,512)</u>	<u>\$ -</u>	<u>\$81,033,173</u>

Capital Improvements Projects in Progress and Related Commitments

Construction in progress and related commitments for the years ended September 30, 2012 are as follows:

	<u>Construction In-progress</u>	<u>Commitment</u>
Garapan Elementary	\$ 491,691	\$ 255,306
PSS Facilities	982,762	67,508
Rota High School Gymnasium	<u>416,350</u>	<u>327,823</u>
	<u>\$ 1,890,803</u>	<u>\$ 650,637</u>

Depreciation expense directly identified to specific functions is charged as a direct expense and depreciation of assets that essentially serves all functions is charged as unallocated depreciation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(3) Detail Notes on all Funds, Continued

Retirement Plan

PSS contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the Fund. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. Except as described in the paragraphs below, PSS has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorily determined contribution rate of the Fund. It is the understanding of the management of PSS that the statutorily determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and the management of PSS was unable to obtain this information from the Fund financial report. The management of PSS is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of PSS that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-82 and 18-02.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2012 and 2011 is 60.8686% and 37.3909%, respectively, of covered payroll.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

PSS contribution to the Fund is at accrued 30% of covered payroll. This is based on a Court Order, requiring the CNMI government and its autonomous agencies to remit contributions to the Fund.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multiemployer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2011, the membership to the DC Plan became voluntary.

PSS' contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were \$2,358,633, \$4,255,235 and \$8,492,643, respectively.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

Payable to the Retirement fund recognized by PSS amounted to \$23,077,909 as of September 30, 2012. However, the amount due from PSS based on actuarially determined rate including interest amounted to \$36,289,819. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the court ordered PSS to remit to the Fund. PSS believes that the difference of \$13,211,910 is due from the CNMI central government and not from PSS.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(3) Detail Notes on all Funds, Continued

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 to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll withholdings.

Federal Grants

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

Related Party Transactions

The CNMI Government appropriated \$29,619,462 for PSS' operational use for the fiscal year ended September 30, 2012. Receivables from CNMI Government under the general fund as of September 30, 2012 amounted to \$4,579,269. This was subsequently collected as of December 2012.

At September 30, 2012, amounts payable for utilities expense to the Commonwealth Utilities Corporation (CUC) amounted to \$3,485,558 which is included in accounts payable and accrued expenses in the accompanying Statement of Net Assets. During the year ended September 30, 2012, total utilities expense to CUC amounted to \$3,378,354.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(3) Detail Notes on all Funds, Continued

Non-current Liabilities

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

	<u>Balance</u> <u>9/30/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>9/30/12</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Retirement contributions payable	\$ 20,280,840	\$ 6,268,405	\$ (3,471,336)	\$ 23,077,909	\$ -	\$ 23,077,909
Compensated absences	\$ 2,599,504	\$ 1,031,572	\$ (1,393,889)	\$ 2,237,187	\$ 1,047,919	\$ 1,189,268

PSS uses its general funds to liquidate its accrued compensated absences and to pay for prior year retirement contributions of retiring employees. Management is unable to determine the portion of the retirement contributions payable since payments are only requested from CNMI Treasurer upon actual retirement.

(4) Contingencies

CNMI Contributions

A substantial amount of PSS's funding is provided by appropriations from the CNMI Government. PSS is guaranteed an annual budget of not less than fifteen percent (15%) of general revenues of the CNMI Government. The future of PSS is contingent on its ability to continue to obtain CNMI appropriations.

Financial and Compliance Audits

PSS administers significant financial assistance from the 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.

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. Questioned costs as of September 30, 2012 totaled \$779,924. No liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements.

Lawsuits and Claims

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(4) Contingencies, Continued

On July 26, 2012, the CNMI Department of Finance, Division of Revenue and Taxation issued a Final Notice of Intent to Levy and Notice of Right to a Hearing to PSS related to its unpaid withholding taxes for the calendar year ended December 31, 2011. The total unpaid withholding taxes were subsequently paid; however, PSS did not recognize any liability for the assessed penalties and interest amounting to approximately \$1.3 million.

Also, PSS did not recognize as liability the assessed late payment penalty from CUC amounting to \$569,371 as of September 30, 2012.

Sick Leave

It is the policy of PSS to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2012 is \$4,530,661.

(5) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$1,938,808 of outstanding purchase orders and purchase commitments are not reported in the financial statements as of September 30, 2012.

(6) Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2012.

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2012

(7) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. In fiscal year ending September 30, 2012, 45% and 50% of total revenues were received from local appropriations and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

(8) Fair Value of Financial Instruments

PSS financial instruments are cash and cash equivalents, receivables from CNMI Government and Federal agencies, and payables. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

(9) Subsequent Events

PSS has evaluated subsequent events from September 30, 2012 through June 6, 2013, the date of financial statements were available to be issued. PSS did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Combining Balance Sheets
Non-Major Funds
For the Year Ended September 30, 2012

Local	CIP	Fund	(30000)	Indirect	Cost	Fund	(40000)	Donation and	Other	JROTC	Federal	Total
Fund ⁽¹⁾	Fund	Fund	(30000)	Fund	Fund	Fund	(40000)	Other Revenue	Federal	Army	Income Fund	Non-Major
Fund ⁽¹⁾	Fund	Fund	(30000)	Fund	Fund	Fund	(40000)	Fund	Fund	Fund	Fund	Funds
Fund ⁽¹⁾	Fund	Fund	(30000)	Fund	Fund	Fund	(40000)	Fund	Fund	Fund	Fund	Funds
Current Assets:												
Other receivables	\$ 8,588	-	-	-	-	-	-	-	-	-	-	\$ 8,588
Due from (to) other funds	(4,821)	1,259,818	(1,326,680)	744,162	164,139	1,231,047	(223,087)	-	-	-	-	1,844,578
TOTAL ASSETS	3,767	1,259,818	(1,326,680)	744,162	164,139	1,231,047	(223,087)	-	-	-	-	1,853,166
<u>LIABILITIES AND FUND BALANCES</u>												
Liabilities:												
Accounts payable and accrued expenses	145,300	150,589	(15,386)	906	-	6,941	1,020	-	-	6,941	1,020	289,370
Deferred revenue	-	-	49,503	-	6,373	1,263,634	70,967	-	-	1,263,634	70,967	1,390,477
Total liabilities	145,300	150,589	34,117	906	6,373	1,270,575	71,987	-	-	1,270,575	71,987	1,679,847
Fund Balances:												
Unreserved	(141,533)	1,109,229	(1,360,797)	743,256	157,766	(39,528)	(295,074)	-	-	(39,528)	(295,074)	173,319
Total fund balances	(141,533)	1,109,229	(1,360,797)	743,256	157,766	(39,528)	(295,074)	-	-	(39,528)	(295,074)	173,319

(1) Fund codes 17000, 18000 and 19000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds
For the Year Ended September 30, 2012

	Local CIP Fund ⁽¹⁾	Governor's Project Fund (18000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
REVENUES:								
Federal	-	-	\$ -	-	\$ 246,019	\$ 548,701	\$ -	\$ 794,720
Local	366,767	735,709	-	717,599	-	-	-	1,820,075
Charges for services	-	-	563,895	-	-	-	28,736	592,631
TOTAL REVENUES	366,767	735,709	563,895	717,599	246,019	548,701	28,736	3,207,426
EXPENDITURES:								
Current operations:								
Instructional programs:								
Regular	369,133	-	-	172,484	-	-	-	541,617
Special	-	-	-	-	-	-	208	208
Co-curricular	-	-	-	-	-	535,625	342	535,967
Student services	-	-	-	-	-	-	443	443
Total instructional programs	369,133	-	-	172,484	-	535,625	993	1,078,235
Supporting services:								
General administration	-	-	560,208	5,047	-	-	-	565,255
Individual programs	-	-	-	3,144	246,020	-	27,950	277,114
Total supporting services	-	-	560,208	8,191	246,020	-	27,950	842,369
Maintenance and capital outlays	-	722,367	-	-	-	-	-	722,367
TOTAL EXPENDITURES	369,133	722,367	560,208	180,675	246,020	535,625	28,943	2,642,971
OVER EXPENDITURES	(2,366)	13,342	3,687	536,924	(1)	13,076	(207)	564,455
FUND BALANCE (DEFICIT), beginning of year	(139,167)	1,095,887	(1,364,484)	206,332	157,767	(52,604)	(294,867)	(391,136)
FUND BALANCE (DEFICIT), end of the year	\$ (141,533)	\$ 1,109,229	\$ (1,360,797)	\$ 743,256	\$ 157,766	\$ (39,528)	\$ (295,074)	\$ 173,319

(1) Fund codes 17000, 18000 and 19000



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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**

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

I have audited the financial statements of the Commonwealth of the Northern Mariana Islands Public School System (PSS), as of and for the year ended September 30, 2012, and have issued my report thereon dated June 6, 2012. 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

Management of PSS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered PSS' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of PSS' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [Finding No. 12-04 through Finding No. 12-08].


A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. Finding No. 12-01, Finding No. 12-02 and Findings No. 12-04 through 12-08.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 No. 12-03 and Finding No. 12-09.

PSS' response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit PSS' response and, accordingly, I express no opinion on it.

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


Saipan, Commonwealth of the Northern Mariana Islands
June 6, 2013



CERTIFIED PUBLIC ACCOUNTANT

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

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

Compliance

I have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of PSS's major federal programs for the year ended September 30, 2012. PSS's major federal programs are identified in the summary of auditors' 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's 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about PSS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that my audit provides a reasonable basis for our opinion. My audit does not provide a legal determination of PSS's compliance with those requirements.

As described in Findings No. 2012-10 through 2011-16 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding procurement and suspension and debarment that is applicable to its Special Education Grants (CFDA 84.027), Consolidated Grants (CFDA 84.403), Formula Grants for other than Urbanized Areas (CFDA 20.509), State Fiscal Stabilization Fund (CFDA 84.394), and Head Start (CFDA 93.600); allowed costs/cost principles that is applicable to its State Fiscal Stabilization Fund (CFDA 84.394), Consolidated Grants (CFDA 84.403), Formula Grants for other than Urbanized Areas (CFDA 20.509) and Special Education Cluster (CFDA 84.027 and 84.391); and Davis-Bacon Act that is applicable to

its State Fiscal Stabilization Fund (CFDA 84.394). Compliance with such requirements is necessary, in my opinion, for PSS to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of PSS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered PSS's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of PSS' internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 12-11 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 12-10 through 12-17 to be significant deficiencies.

PSS' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. I did not audit PSS responses and, accordingly, I express no opinion on the responses.

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


Saipan, Commonwealth of the Northern Mariana Islands
June 6, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 9,307,192
Total U.S. Department of Agriculture		<u>9,307,192</u>
<u>U.S. Department of Commerce</u>		
Direct Program:		
Public Telecommunications Facilities Planning and Construction	11.550	<u>13,962</u>
Total U.S. Department of Commerce		<u>13,962</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Army JROTC	12.Unknown	<u>548,701</u>
Total U.S. Department of Defence		<u>548,701</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Special Education - Grants for Infants and Families	84.181	348,218
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393	<u>1,359</u>
Early Intervention Services (IDEA) Cluster		<u>349,577</u>
Special Education - Grants to States (IDEA, Part B)	84.027	4,410,748
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	<u>10,764</u>
Special Education Cluster (IDEA)		<u>4,421,512</u>
Fund for the Improvement of Education	84.215	<u>189,692</u>
Territories and Freely Associated States Education Grant Program	84.256	<u>911,108</u>
Striving Readers	84.371	<u>61,004</u>
ARRA - Consolidated Grants to the Outlying Areas	84.402	<u>509,793</u>
Consolidated Grants to the Outlying Areas	84.403	<u>8,892,584</u>
Subtotal Direct Programs		15,335,270
Pass-Through the Government of the CNMI:		
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	<u>3,134,558</u>
Total U.S. Department of Education		<u>\$ 18,469,828</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>		
Direct Program:		
ARRA - Federal Transit - Formula Grants	20.507	\$ 772,711
Formula Grants for Other Than Urbanized Areas	20.509	<u>1,315,737</u>
Total U.S. Department of Transportation		<u>2,088,448</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	1,921,050
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>80,498</u>
Subtotal Direct Programs		2,001,548
Pass-Through the Government of the CNMI:		
Child Care	93.575	<u>246,019</u>
Total U.S. Department of Health and Human Services		<u>2,247,567</u>
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	<u>75,301</u>
Total Corporation for National and Community Service		<u>75,301</u>
Program Income:		
Child Care		<u>28,736</u>
Total Program income		<u>28,736</u>
Total expenditures		<u>\$ 32,779,735</u>
Reconciliation:		
Expenditures per combined Schedule of Expenditures by Account		\$ 30,620,624
Expenditures included in nonmajor funds		821,296
Expenditures accrued in Fiscal year 2011 not reported in 2011 Schedule of Expenditures of Federal Awards		<u>1,337,815</u>
		<u>\$ 32,779,735</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLAND
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the 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 Education for fiscal year 2012. The approved rates are as follows:

Restricted rate	4.30%
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The restricted rate is applicable only to U.S. Department of Education programs and is based on total direct costs, less capital expenditures and pass-through funds. Pass-through funds are normally defined as major subcontracts, payments to participants, stipends to eligible recipients and subgrants, all of which normally require minimal administrative effort.

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

Unrestricted	2.04%
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported

Type of auditor's report issued on compliance: Qualified

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

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>
84.027	Special Education Grants to States	\$ 4,410,748
84.393	ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	<u>10,764</u>
	Special Education Cluster (IDEA)	4,421,512
84.403	Consolidated Grant to the Outlying Areas	8,892,584
84.934	State Fiscal Stabilization Fund Education State Grants - ARRA	3,134,558
93.600	Head Start	1,921,050
20.509	Formula Grants for Other than Urbanized Areas	1,315,737
84.402	Consolidated Grant to the Outlying Areas – ARRA	<u>509,793</u>
	Total Federal Expenditures-Major Programs	<u>\$ 20,195,234</u>
	Percentage of total awards tested	62%

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

\$ 983,392

3% of the total awards expended

Auditee qualified as low-risk auditee

 yes X no

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-01, Bank Reconciliations

Criteria:

Pursuant to 34 CFR PART 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, § 80.20 (b)(3), Internal Control, an effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. In line with this, preparation of monthly reconciliations of cash accounts should be performed on a timely basis and should be properly supported.

Condition:

PSS used a clearing account, "Bank Reconciliation Adjustments" to post the unidentified bank reconciliation items from the September 30, 2011 bank reconciliations. The aggregated unidentified bank reconciliation items amounted to \$181,383 debit balance as of September 31, 2011. This was subsequently reduced to \$147,906 in fiscal year 2012.

Based on documented prior year findings, these unidentified bank reconciliation items were due to manual disbursements not properly recorded in the accounting system.

Cause:

Manual checks and wire transfers are made as authorized by the Director of Finance. Oftentimes, the accounting entries are not prepared timely and are noted only when the bank reconciliations are prepared. In fiscal year 2011, PSS was not current with the monthly preparation of the bank reconciliations; hence, it was difficult to identify the supporting documents for the unrecorded manual disbursements.

PSS management believed the aggregate unidentified bank reconciliation items were not material to warrant adjustments.

Effect:

Although the cash accounts as of September 30, 2012 were reconciled and based on our audit of the ending cash balance is not materially misstated, PSS should still obtain the supporting documents for these unidentified bank reconciliation items.

If the nature of the unidentified reconciliation items was determined as unrecorded expenses, PSS may not record these as expenses unless the supporting documents are identified.

Fraud, theft and errors could exist and not be detected. Financial decisions involving cash could be based on inaccurate information and may have negative consequences.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-01, Bank Reconciliations, continued

Recommendation:

PSS should ensure that manual disbursements and wire transfers are properly documented and recorded in a timely manner, instead of PSS' practice of posting these as compounded journal entries. Each wire transfers should be posted when transacted as a separate journal entry to facilitate the bank reconciliation process.

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

PSS concurs with the findings. Procedures will be implemented so each wire transfer is processed as a separate journal entry to facilitate the bank reconciliation process. Wire transfers and manual disbursements will be properly documented and recorded timely as separate journal entries and not recorded as compounded journal entries.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-02, Purchase/Disbursements

Criteria:

Proper controls should be in place to ensure that transactions are properly recorded in a timely manner and supporting documents are retained pursuant to PSS regulations.

Conditions:

1. Selected 30 checks aggregating \$2,887,530 which were issued after September 30, 2012 to test the recording of expenditures in the proper period. For 4 or 13% of the 30 checks, the invoices were for fiscal year 2012 expenditures and were not recorded as expenditure for the proper period.

<u>Check Date</u>	<u>Document Number</u>	<u>Amount</u>
10/10/2012	PV 204234	\$ 56,379.55
10/10/2012	PV 204233	62,842.30
11/29/2012	PV 206017	53,651.00
12/18/2012	PV 206682	<u>31,935.70</u>
		<u>\$ 204,808.55</u>

2. For 5 or 6% of the 90 non-payroll disbursements selected to testing, the check vouchers and supporting documents were not provided as follows:

Check Number

132044
133489
133819
138555
138873

Furthermore, for 12 or 13% of the 90 non-payroll disbursement selected to testing, the original supporting documents were not provided. Based on our inquiry, PSS instituted the electronic filing of accounting documents in fiscal year 2012. PSS has not adopted a formal documents retention and retrieval policy that reflects the electronic filing of documents. Currently, PSS Regulations Part 900, §60-20-905 (Retention of Records/Audit) requires all financial records to be retained until the completion of fiscal year audit or 5 years whichever is longer.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-02, Purchase/Disbursements, continued

Conditions, Continued:

<u>Check Date</u>	<u>Document Number</u>	<u>Amount</u>
11/17/2011	PV 190291	\$ 5,735.60
12/29/2011	PV 191829	417.89
02/08/2012	PV 192943	3,513.43
02/29/2012	PV 193799	5,985.00
02/29/2012	PV 193788	675.00
03/01/2012	PV 193944	2,500.00
03/02/2012	PV 193865	8,835.00
03/20/2012	PV 194619	30.00
08/07/2012	PV 201557	248.00
09/26/2012	PV 203137	2,156.00
09/26/2012	PV 202348	430.00
09/27/2012	PV 203478	919.34
		<u>\$ 31,445.26</u>

3. Airfares for interisland travel are purchased through credit card. PSS was unable to match the airfare to the respective traveler upon receipt of the credit card statement. As a result, the charges remain unidentified and the related travel voucher is not timely liquidated. PSS has ceased the use of credit cards effective June 2012. As of September 30, 2012 amounts payable to its credit card account is \$334,037.

Cause:

There is a the lack of adherence to established controls related to the processing and recording of transactions.

Effects:

1. Although subsequently corrected by audit adjustments, this condition results in a misstatement to the expenses and related payable accounts.
2. PSS did not comply with its document retention policy.
3. The excessive use of credit card and over-riding procurement policies are indicators of possible abuse and misuse of funds. Fraud and theft could exist and not be detected.

Recommendation:

PSS should ensure that transactions are timely and properly recorded. All supporting invoices and related procurement documents should be properly retained. Also, PSS should update its document retention and retrieval policy to reflect electronic filing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-02, Purchase/Disbursements, continued

Auditee Responses:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

1. PSS concurs with this finding and will record the auditor's proposed adjustments. PSS will strictly implement cut-off of vendors' invoices for posting in the proper period.
2. All documents noted in Finding 12-02 were located and provided to the auditor. Transactions were timely and properly recorded. Supporting invoices and related procurement documents were properly retained and provided to auditors. However, since most of the documents noted in this finding were scanned documents, PSS was cited by auditors since the document retention and retrieval policy was not updated to reflect electronic filing. PSS will update its document retention and retrieval policy to reflect electronic filing practices and procedures.
3. PSS requested assistance from the credit card company to contact vendors to retrieve the names of travelers for inter-island travel expenses charged to the credit card statement. As the names are received, PSS will continue with on-going efforts to match the traveler's name to the credit card charges in order to process the travel liquidation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-03, Use of Restricted Cash

Criteria:

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

Condition:

PSS accounts for bond proceeds in the Capital Projects Fund (Fund 30000). At September 30, 2012, adjusted net asset of Fund 30000 amounted to \$1,109,229 and accounts payable balance of \$150,589. Fund 30000's cash is held in the restricted bank account recorded in the General Fund, hence Fund 30000 has a interfund receivable of \$1,259,818 as of September 30, 2012.

The restricted account balance as of September 30, 2012 was \$968,045 which is \$291,773 less than audited required balance.

Cause:

Due to financial difficulties, PSS used the restricted funds for expenditures not allowed by Public Law No. 16-10.

Effect:

PSS is noncompliance with Public Law 16-10.

Recommendation:

PSS should return the restricted funds used for expenditures not allowed under Public Law 16-10 and ensure that future disbursements from this account comply with its restrictions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-03, Use of Restricted Cash, continued

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

Due to the Central Government's partial withholding of FY2012 and FY2011 appropriated funds from prior years and the extended delay in settlement of the Maintenance of Effort (MOE) agreement, PSS received prior Board approval to utilize these restricted funds, as a last resort to address urgent financial needs. PSS fully intends to repay these borrowed funds through the execution of a payment plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-04, Accrual and Timely reconciliation of CNMI Appropriations

Criteria:

Governmental Fund revenues should be recognized in the accounting period they become susceptible to accrual – that is, when they become *measurable* and *available* to finance expenditure for the fiscal period.

The related receivables should be reconciled to sub-ledger balances and assessed for collectability on a timely basis.

Conditions:

As of September 30, 2012, the general ledger balance of PSS Appropriations receivable was \$6,285,655.69. This was the September 30, 2011 audited balance.

1. PSS did not properly accrue the appropriations allotments.

From CNMI Government confirmation:		
Allotment for PSS operations	\$ 29,444,069.05	
Allotment for Board of Education	<u>175,392.96</u>	
Total		29,619,462.01
Revenues recognized by PSS	\$ 29,267,460.93	
Collections of prior year		
Receivable recognized as current	<u>(942,055.90)</u>	<u>28,325,405.03</u>
Unrecorded allotments		<u>\$ 1,294,056.98</u>

Unrecorded allotments accounted for as follows:

CNMI Government direct payment to:		
CUC for fiscal 2012 utilities	\$ 1,183,976.75	
Oracle software	32,998.50	
Fiscal 2012 Appropriations receivable	<u>77,081.73</u>	
		<u>\$ 1,294,056.98</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-04, Accrual and Timely reconciliation of CNMI Appropriations, continued

2. PSS did not record CNMI transfers to the proper account. Collection of previously accrued appropriation should be posted as reduction to appropriations receivable and not as current period income.

Appropriations receivable as confirmed by the CNMI Department of Finance	\$ 4,502,187.76
Appropriations receivable per PSS general ledger	<u>6,285,655.69</u>
Difference	<u>\$ (1,783,467.93)</u>

Difference accounted for as:

Collection from prior years recorded as current revenue	\$ 942,055.90
Direct payment to CUC for prior years payable	850,000.00
Difference in 2010 appropriations receivable ending balance against CNMI Government recognized payable	<u>(8,587.97)</u>
	<u>\$ 1,783,467.93</u>

3. PSS did not timely reconcile the account balance with the CNMI Government.
4. PSS does not have any documentation to support CNMI direct payment to the Commonwealth Utilities Corporation.

Cause:

There is a lack of internal control to coordinate and reconcile account balances in a timely manner.

Effect:

The effect of the above condition is the misstatement of receivable balances. However, this was corrected by proposed audit adjustments and to agree the account balance to the amount confirmed by the CNMI Department of Finance confirmation.

Furthermore, financial decisions made when financial information is misstated or otherwise in error, could result in negative or unplanned outcomes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-04, Accrual and Timely reconciliation of CNMI Appropriations, Continued

Recommendation:

PSS should coordinate on a regular basis with the CNMI Department of Finance to ensure that all transfers in and direct payments to PSS vendors are timely recorded. Furthermore, PSS should ensure that collections are recorded to the proper accounts.

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

PSS concurs with the findings and beginning FY 2013, PSS will initiate a quarterly reconciliation with the CNMI Department of Finance to ensure that all transfers are properly and timely recorded.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-05, Accrual and Timely reconciliation of Payables and Related Expenses

Criteria:

Expenses and related liabilities should be recorded when incurred.

Condition:

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

1. Prior year audit adjustments amounting to \$2,154,895 for fiscal year 2011 expenditures paid and recorded in 2012 were not properly reversed.
2. The following expense accounts are showing credit balances as of September 30, 2012:

4211 Advertising	S (1,001.30)
4214 Freight & handling	(15,502.76)
4217 Official representation	(7,028.00)
4219 Professional services	(470,715.20)
4226 Travel - within CNMI	(41,066.00)
4290 Miscellaneous services	(16,955.53)
4301 Books & instr. materials	(141,516.26)
4302 Food items	(6,183.95)
4304 Supplies/materials office	(20,229.53)
4410 Construction in progress	(96,536.00)
4801 Intangibles	<u>(18,004.00)</u>
	<u>\$ (834,738.53)</u>

3. In accordance with PSS Administrative Code §60.30-615(c), the maximum accumulation of accrued annual leave shall be three hundred sixty hours. Hours in excess of 360 hours will be converted to sick leave. PSS' practice is to convert excess leave at the end of the calendar year. The regulation is silent as to when the conversion should be done.
4. PSS did not timely remit to NMI Retirement Fund \$2,963,920.87 or 84% of the employee retirement contributions withheld from employees. Furthermore, PSS did not accrue the required employer share for the Defined Benefit Plan for fiscal year 2012. Unrecorded retirement fund expense for the year 2012 amounted to \$3,909,772, computed at 30%.
5. As indicated in Finding 12-02, fiscal year 2012 expenditures paid in fiscal year 2013 were not recorded in the proper period.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-05, Accrual and Timely reconciliation of Payables and Related Expenses, continued

6. PSS did not properly record utilities expense as of September 30, 2012.

Utilities charged to PSS based on CUC confirmation	\$ 3,378,354.45
Utilities expense per PSS record	<u>844,030.88</u>
Unrecorded utilities expense	<u>\$ 2,534,323.57</u>
Payable to CUC per PSS subledger	\$ 2,985,212.00
Add unrecorded expense	2,534,323.57
Less payments made by the CNMI Government	
For prior year	\$ 850,000.00
For current year	<u>1,183,976.75</u>
	<u>(2,033,976.75)</u>
Adjusted payable to CUC	3,485,558.82
Unaccounted difference	<u>1,324.39</u>
Payable to CUC per CUC confirmation	<u>\$ 3,486,883.21</u>

7. PSS is still in the process of reconciling with one of its significant vendors. The accounts payable recorded as of September 30, 2012 has not been adjusted to record unpaid fiscal 2012 expenses.

Cause:

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

Effect:

The effect of the above condition is the misstatement of liabilities and related expenses. However, the material misstatements have been corrected through proposed audit adjustments.

Furthermore, financial decisions made when financial information is misstated or otherwise in error, could result in negative or unplanned outcomes. Fraud could exist and not be detected.

Recommendation:

PSS should record liabilities when incurred. PSS should also monitor and reconcile its vouchers payable accounts and forward vendor invoices to a central location timely.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-05, Accrual and Timely reconciliation of Payables and Related Expenses, continued

Auditee Responses:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

1. Prior year FY11 audit adjustments totaling \$2.1 million were reversed based on the detailed spreadsheet provided by the predecessor Auditor and recorded to the proper Fund.

2. Credit balances in the expense accounts noted were corrected when the prior year FY11 audit adjustments were reversed and posted to the proper Fund.

3. PSS Administrative Code §60.30-615 (c) shall be revised by September 30, 2013 to confirm the existing practice of converting excess annual leave hours to sick leave at the end of the calendar year.

4. Due to the Central Government's partial withholding of FY2010 and FY2011 appropriated funds and the extended delay in settlement of the MOE, PSS encountered difficulty in updating its Retirement Fund contributions during FY2012. However, PSS reconciled its employee contributions payables with the Retirement Fund and updated payments were made in November and December 2012. PSS is continuing its efforts to reconcile its employer contributions payables with the Retirement Fund. PSS requested the auditor to record accrued employer share contributions owed to the Retirement Fund as a FY2012 audit adjusting entry.

5. PSS will ensure that proper cut-off of vendors' invoices is followed to ensure that expenses are timely recorded.

6. The Central Government's partial withholding of FY2010 and FY2011 appropriations and the delayed settlement of MOE caused financial hardship and distress for PSS, resulting in difficulty in maintaining current CUC utility payments. This financial hardship and distress was further exacerbated by the perennial lack of adequate local appropriated funds to pay utility bills.

PSS encountered difficulty in reconciling its FY2012 CUC utility expenses due in part to the lack of updated information in regards to payments made directly by the Central Government to CUC on behalf of PSS. The Central Government stopped remitting payments directly to CUC on behalf of PSS effective FY2013.

Effective October 2012, PSS has been remitting regular monthly payments to CUC, which are partial payments due to excessive water and sewer rates charged by CUC. Legislation was recently introduced in March 2013 to reduce prohibitively high water and wastewater rates down to commercial rates. Should this legislation be passed into law, PSS will benefit from much needed rate relief and will be able to keep current on its CUC utility payments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-05, Accrual and Timely reconciliation of Payables and Related Expenses, continued

Auditee Responses, Continued:

Effective October 2012, PSS now records CUC payments when incurred and has stopped the prior practice of recording CUC utility expenses only when payment is to be made.

PSS requested the auditor to record the FY12 utility payments due to CUC as an audit adjusting entry.

7. PSS and its communication service provider successfully negotiated a Settlement Agreement on May 17, 2013. Outstanding account balances totaling \$757,812.18 as of March 31, 2013 were reduced to the settlement amount of \$568,359.14. The Settlement Agreement requires monthly payments over an eight month period starting May 30, 2013 with final payment due December 30, 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-06, Capital Assets

Criteria:

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

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

Condition:

1. The fixed asset listing was not timely updated for the fiscal years 2011 and 2012 additions.
2. A complete physical inventory of equipment and property has not been performed since June 2009. The PSS Property Management and Accountability Manual requires that an annual physical inventory of capital assets be performed. For Single Audit purposes, a physical inventory of capital assets must be taken once every two years.

PSS is currently in the process of conducting a physical count of all capital assets and has acquired the fixed assets module of the its accounting software to facilitate the recording of capital assets.

3. PSS did not timely updated its Construction In-progress accounts for ongoing and completed construction projects in fiscal years 2011 and 2012.
4. PSS did not calculate depreciation expense for fiscal year 2012.

Cause:

PSS did not adhere to policies and procedures for the accounting and maintenance of capital assets.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-06, Capital Assets, continued

Effect:

The effect of the above condition is the potential material misstatement of capital assets. Material misstatements were corrected through proposed adjusting journal entries. Misappropriation of assets could exist and not be detected in a timely manner.

Recommendation:

Upon completion of the physical count of the capital assets, PSS should reconcile the actual count to the capital asset listing. All asset not counted should be identified on the list and investigated whether they were previously surveyed and not removed from the list or are missing or misplaced.

The fixed assets module should be properly utilized and timely updated. Furthermore, procurement of capital assets should be properly entered into the JDE Accounting system to facilitate the reclassification from expenditure to capital assets.

Auditee Responses:

Contact Person - Mr. Robert Florian
Completion Date - June 30, 2013

1. Inventory was completed April 4, 2013. Subsequent Inventory will be done the first week of June every year. The procedure will conform to the requirements of the PSS Property Management Manual.

To ensure that the fixed assets listing is updated annually, the Procurement & Supply Office (P&S) will conduct an annual inventory. P&S will print a report directly from the JDE system and provide schools and programs with the inventory listing. Schools will use the listing provided to verify the items assigned to the different schools and programs. Deadline for inventory is on June 30th of each year.

2. The inventory has been completed. Inputting to the Master Record in the JDE system's fixed assets module is expected to be completed by June 14, 2013. Inventory will be scheduled every year in June.

3. The PSS CIP Office will work closely with the PSS Finance Office to ensure that completed projects are closed out. Progress reports on projects are provided at every CIP Committee Meetings. Copies of these reports will also be forwarded to the Director of Finance.

4. Upon completion of the fixed assets module in the JDE Accounting system, all depreciation shall be automatically calculated.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances

Criteria:

Travel advances should be properly monitored to and sub-ledger balances should be reconciled to the general ledger.

Furthermore travel advances and liquidation should be pursuant to PSS travel and Commuting Regulations.

Conditions:

1. The following were noted during the audit of outstanding travel advances as of September 30, 2012:
 - a. There are 1,891 travel sub-ledgers with outstanding travel advances as of as September 31, 2012. Total outstanding travel advances as of September 30, 2012 amounted to \$994,661.93. An analysis of the aging of open travel advances shows that \$287,797 were over one year and \$616,854.82 were less than one year old but are over 90 days old.
 - b. 385 travel sub-ledger account balances have credit balances totaling \$29,296.02.
 - c. For 41 travelers, the travel advance and the liquidation were posted on separate accounts, and although the travelers have already liquidated their travel advances the general ledger where the advances were posted still reflects a receivable amount and the general ledger where the liquidation were posted shows an amount due to the traveller.

2. The following were noted during the test of PSS compliance with the travel and commuting policies:
 - a. For 11 or 12% of 90 travel authorizations selected for testing, the travel authorization forms and supporting documents were not provided for Travel Authorization Nos. 68113, 68332, 68416, 70276, 101455, 101916, 104369, 104722, 110018, 110038 and 110182.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances, continued

b. The per diem rate used for the following travel were not in accordance with PSS policy.

- 8 or 8.9% of the 90 Travel Advances were underpaid.

TA No.	Destination	No of Days	Rate			
			Per Diem Rate Used	Per Diem Paid	Per Audit	Under Payment
106517	Rota	1.00	\$ 54.00	\$ 54.00	\$ 71.00	\$ 17.00
106903	Tinian	1.00	54.00	54.00	71.00	17.00
108542	Saipan	1.00	54.00	54.00	71.00	17.00
110289	Rota	1.00	54.00	54.00	71.00	17.00
110404	Guam	2.75	245.00	673.75	255.00	27.50
111964	Saipan	1.00	23.00	23.00	71.00	48.00
109893	Guam	5.25	245.00	1,286.25	255.00	52.50
109894	Guam	5.25	245.00	1,286.25	255.00	52.50
						<u>\$ 248.50</u>

- 33 or 36.6% of the 90 Travel Advances were overpaid.

TA No.	Destination	No of Days	Rate			
			Per Diem Rate Used	Per Diem Paid	Per Audit	Over Payment
107444	Tinian	4.50	\$ 125.00	\$ 562.50	\$ 71.00	\$ (243.00)
107077	Tinian	4.25	125.00	531.25	71.00	(229.50)
111647	Saipan	5.50	110.00	605.00	71.00	(214.50)
108000	Tinian	3.75	125.00	468.75	71.00	(202.50)
111752	Rota	4.25	110.00	467.50	71.00	(165.75)
111554	Saipan	3.75	110.00	412.50	71.00	(146.25)
111680	Saipan	3.75	110.00	412.50	71.00	(146.25)
109153	Rota	3.25	110.00	357.50	71.00	(126.75)
109166	Rota	3.25	110.00	357.50	71.00	(126.75)
109941	Saipan	2.50	110.00	275.00	71.00	(97.50)
112042	Rota	2.50	110.00	275.00	71.00	(97.50)
108768	Tinian	1.75	125.00	218.75	71.00	(94.50)
111266	Rota	2.25	110.00	247.50	71.00	(87.75)
107790	Tinian	1.50	125.00	187.50	71.00	(81.00)
107469	Saipan	2.00	110.00	220.00	71.00	(78.00)
109168	Rota	2.00	110.00	220.00	71.00	(78.00)
108950	Rota	1.75	110.00	192.50	71.00	(68.25)
110787	Rota	1.75	110.00	192.50	71.00	(68.25)
111731	Saipan	1.75	110.00	192.50	71.00	(68.25)
107800	Tinian	1.25	125.00	156.25	71.00	(67.50)
110956	Tinian	1.25	125.00	156.25	71.00	(67.50)

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances, Continued

TA No.	Destination	No of Days	Rate			
			Per Diem Rate Used	Per Diem Paid	Per Audit	Over Payment
106770	Saipan	1.50	\$ 110.00	\$ 165.00	\$ 71.00	\$ (58.50)
109514	Saipan	1.50	110.00	165.00	71.00	(58.50)
106415	Saipan	1.25	110.00	137.50	71.00	(48.75)
106960	Rota	1.25	110.00	137.50	71.00	(48.75)
108350	Saipan	1.25	110.00	137.50	71.00	(48.75)
111285	Saipan	1.25	110.00	137.50	71.00	(48.75)
106893	Saipan	1.00	110.00	110.00	71.00	(39.00)
110662	Saipan	1.00	110.00	110.00	71.00	(39.00)
112049	Saipan	1.00	110.00	110.00	71.00	(39.00)
112055	Saipan	1.00	110.00	110.00	71.00	(39.00)
109351	Saipan	0.75	110.00	82.50	71.00	(29.25)
110476	Tinian	0.50	125.00	62.50	71.00	(27.00)
						<u>\$ (3,079.50)</u>

It appears, considering the number of findings noted above that, although not stated in PSS policy, the travellers above were given per diem rates instead of stipend rate for overnight travels within the CNMI. If this practice is what PSS Board desires and would uphold then the above travel advances may be considered correctly paid and the following were underpaid.

TA No.	Destination	No of Days	Rate			
			Per Diem Rate Used	Per Diem Paid	Rate Per Audit	Under Payment
107187	Saipan	1.75	\$ 71.00	\$ 124.25	\$110.00	\$ 68.25
107223	Saipan	1.50	71.00	106.50	110.00	58.50
107909	Saipan	3.25	71.00	230.00	110.00	127.50
108833	Saipan	2.50	71.00	177.50	110.00	97.50
108964	Saipan	2.50	71.00	177.50	110.00	97.50
109001	Saipan	1.75	71.00	124.25	110.00	68.25
109708	Saipan	1.50	71.00	106.50	110.00	58.50
110658	Rota	1.00	71.00	71.00	110.00	39.00
110922	Saipan	1.50	71.00	106.50	110.00	58.50
						<u>\$ 673.50</u>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances, Continued

- c. PSS policies states that for group travels, the ground transportation of \$30 per day will not be issued to any traveler. One person in the group shall receive an advance to pay for the cost of the van rental. No other person will receive any funds for transportation expenses. For 6 or 6.7% of the 90 travel advances selected for testing, the traveler who belonged to a group travel received the \$30 per day ground transportation allowance.

<u>TA No.</u>	<u>Destination</u>	<u>Ground Transportation</u>
106879	Los Angeles	\$ 120.00
107017	Maryland	90.00
107515	Seattle WA	157.50
111079	Sacramento CA	187.50
111080	Sacramento CA	502.50
111250	San Francisco CA	<u>217.50</u>
		<u>\$ 1,275.00</u>

- d. PSS policies only allows for miscellaneous expenses such as excess baggage, communication costs, gasoline, baggage transfer and others that are incidental to performance of official business to be reimbursed only when authorized and when accompanied by explanation for each expense item. The baggage reimbursements of the following travelers were allowed, however, there was no documentation of the approval pursuant to PSS Policies.

<u>TA No.</u>	<u>Destination</u>	<u>Baggage Reimbursement</u>
111079	Sacramento CA	\$ 40.00
111080	Sacramento CA	<u>100.00</u>
		<u>\$ 140.00</u>

- e. 25 or 27.8% of the 90 travel advances selected for tested were not yet liquidated.

Cause:

1. PSS travel staff did not timely recorded all liquidations because of the volume of travel advances and liquidations processed by the Travel Section.
2. PSS failed to ensure that the travel and commuting policies are consistently enforced.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances, continued

Effect:

1. Some unliquidated travel advances that were supposed to be federal funded may liquidated after the period of availability of funds and may not be allowed cost for those federal programs. The PSS general fund would have to record these as general fund expenditure.
2. PSS is not in compliance with its Travel and Commuting Policies and Procedures.

Furthermore, fraud and abuse might exist and not be detected on a timely manner.

Recommendation:

1. PSS should review travel advances beyond the normal statute of limitation for write-off. PSS should also send regular statements to travelers with outstanding advances to remind them to liquidate the open travel advances. Pursuant to PSS regulation, PSS should recover unliquidated travel advances in form of salary deductions.
2. PSS should comply with its Policies and Procedures and ensure adherence and consistent application.

Auditee Responses:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

1. Significant progress has been made in reducing outstanding travel advances as evidenced by a 12% decrease as of December 2012 balances. Two accounting staff are assigned to focus on processing travel liquidations with the objective of reducing overall travel balances to within less than 100 days by September 30, 2013.

Write-off approval will be requested from Commissioner and the Board of Education to write-off old travel balances in the Travel Account 1235 totaling \$287,797 that were transferred back in 1998 and 1999 from the old Wang system to the current JDE system. This write-off will be offset against the Allowance Expense earlier recorded by auditors in prior audits. This write-off will be processed by September 30, 2013.

As travel liquidations are reconciled and processed, travelers with credit balances will be paid to clear these credit balances. On-going efforts will continue to properly reconcile the travel advance and liquidation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-07, Travel Advances, Continued

Auditee Responses, Continued:

2. PSS policy will be revised by September 30, 2013 to provide clarification that per diem rates, instead of stipend rates, are allowed for overnight travel within the CNMI. In addition, PSS policy will be revised to allow \$30 ground transportation to group travelers.

Also, PSS policy will be revised to clarify that miscellaneous expenses are required to be stated on approval travel documents to confirm approval. Fiscal & Budget Office continues its on-going audit corrective action plans to contact travelers to liquidate their open travel advances and to process payroll deductions to clear their balances. Efforts to liquidate travel advances continue despite the high volume of travel advances, commutes, and liquidations processed by the Travel Section.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-08, Human Resources and Payroll

Criteria:

Personnel records should have all the required documents pursuant to PSS regulation § 60-30.1-910.

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

Condition:

1. Based on Results of testing of personnel records the following were noted:
 - a. For 16 or 17.8% of 90 personnel records selected to testing, there were no current contracts on file.
 - b. For 41 or 46% of 90 personnel records selected to testing, the contracts were signed more than 30 days after the effective dates.
 - c. For 30 or 66.67% of 90 personnel records selected to testing, there were no current medical certificates.
 - d. For 13 or 14% of the personnel records selected for testing, a letter of recommendation for renewal was not on file.
 - e. For 3 or % of the 90 personnel records selected for testing, the promotional and open competitive job vacancy announcements were not of file.
 - f. For 1 or 3.3% of the 90 personnel records, several inconsistencies with the contact and other matters were noted as follows:
 - The contract position was Accountant IV.
 - The job vacancy announcement and pay level requires more than 5 years of related work experience. Based on review of the applicant evaluation and assessment form, the previous non-accounting experience was recorded in the evaluation form as credit to related work experience.
 - The job vacancy announcement stated that the position is an "exempt status", however; the employment contract executed is for a "non-exempt" position.
 - The review of the job description in the job vacancy announcement indicates that the position falls under non-exempt status pursuant to the Fair Labor Standards Act (FLSA). Although the annual pay given to the employee (\$27,437) passed the salary level test of the FLSA, the duties and description does not meet the duties test of the FLSA, hence this position should be classified as non-exempt.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-08, Human Resources and Payroll, continued

2. Based on the results of testing 90 payroll disbursement the following were noted:

- a. Supporting documents for the payment of an extended day credit for one employee (employee no. 6028; PPE 4/07/12) were not provided.
- b. Supporting overtime authorization for payment of 34.50 hours overtime for one employee (employee no. 14053; PPE 7/28/12) were not provided.
- c. The timecards were not signed for 9 employees or 10%.

<u>Employee Number</u>	<u>Pay Period Ending</u>
2111	6/2/12
2317	6/2/12
2384	6/2/12
2596	6/2/12
6916	6/2/12
12812	6/2/12
13294	6/2/12
13754	6/2/12
14766	6/2/12

- d. For 3 employees or 3%, the salary rate per the historical payroll register does not agree to the salary rate in the Notice of Personnel Action (NOPA) provided.

<u>Employee Number</u>	<u>Pay Period Ending</u>	<u>Rate Used</u>	<u>Rate on NOPA</u>	<u>Over Payment</u>
2136	4/7/12	\$ 10.213	\$ 8.937	\$ 102.08
2596	6/2/12	\$ 22.597	\$ 21.713	\$ 70.72
6916	6/2/12	\$ 19.231	\$ 19.200	\$ 2.48

- e. For 4 employees or 4%, the calculation of time in the certified timesheets could not be verified because the timecards were missing time in/out information. (Employee Nos. 2317, 2596, 12812 and 13294; PPE 6/2/12).
- f. The timesheet summary for business unit 111057 for PPE 6/2/12 was not signed by the certifying timekeeper.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-08, Human Resources and Payroll, continued

Cause:

PSS did not adhere to policies and procedures for the maintenance of Human Resources record and accounting for payroll.

Effect:

PSS is not in compliance with its regulations and there could be misstatements of payroll expenses. Fraud could exist and not be detected.

Recommendations:

PSS should ensure that all the required documents all the required documents pursuant to PSS regulation §60-30.1-190.

All employment contracts and personnel action forms should be timely signed by the employee, filed and maintained.

Employment contracts should be updated in a timely manner.

Hours paid to employees should be properly supported with signed timecards and overtime forms and other supporting documents.

Auditee Responses:

Contact Person - Ms. Coreen Palacios
Completion Date - July 31, 2013

1. The Human Resource Office (HRO) has begun the implementation of corrective steps to ensure that all PSS employees have valid contracts. The JDE system has been updated to include contract expiration dates and next review dates. All schools and programs have been given a directive to provide the required documents for renewals on January 2012. During February 2013, HRO issued a memo on contract renewal regulations and standard operating procedures.

In addition, HRO will setup the JDE system to suspend employees with expired contracts and consequently not allow for time-entry. The affected employee will also not be allowed to report to work until their contract has been completed and fully executed. The affected employee and supervisor will be given a 15-day notice to comply with the renewal requirements. The setup in the JDE system is expected to be completed and functional by July 31, 2013.

2. Payroll Staff closely monitors each bi-weekly submission of payroll timecards and related documents as part of its On-going Corrective Audit Action Plans. Timekeepers are emailed by Payroll Staff to correct any discrepancies and email copies are sent to keep School and Program Leaders updated in regards to payroll documentation discrepancies requiring correction. Funding is sought to obtain a computerized Timekeeping, Leave and Attendance (TLA) system that is linked to the JDE modules for HRO and Payroll to replace the manual timecard system.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 12-09, Tax Compliance

Criteria:

CNMI tax laws require employers to withhold taxes (Chapter 2 local tax and Chapter 7 Northern Marianas Territorial Income Tax) from each employee's salary and to remit and report on the last day of the month following the end of the quarter to the CNMI Division of Revenue and Taxation, the taxing authority of the CNMI Government. Further, the Annual Reconciliation of Taxes Withheld (Form OS 3710) is required to be filed on or before February 28 of the following year.

Condition:

At September 30, 2012, PSS recorded a payable to the CNMI Treasurer for \$3,117,574.12. PSS did not report or remit Chapter 2 and Chapter 7 withholding taxes for all quarters in fiscal year 2012. The CNMI assessed penalties have not yet been recorded.

PSS has settled all its payable to the CNMI Treasurer, except for penalties and interest as of December 2012.

Cause:

The CNMI Government did not remit to PSS the full amount requested for payment of payroll and related payroll liabilities.

Effect:

The effect of the above condition could be perceived as the unlawful use of employee withholdings and the possibility of interest and penalties for nonpayment and failure to file.

Recommendation:

Withholding taxes payable should be reported and remitted to CNMI Division of Revenue and Taxation in accordance with applicable tax laws and due dates.

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

PSS have settled all its withholding taxes payable to the CNMI Treasurer, except for penalties and interest in December 2012. The Payroll Supervisor will ensure that withholding taxes payable are reported and remitted to the Department of Revenue & Taxation in accordance with applicable laws and due dates.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-10 – *Procurement and Suspension and Debarment –
Sole Source Justification*

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

Criteria:

Pursuant to §60-40-215 of the Public School System Procurement, a contract may be awarded for a supply, service, instructional materials or construction item without competition when the Chief Procurement Officer determines in writing that there is only one source for the required supply, service or construction item.

The written determination shall be prepared by the official with expenditure authority and shall contain the following information:

- a. the unique capabilities required and why they are required; and
- b. the consideration given to alternative sources.

Conditions:

Special Education Grants:

For 1 (PV No. 194158) or 2% of 50, the payment vouchers for invoices for services performed after the term of the Contract No. 65761. There was no change order executed to extend the term of the contract.

Check Number: 134793
Check Date: March 13, 2012
Invoice Number: 12-002
Invoice Amount: \$15,000
Contract Term: One year until Dec 4, 2010
Change Order 1: One year until Dec 4, 2011

The invoice included services for 1/2/12, 1/9/12, 1/16/12, 1/31/12, 2/13/12, 2/9/12 and 2/14/12.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-10 – *Procurement and Suspension and Debarment –
Sole Source Justification, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance Cause:</u>	<u>Questioned Costs</u>
	<p>This payment was authorized for the services after the term of the contract because the vendor is a sole-source provider and the a new contract is in progress.</p> <p><u>Effect:</u></p> <p>PSS is not in compliance with its sole-source procurement regulation and payments made to vendor for services beyond the contract term maybe unallowed cost.</p> <p><u>Recommendation:</u></p> <p>PSS should ensure that all sole-sourced contracts and purchase orders are supported by a written determination that meets the requirements of §60-40-215. Furthermore, PSS should monitor the terms of the contracts to ensure that services are provided pursuant to the specific contract terms and change orders are properly executed, if necessary and allowed under the contract terms.</p> <p><u>Auditee Response:</u></p> <p>Contact Person - Ms. Suzanne Lizama Completion Date - Completed</p> <p>On 12/30/09, a notice to proceed was prepared and sent to the vendor. Then on 5/3/11, a change order request for contract #65761 was prepared but was not timely. The change order extended the date of the contract from December 2010 to December 2011 and added funds. On 12/23/11, a purchase order was prepared to cover the cost of services for one month to allow time for a new contract. On 1/20/12, a new contract (#108136) was prepared to cover the period of 1/20/12 to 1/20/13. However, since there were still funds available in contract #65761, that contract was used to cover services for 1/2/12, 1/9/12, 1/16/12, 1/31/12, 2/9/12, and 2/14/12. On 4/9/12, a ratification of change order request for contract #65761 was submitted and approved.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-10 – *Procurement and Suspension and Debarment –
Sole Source Justification, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Auditee Response:

As a result of this isolated case, the Director of Special Education met with the individual responsible for ensuring contract start and end dates on 2/27/13. The individual agreed to post a visual tracking form and provide the Director with an update of contracts on a weekly basis. There is currently an electronic tracking system and it will be updated and adhered to.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-11 - *Procurement and Suspension and Debarment*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.403	<p><u>Criteria:</u></p> <p>Pursuant to PSS Procurement Rules and Regulations § 60-40-210 Small Purchases include:</p> <p>(a) Any procurement not exceeding the amounts established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.</p> <p>(b) Purchases not exceeding \$2,500 may be made without securing bids or price quotations if the Chief of Procurement and Supply considers the price to be reasonable.</p> <p>(c) Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. Price quotations from at least three vendors must be obtained and the selection based on competitive price and quality for procurement valued at \$2500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Chief for approval.</p> <p>(d) Purchase orders may be utilized for small purchases in subparagraph (b) and (c) only. Purchase orders may also be utilized instead of contracts for purchasing instructional materials, books, and publications.</p> <p><u>Conditions:</u></p> <p>1. Reference JE 16249, a wire transfer to a vendor for \$109,840 was procured through a Purchase Order. The purchase order was for a sole-source procurement of Student Information System and Concourse Library Software. This should not have been covered by a sole-sourced contract since the purchased software does not qualify for the exceptions stated in § 60-40-210 (d).</p>	\$ 109,840

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-11 - *Procurement and Suspension and Debarment, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.403

2. Check No. 132370 dated December 1, 2011 amounting to \$24,593 is supported by Vendor Invoice No. 20112528 dated July 18, 2011 amounting to \$70,920. The invoice is for update and maintenance support for the Administrator Plus Software of various schools.

I further noted that the payment was supported by several after-the-fact purchase orders which appear artificially divided. I noted no after the fact justification on file.

Purchase Order		Invoice		
Number	Date	Date		Amount
105861	09/09/11	07/18/11	\$	3,419
105951	09/15/11	07/18/11		3,419
106639	10/17/11	07/18/11		3,419
106637	10/17/11	07/18/11		3,919
106640	10/17/11	07/18/11		3,488
106741	10/20/11	07/18/11		3,794
106842	10/25/11	07/18/11		3,135
				\$ 24,593

\$ 24,593

Cause:

The cause of the above condition is the failure to enforce adherence to established PSS procurement regulations.

Effect:

The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$134,433.

Recommendation:

PSS should ensure compliance with its procurement policies and procedures. The conditions noted above were both for unique software that are related to sole-sourced contracts from prior years. The cost to renew the licenses could have been indicated in the contract and recorded as change orders instead of issuance of purchase orders.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-11 - *Procurement and Suspension and Debarment*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Auditee Response:

Contact Person - Mr. Robert Florian
Completion Date - Completed

1. Procurement & Supply treated the software purchased as "instructional materials and publications" to avail of the use of a purchase order pursuant to 60-40-210 (d). Should we have mischaracterized these materials we would agree with your finding. This is an isolated case as we are always very careful when using purchase orders for over \$10,000 purchases rather than the contract process. We mistakenly characterized this procurement as "instructional material" qualifying for the exception noted above.

2. Procurement & Supply accepts the finding and will exert more efforts to identify such situations and require ratifications before processing. Additionally, Procurement & Supply will be conducting "refresher" training for all School Administrators and Program Managers on the Procurement & Supply rules and regulations on purchase orders, purchase requisitions, and invitation for bid.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-12 – *Procurement and Suspension and Debarment
After-the-Justification*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Criteria:

Purchase orders should be approved before actual services being preformed or products are procured.

Emergency procurement is allowed under §60-40-220 of the PSS procurement regulations for the following:

(1) An unusual and compelling urgency precludes full and open competition; and

(2) Delay in award of a contract would result in serious injury, financial or other to the Public School System.

Conditions:

For the following, the purchase orders were prepared after the actual materials and services were procured and there were not after-the-fact justifications attached that complies with the requirements of §60-40-220.

84.403

a. *Consolidated Grants*

6 or 7% of 91 Non-payroll transactions tested as follows:

\$ 69,402

<u>Reference</u>	<u>Invoice Date</u>	<u>Purchase Order Number</u>	<u>Date</u>	<u>Amount</u>
JE 16249	08/09/11	107117-OP	11/14/11	\$ 109,840
	06/11/10	104946-OP	07/26/11	800
			Various	
JE 16630	07/18/11	Various	March 2012	73,269
PV 189286	10/10/11	106546 OP	10/13/11	8,050
PV 201791	08/03/12	111629 OL	08/07/12	648
PV 201750	02/09/12	108726 OP	02/21/12	2,070
PV 197077	04/04/12	110454 OP	05/07/12	9,158
				203,835
			Already cited in Finding 12-10	(134,433)
				\$ 69,402

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-12 – *Procurement and Suspension and Debarment
After-the-Fact Justification, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Conditions, continued:

20.509	b. <i>Formula Grants for Other than Urbanized Areas</i>	\$ 1,727
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1 or 2% of 55 Non-payroll transactions tested as follows:

<u>Reference</u>	<u>Invoice Date</u>	<u>Purchase Order Number</u>	<u>Date</u>	<u>Amount</u>
PV 194688	2/8/2012	108787 OL	2/27/2012	\$ <u>1,727</u>

Cause:

The cause of the above condition is the failure to enforce adherence to established PSS procurement regulations.

Effect:

The effect of the above condition is noncompliance with activities allowed or unallowed and allowable cost/cost principles and questioned costs of \$71,129.

Recommendation:

PSS should ensure that all purchases are properly authorized and approved prior to execution. For emergency purchases, a written justification must comply with PSS Regulations § 60-40-220.

Auditee Response:

Contact Person - Mr. Robert Florian
Completion Date - June 30, 2013

Procurement & Supply will ensure that all purchase orders submitted after materials and services were procured will be accompanied with after-the-fact justification. Procurement & Supply will review the file and obtain "ratification" for the after-the-fact costs incurred. Procurement personnel have been very vigilant the past 3-4 months in requiring "ratification" for after-the-fact costs before processing purchase orders or contracts.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-13 - *Procurement and Suspension and Debarment*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Criteria:

Applicable regulations state that all procurement transactions will be conducted in a manner providing full and open competition.

Pursuant to §60-40-205(b) and (c) of the Public School System Procurement Rules and Regulations,

- Public Notice - Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice in a newspaper of general circulation in the Commonwealth once in each week over a period of thirty calendar days shall be deemed to be adequate notice.
- Bidding Time - A bidding time of at least thirty calendar days shall be provided, unless the Chief of Procurement and Supply determines a shorter period is reasonable and necessary.

Conditions:

1. For all the contracts selected for testing, the public notices were only published for three consecutive weeks instead of once in each week over a period of thirty calendar days (four consecutive weeks).

84.394

a. State Fiscal Stabilization Fund

Contract Number	Contract Amount	Dates of Publication		
1. 70165 OC	\$ 303,355	04/22/10	04/29/10	05/06/10
2. 70182 OC	\$ 361,392	06/29/10	07/26/10	07/13/10
3. 70392 OC	\$ 261,516	04/22/10	04/29/10	05/06/10
4. 99076 OC	\$ 1,250,799	06/02/10	06/09/10	06/16/10
5. 99077 OC	\$ 1,164,244	06/02/10	06/09/10	06/16/10
6. 99078 OC	\$ 1,477,371	06/29/10	07/06/10	07/13/10
7. 99079 OC	\$ 677,822	04/22/10	04/29/10	05/06/10
8. 99080 OC	\$ 731,084	05/27/10	06/03/10	06/10/10
9. 100295 OC	\$ 262,055	05/28/10	06/04/10	06/11/10
10. 100294 OC	\$ 417,618	06/02/10	06/09/10	06/16/10

\$ 6,907,256

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-13 - *Procurement and Suspension and Debarment, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Conditions, continued:

20.509 b. Formula Grants for Other than Urbanized Areas

Contract Number	Contract Amount	Dates of Publication		
1. 107346 OC	\$ 61,000	10/28/11	11/04/11	-
2. 103889 OC	\$ 94,050	04/06/11	04/13/11	-
3. 102491 OC	\$ 1,652,118	01/21/11	01/28/11	02/04/11
4. 106003 OC	<u>\$ 194,975</u>	08/05/11	08/12/11	08/19/11

\$ 2,002,143

84.403 c. Consolidated Grants

Contract Number	Contract Amount	Dates of Publication		
1. 106005 OC	\$ 40,806	07/15/11	07/22/11	08/03/11
2. 106073 OC	40,808	07/15/11	07/22/11	08/03/11
3. 106114 OC	41,171	07/15/11	07/22/11	08/03/11
4. 106006 OC	41,175	07/15/11	07/22/11	08/03/11
5. 104843 OC	40,745	01/04/11	01/10/11	01/17/11
6. 109700 OC	60,000	02/03/12	02/10/12	02/17/12
7. 111138 OC	93,396	05/02/12	05/09/12	-
8. 111685 OC	<u>378,000</u>	07/20/12	07/27/12	-

\$ 736,101

93.600 c. Head Start

Contract Number	Contract Amount	Dates of Publication		
1. 106005 OC	\$ 19,460	02/08/11	02/15/11	02/22/11
2. 106073 OC	16,208	10/07/11	10/14/11	-
3. 106114 OC	<u>30,000</u>	07/14/10	07/28/10	08/04/10

\$ 65,668

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-13 - *Procurement and Suspension and Debarment, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned</u>
		<u>Costs</u>

Conditions, continued:

84.027 c. Special Education

<u>Contract</u>	<u>Contract</u>	<u>Dates of Publication</u>	
<u>Number</u>	<u>Amount</u>		
1. 102826 OC	\$ 30,000	03/25/11	04/01/11
2. 108135 OC	<u> 30,000</u>	11/30/11	12/07/11
	<u>\$ 30,000</u>		

Cause:

PSS Procurement and Supply Office construed the approval of the Chief of Procurement and Supply on the fewer dates of the publications of the public notice as his determination that the shorter period is reasonable and necessary.

Effect:

PSS is not in compliance with the provisions of its procurement rules and regulations in relations to public notice and bidding time for procurement requiring competitive sealed bidding.

There is no questioned cost presented for these conditions as documentations was provided to evidence that a sufficient number of vendors were able to respond and the most responsive bidder was selected.

Recommendation:

PSS should ensure compliance with its procurement rules and regulations. If a determination is made by the Chief of Procurement and Supply that a shorter period of bidding is reasonable and necessary, such determination should be properly documented and retained in the Invitation for Bid files.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-13 - *Procurement and Suspension and Debarment, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Auditee Response:

Contact Person - Mr. Robert Florian
Completion Date - Completed

Bidding publication time of less than 30 days is permitted by PSS regulations if the file is certified that such is reasonable and necessary to move the procurement along.

PSS Procurement has already begun documenting any and all bid times of less than 30 calendar days for reasonableness and necessity. Documentation of bid times is located in the file. Documentation is written on the draft of the IFB or RFP affected before submission to the newspaper for publication.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-14 - Allowable Costs/Cost Principles

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Criteria:

Pursuant to A-21, "Cost Principles for Educational Institutions", costs should represent charges for actual costs, not budgeted or projected amounts.

Furthermore, expenditures should be supported by invoices and other relevant documents. Furthermore the invoices should be in accordance with the terms and conditions of the approved contract or purchase orders.

Condition:

84.394 a. State Fiscal Stabilization Fund

For 8 or 80% of 10 contracts tested, the cost charged to the specific schools were based on the estimated cost per contract and not based on the actual cost incurred as documented on the application for payment presented by the contractor as certified by PSS' CIP Coordinator.

<u>Contract No.</u>	<u>Business Unit/GL Code</u>	<u>Contract Amount</u>	<u>Actual Costs Per Application for Payment</u>	<u>Variance</u>
100295 OC	104SFSF403.4224.F86GES	\$ 104,310.10	\$ 101,437.49	\$ 2,872.61
	104SFSF403.4224.F86GTC	23,934.43	23,934.43	-
	104SFSF403.4224.F86OES	76,271.55	83,282.23	(7,010.68)
	104SFSF403.4224.F86TAN	57,538.66	53,400.59	4,138.07
		<u>\$ 262,054.74</u>	<u>\$ 262,054.74</u>	<u>\$ -</u>
70392 OC	104SFSF402.4224.F86TES	\$ 108,889.95	\$ 94,597.20	\$ 14,292.75
	104SFSF402.4224.F86THS	152,626.29	166,919.04	(14,292.75)
		<u>\$ 261,516.24</u>	<u>\$ 261,516.24</u>	<u>\$ -</u>
100294 OC	104SFSF403.4224.F86SVS	\$ 61,347.16	\$ 125,971.64	\$ (64,624.48)
	104SFSF403.4224.F86WSR	140,375.28	177,712.92	(37,337.64)
	104SFSF403.4224.F86HJH	215,895.33	91,227.52	124,667.81
	104SFSF403.4224.F86GES	-	22,705.69	(22,705.69)
		<u>\$ 417,617.77</u>	<u>\$ 417,617.77</u>	<u>\$ -</u>
70182 OC	104SFSF402.4224.F86CMS	\$ 68,714.00	\$ 61,764.40	\$ 6,949.60
	104SFSF402.4224.F86DAN	7,814.52	7,038.00	776.52
	104SFSF402.4224.F86KAG	119,671.50	119,671.50	-
	104SFSF402.4224.F86KHS	122,474.80	116,215.40	6,259.40
	104SFSF402.4224.F86SVS	42,717.92	56,703.44	(13,985.52)
		<u>\$ 361,392.74</u>	<u>\$ 361,392.74</u>	<u>\$ -</u>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-14 - Allowable Costs/Cost Principles

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Condition, Continued:

<u>Contract No.</u>	<u>Business Unit/GL Code</u>	<u>Contract Amount</u>	<u>Actual Costs Per Application for Payment</u>	<u>Variance</u>
99079 OC	104SFSF401.4224.F86RHS	\$ 176,023.00	\$ 185,265.00	\$ (9,242.00)
	104SFSF401.4224.F86RJH	184,694.00	188,216.00	(3,522.00)
	104SFSF401.4224.F86SES	317,105.00	304,341.00	12,764.00
		<u>\$ 677,822.00</u>	<u>\$ 677,822.00</u>	<u>\$ -</u>
99076 OC	104SFSF401.4224.F86DAN	\$ 168,200.00	\$ 168,188.00	\$ 12.00
	104SFSF401.4224.F86SVS	261,898.00	260,960.00	938.00
	104SFSF401.4224.F86KAG	485,500.00	447,250.00	38,250.00
	104SFSF401.4224.F86KHS	104,060.00	161,860.00	(57,800.00)
	104SFSF401.4224.F86CMS	231,140.00	212,540.00	18,600.00
		<u>\$ 1,250,798.00</u>	<u>\$ 1,250,798.00</u>	<u>\$ -</u>
99078 OC	104SFSF401.4224.F86GES	\$ 362,122.00	\$ 317,960.00	\$ 44,162.00
	104SFSF401.4224.F86GTC	89,650.00	79,580.00	10,070.00
	104SFSF401.4224.F86MHS	679,482.00	684,401.00	(4,919.00)
	104SFSF401.4224.F86OES	214,401.00	201,590.00	12,811.00
	104SFSF401.4224.F86TAN	131,716.00	133,892.00	(2,176.00)
		<u>\$ 1,477,371.00</u>	<u>\$ 1,417,423.00</u>	<u>\$ 59,948.00</u>
99077 OC	104SFSF401.4224.F86HJH	\$ 390,950.00	\$ 423,201.00	\$ (32,251.00)
	104SFSF401.4224.F86KES	162,552.00	153,636.00	8,916.00
	104SFSF401.4224.F86SAS	159,472.00	130,578.00	28,894.00
	104SFSF401.4224.F86SHS	157,285.00	269,451.00	(112,166.00)
	104SFSF401.4224.F86WSR	293,985.00	247,326.00	46,659.00
		<u>\$ 1,164,244.00</u>	<u>\$ 1,224,192.00</u>	<u>\$ (59,948.00)</u>

Cause:

PSS Fiscal and Budget Department, applies application of payments based on the allocations indicated in the contract regardless of actual cost incurred.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-14 - *Allowable Costs/Cost Principles*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.394

Effects:

The costs of repairs and maintenance and charged to the specific schools does not reflect the actual cost incurred for the schools.

Except for Contract No. 99078, wherein the actual contract amount exceeds the total actual cost reported by the contractor in the application of payment by \$59,948, there are no other questioned costs related to this finding since the actual total payments for the other contracts did not exceed the actual costs. PSS should have executed a contract change order to reduce the contract price based on the documents provided by the Contractor. It appears that the deductive costs of contract No. 99078 were offset to the additive cost of Contract No. 99077 with the same contractor without executing a formal change order.

Recommendation:

PSS should ensure that the recorded costs are based on actual costs and not on estimates. It is reasonable to use estimates as a basis for allocation of contract costs, however, PSS should ensure that the estimates are adjusted as appropriate documentation are received.

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

The Fiscal and Budget Office will verify that allocated contract costs are adjusted to reflect actual documented costs incurred prior to application of invoice payments.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-15 - State Fiscal Stabilization Fund
Davis-Bacon Act

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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84.394

Criteria:

Pursuant to the Davis-Bacon Act, the non-Federal entity should notify contractors and subcontractors of the requirements to comply with the Davis-Bacon Act and obtained copies of certified payrolls for wage compliance.

Condition:

For 1 or 7% of the 14 payments to contractors with aggregate amount of \$1,779,363.73, the attached certification of payroll payments indicated "Kagman Watershed Projects" as the work done instead of the PSS project.

Payment Voucher:	189750
Check No.:	131633
Check Amount:	\$ 152,238.96

Cause:

This is due to an oversight by the CIP Coordinator who certifies each application for payment.

Effect:

No questioned cost is reported for this condition since all the actual timesheets attached to the certification properly indicated the correct PSS Project. However, errors could exist and not be detected in a timely manner.

Recommendation:

PSS should ensure that all supporting documentations attached to an application for payment pertains to the correct contract.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-15 - State Fiscal Stabilization Fund
Davis-Bacon Act, continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Auditee Response:

Contact Person - Ms. Rachel Fusco
Completion Date - June 30, 2013

PSS will ensure that all supporting documentation attached to a request for payment matches the correct contract. The PSS CIP Office will work closely with the Finance Office to ensure that request for payments are accurate and in compliance with the Davis-Bacon Act.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-16 - *Allowed Cost/Cost Principles - Travel*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Criteria:

Pursuant to PSS Travel Regulation §60-20-720 (d)(5), Travel routes other than what was authorized shall be allowed if it can be established as necessary and will not incur additional expense to the PSS and if the trip is related to official business to be performed by the traveler.

Conditions:

84.403 *Consolidated Grants*

1. Check No. 137592 dated June 20, 2012 for to \$37,520 was paid to a travel agent covering twenty-six (26) Government Transportation Request (GTR). For 11 or 42% of the GTRs covered in this payment, the traveler changed route and the documentation that the change in route is necessary is not on file.

BUS UNIT	GRT No	TA No	Itinerary	Additional Days	Change in Route	Ticket Costs
123PVT2SCP	11074	111018	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND Ret	6/9/2012 7/3/2012	16.00 extra days in IND	\$ 1,380
123PVT2SCP	11080	111010	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND, IND/SFO, SFO/SPN	6/9/2012 7/10/2012	23.00 extra days in SFO	1,380
122LEA2SCP	11081	111026	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND, IND/DFW, DFW/SPN	6/9/2012 8/25/2012	69.00 extra days in Dallas	1,380
123PVT2SCP	11085	111008	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND Ret	6/9/2012 6/21/2012	4.00 extra days in IND	1,380
123PVT2SCP	11091	111015	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND, IND/SFO, SFO/SPN	6/9/2012 7/23/2012	36.00 extra days in IND and SFO	1,380
123PVT2SCP	11109	111006	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND, IND/EWR, EWR/SPN	6/9/2012 6/28/2012	11.00 extra days in New Jersey	1,380
122LEA2SCP	11084	111001	GRT SPN/IND Return	6/9/2012 6/17/2012		
			Actual SPN/IND, IND/PDX, PDX/OMA, OMA/SPN	6/9/2012 7/4/2012	17.00 extra days in Portland and Omaha	1,670
122LEA2SCP	11073	111019	GRT SPN/IND Return	6/11/2012 6/17/2012		
			Actual SPN/IND, IND/SPN	6/11/2012 7/7/2012	20.00 extra days in IND	1,650
123PVT2SCP	11098	111033	GRT SPN/IND Return	6/11/2012 6/17/2012		
			Actual SPN/IND, IND/EWR, EWR/SPN	6/11/2012 6/28/2012	11.00 extra days in New Jersey	1,650
123PVT2SCP	11096	111031	GRT SPN/IND Return	6/11/2012 6/17/2012		
			Actual SPN/IND, IND/ORD, ORD/SPN	6/11/2012 6/20/2012	3.00 extra days in Chicago	1,650
122LEA2SCP	11086	111024	GRT SPN/IND Return	6/11/2012 6/17/2012		
			Actual SPN/IND, IND/EWR, EWR/SPN	6/11/2012 6/28/2012	11.00 extra days in New Jersey	1,650

\$ 16,550

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-16 - *Allowed Cost/Cost Principles - Travel, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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2. Check No. 137935 dated July 10, 2012 for \$119,110.22 was paid to a travel agent covering seventy-seven (77) GTRs. For 10 or 13% of the GTRs covered in this payment, the traveler changed route and the documentation that the change in route is necessary is not on file.

84.403 *Consolidated Grants*

BUS UNIT	GRT No	TA No	Itinerary	Additional		Change in Route	Ticket Costs
				Days			
122LEA2SCP	11087	111025	SPN/IND Return	6/11/2012	6/17/2012		
			SPN/IND, IND/SEA, SEA/SPN	6/11/2012	6/22/2012	5.00 extra days in Seattle	\$ 1,650
122LEA2SCP	11206	111188	SPN/OMA Return	6/23/2012	7/3/2012		
			SPN/OMA, AMO/HOU, HOU/SPN	6/23/2012	8/7/2012	35.00 extra days in Houston	1,670
122LEA2SCP	11208	111190	SPN/OMA Return	6/23/2012	7/3/2012		
			SPN/OMA Return	6/23/2012	7/19/2012	16.00 extra days in Nebraska	1,670
122LEA2SCP	11217	111200	SPN/OMA Return	6/23/2012	7/3/2012		
			SPN/OMA, OMA/HNL, HNL/SPN	6/23/2012	7/10/2012	7.00 extra days in Honolulu	1,670
122LEA2SCP	11223	111206	SPN/OMA Return	6/23/2012	7/3/2012		
			SPN/OMA, OMA/LAX, LAX/SPN	6/23/2012	7/6/2012	3.00 extra days in Los Angeles	1,670
122LEA2SCP	11224	111207	SPN/OMA Return	6/23/2012	7/3/2012		
			SPN/OMA, AMO/HOU, HOU/SPN	6/23/2012	8/9/2012	37.00 extra days in Houston	1,670
123PUB2A15	11261	111087	SPN/PDX, PDX/SAC, SAC/SPN	7/1/2012	7/15/2012		
			SPN/PDX, PDX/SAC, SAC/SPN	7/1/2012	7/30/2012	15.00 extra days in Portland	2,285
122LEA2SCP	10967	109877	SPN/DC/VA/ DEVNDR/RET	4/21/2012	5/4/2012		
			SPN/DC/VA/ DEVNDR/RET	4/21/2012	4/30/2012	(4.00) Returned earlier than scheduled	1,670
							<u>\$ 13,955</u>

20.509 *Formula Grants for Other than Urbanized Areas*

BUS UNIT	GRT No	TA No	Itinerary	Additional		Change in Route	Ticket Costs
				Before	Days		
1170BU1ADM	11246	111079	SPN/SAC Return	7/9/2012	7/15/2012	extra days before and after	
			SPN/PDX, PDX/SAC, SAC/PDX, PDX/SPN	7/5/2012	7/19/2012	4.00 approved GTR in Portland	\$ 2,285.00

84.027 *Special Education*

BUS UNIT	GRT No	TA No	Itinerary	Additional		Change in Route	Ticket Costs
				Before	Days		
1285LE2SPE	11263	111081	SPN/SAC Return	7/9/2012	7/15/2012	extra days before in Seattle and	
			SPN/SEA, SEA/SAC, SAC/DEN, DEN/SPN	7/6/2012	9/1/2012	3.00 after in Denver	\$ 2,285

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-16 - *Allowed Cost/Cost Principles - Travel, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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Cause:

The changes in the itinerary were often made by the traveler directly with the travel agent. PSS will only become aware of these changes upon receipt of the invoice. Often times, when the invoice amounts agree with the GTR amounts, the detailed itineraries are overlooked as amounts either agrees or are within the allowed amount.

Effect:

Although no additional costs were incurred by PSS, the changes in the route is still not in compliance with PSS Travel regulations.

Recommendation:

The PSS GRT form has a notice stating there are penalties for "Private" use. PSS should enforce penalties to travel agents that accommodate changes in routes that are not covered by approved GRT as this may be construed as private use.

Auditee Response:

Contact Person - Mr. George Palican
Completion Date - September 30, 2013

Travel regulations will be revised to allow for no-cost changes in travel itineraries as long as there are no additional costs for PSS.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-17 - *Equipment and Real Property Management*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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20.509

Criteria:

Pursuant to OMB Circular A-21 states that, "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the institution for financial statement purposes, or \$5,000.

Condition:

PSS purchases a mechanical tool for \$18,222 (PV No. 201336) and it was recorded as controlled assets (GL Code 4306) instead of Equipment (GL Code 4430).

Cause:

The item over \$5,000 was overlooked since this mechanical tool was purchased as part of a contract to purchase mechanical tools within the aggregate contract amount of \$61,000. The majority of the unit costs of the tools purchased were below the \$5,000 capitalization threshold.

Effect:

PSS is not in compliance with the capitalization threshold required by A-21.

Recommendation:

PSS should ensure compliance with the capitalization threshold and ensure that purchases are posted to the correct account to facilitate the reclassification of capitalized acquisitions from expenditures to property and equipment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 12-17 - *Equipment and Real Property Management, continued*

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
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20.509

Auditee Response:

Contact Person - Mr. Robert Florian
Completion Date - June 30, 2013

Procurement & Supply is in the process of reviewing its entire inventory and have been updating its records. Procurement & Supply will correct and will implement a review and concurrence process in the Property Management Section for all such inputs.

Total questioned costs

\$ 205,562



STATE BOARD OF EDUCATION

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

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2011-01	Purchases/Disbursements	Not Corrected. Similar condition noted in Finding No. 12-02.
2011-02	Payroll	Not Corrected. Similar condition noted in Finding No. 12-08.
2011-03	Cash	Not Corrected. Similar condition noted in Finding No. 12-01.
2011-04	Receivables	Not Corrected. Similar condition noted in Finding No. 12-04.
2011-05	Capital Assets	Not Corrected. Similar condition noted in Finding No. 12-06.
2011-06	Liabilities	Not Corrected. Similar condition noted in Finding No. 12-05.
2011-07	Withholding Taxes Payable	Not Corrected. Similar condition noted in Finding No. 12-09.
2011-08	Medicare Payments	Not Corrected. Similar condition noted in Finding No. 12-09.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Prior Year Audit Findings
Year Ended September 30, 2012

Reference No.	Findings	Status
2011-09 - 10	Retirement Benefits	Not Corrected. Similar condition noted in Finding No. 12-05.
2011-11	Journal Entries	Corrective action was taken.
2011-12	Operating Systems	Corrective action was taken.
2011-13	Local Noncompliance	Not Corrected. Similar condition noted in Finding No. 12-03.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Prior Year Audit Findings
Year Ended September 30, 2012

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-14 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Condition No.	Questioned Costs	
1	\$ 42,758	Not Corrected. Similar condition was noted in 12-10.
2	84	Not Corrected.
3	-	Corrective action was taken.
4	50,900	Not Corrected.
5	8,565	Corrective action was taken.
6	-	Not Corrected. Similar condition was noted in 12-07.
7	468	Not Corrected. Similar condition was noted in 12-07.
8	92	Not Corrected.
9	7,972	PSS concur with the finding but the with the questioned costs as PSS charged payroll based on actual worked rendered although the NOPA was not timely updated.
10	2,553	Not Corrected. Similar condition was noted in 12-08.
11	-	Not Corrected. Similar condition was noted in 12-08.
12	-	Not Corrected. Similar condition was noted in 12-08.
13	-	Not Corrected. Similar condition was noted in 12-08.
14	838	Not Corrected. Similar condition was noted in 12-08.
15	58	Not Corrected. Similar condition was noted in 12-08.
16	-	Not Corrected. Similar condition was noted in 12-08.
17	5,047	Corrective action was taken.
18	<u>-</u>	Corrective action was taken.
Total	\$ <u>119,335</u>	

2011-15 Matching, Level of Effort, Earmarking Corrective action taken. Awaiting Grantor determination.

2011-16 Period of Availability of Federal Funds Corrective action taken. Awaiting Grantor determination.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Prior Year Audit Findings
Year Ended September 30, 2012

2011-17	Procurement and Suspension and Debarment	
	Condition No.	Questioned Costs
	1	\$ -
	2	-
	3	<u>6,433</u>
		<u>\$ 6,433</u>
		Resolved. PSS procurement policy allows for small purchase. PSS believes that this is not in violation of any federal regulations.
		Resolved. PSS procurement policy allows for small purchase. PSS believes that this is not in violation of any federal regulations.
		Not Corrected. Similar condition was noted in 12-10.
2011-18	Allowable Costs/Cost Principles	Not Corrected. Similar condition was noted in 12-08.
2011-19	Procurement and Suspension and Debarment.	Not Corrected. Similar conditions was noted in 12-10 through 12-13.
2011-20	Reporting	Not Corrected. Awaiting Grantor determination.
2011-21	Allowable Costs/Cost Principles	Not Corrected. Similar condition was noted in 12-07.
2011-22	Procurement and Suspension and Debarment.	Not Corrected. Similar conditions was noted in 12-10 through 12-13.
2011-23	Allowable Costs/Cost Principles	Not Corrected. Similar conditions was noted in 12-07 and 12-08.
2011-24	Procurement and Suspension and Debarment.	Not Corrected. Similar conditions was noted in 12-10 through 12-13.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Prior Year Audit Findings
Year Ended September 30, 2012

2011-25	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	Not Corrected. Similar condition was noted in 12-08.
2011-26	Allowable Costs/Cost Principles	Not Corrected. Similar condition was noted in 12-08.
2011-27	Eligibility	Corrective actions were taken.
2011-28	Procurement and Suspension and Debarment.	Not Corrected. Similar conditions was noted in 12-10 through 12-13.
2011-29	Subrecipient Monitoring	No actions were taken as PSS disagrees with the finding. Ongoing monitoring of program operations exist to ensure that the program effectively implements Federal regulations.
2011-30	Equipment and Real Property Management	Corrective actions were taken.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Summary of Unresolved Questioned Costs
Year Ended September 30, 2012

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

Questioned costs as previously reported	\$ 574,362
Questioned costs resolved during the year ended September 30, 2012	-
Questioned costs of fiscal year 2012 Single Audit	<u>205,562</u>
Unresolved questioned costs at September 30, 2012	<u>\$ 779,924</u>