

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2016

**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, 2016

<u>Items</u>	<u>Page No.(s)</u>
I. FINANCIAL SECTION	
A. Independent Auditor’s Report on Financial Statements	1-3
Management’s Discussion & Analysis	4-18
Statement of Net Position	19
Statement of Activities	20
Balance Sheet – Governmental Funds	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance with the District-wide Statement of Activities	23
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Budget and Actual (GAAP Basis) – General Fund	24
Notes to Financial Statements	25-46
B. Supplementary Information	
Combining Balance Sheets – Non-major Funds	47
Combining Statements of Revenues, Expenditures and Changes in Fund Balance – Non-major Funds	48
Schedule of Expenditures/Expense (By Natural Classification)	49

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, 2016

<u>Items</u>	<u>Page No.(s)</u>
II. REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
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 <i>Government Auditing Standards</i>	50-51
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By Uniform Guidance	52-54
Schedule of Expenditures of Federal Awards	55-57
Notes to the Schedule of Expenditures of Federal Awards	58
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditors’ Results	59-60
Section II – Financial Statement Findings	61-66
Section III – Federal Awards Findings and Questioned Costs	67-74
III. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	75-76
IV. CORRECTIVE ACTION PLAN	77-83



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We 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 Public School System (PSS), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 the PSS, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PSS' basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures/expense, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2017, on our consideration of the PSS' internal control over financial reporting and on our 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.



Saipan, Commonwealth of the Northern Mariana Islands
April 28, 2017



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This section of the CNMI Public School System financial report represents management’s discussion and analysis of the financial performance of PSS for the year ended September 30, 2016. 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 2016, PSS’ net position amounted to \$76,034,109 a decrease of \$325,886 or 0.4%, from the \$76,359,995 net position in fiscal year 2015. This decrease was primarily due to excess expenses over revenues. PSS total expenses for fiscal year 2016 amounted to \$72,261,036 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$71,935,150.

PSS’ net position includes investment in capital assets, net of accumulated depreciation of \$76,830,389, restricted for special purpose of \$2,040,367 and deficit of \$2,836,647. The deficit is due to noncurrent liabilities that are to be funded appropriation from the CNMI government.

PSS’ enrollment for school year 2015-2016 was 10,349 students. There was a decrease of 18 students from 10,367 students for school year 2014-2015.

STUDENTS FIRST

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's 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 Position and the Statement of Activities.

Statement of Net Position

The Statement of Net Position 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 position, which is the difference between the school system's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the district's financial health or position. Over time, increases or decreases in PSS' net position 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 statements included in the basic financial statements is the Governmental-fund Financial Statements, 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.

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

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 - 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 Statements of Net Position

	2016	2015 Restated	2014 Restated
Current assets	\$ 8,793,024	\$ 8,866,389	\$ 8,212,679
Capital improvement projects	-	-	1,051,447
Capital assets, net	76,830,389	77,939,922	78,137,682
Total assets	85,623,413	86,806,311	87,401,808
<i>Change against prior year - dollar amount</i>	<i>(1,182,898)</i>	<i>(595,497)</i>	<i>150,650</i>
<i>Change against prior year - percent</i>	<i>-1%</i>	<i>-1%</i>	<i>0%</i>
Current liabilities	5,087,668	5,076,308	7,958,224
Noncurrent liabilities	3,547,050	4,288,490	2,220,325
Total liabilities	8,634,718	9,364,798	10,178,549
<i>Change against prior year - dollar amount</i>	<i>(730,080)</i>	<i>(813,751)</i>	<i>(25,607,364)</i>
<i>Change against prior year - percent</i>	<i>-8%</i>	<i>-8%</i>	<i>-72%</i>
Deferred inflows of resources	954,586	1,081,518	1,223,770
<i>Change against prior year - dollar amount</i>	<i>(126,932)</i>	<i>(142,252)</i>	<i>(70,229)</i>
<i>Change against prior year - percent</i>	<i>-12%</i>	<i>-12%</i>	<i>-5%</i>
Investment in capital assets and capital improvement projects	76,830,389	77,939,922	79,189,129
Restricted for special purpose	2,040,367	2,281,353	1,087,689
Deficit	(2,836,647)	(3,861,280)	(4,277,329)
Net position	\$ 76,034,109	\$ 76,359,995	\$ 75,999,489
<i>Change against prior year - dollar amount</i>	<i>(325,886)</i>	<i>360,506</i>	<i>25,828,243</i>
<i>Change against prior year - percent</i>	<i>-0.4%</i>	<i>0.5%</i>	<i>51%</i>

- Current assets of \$8,793,024 as of September 30, 2016 decreased by \$73,365 or .83% compared to current assets \$8,866,389 as of September 30, 2015.
- The decrease in capital assets is primarily due to depreciation expense and retirement of old assets.
- Current liabilities of \$5,087,668 as of September 30, 2016 increased by \$11,360 or .22% compared to \$5,076,308 as of September 30, 2015. There were no significant changes in the account balances as activities were consistent with last year.
- Deferred inflows of resources pertain to monies received in advance from federal and local sources. There were no significant changes in the account balance as activities are consistent with prior year.
- At the end of fiscal year 2016, PSS' net position is at \$76,034,109, net of the \$2,836,647 deficit. The deficit is primarily due to the long-term debt to CUC, which is to be paid from the CNMI appropriation and the accrued annual leave, which is also funded by appropriation as employees avail of the benefit.

Condensed Statements of Activities

	2016	2015	2014
Revenues			
Program Revenues	34,968,066	32,779,917	31,127,438
General revenues	36,967,084	33,893,998	33,171,157
Total revenues	71,935,150	66,673,915.00	64,298,595
<i>Change against prior year - dollar amount</i>	<i>5,261,235</i>	<i>2,375,320</i>	<i>3,738,787</i>
<i>Change against prior year - percent</i>	<i>8%</i>	<i>4%</i>	<i>6%</i>
Expense:			
Instruction	64,980,915	58,262,027	58,564,601
Support Services	7,280,121	8,222,560	6,808,021
Total expenses	72,261,036	66,484,587	65,372,622
<i>Change against prior year - dollar amount</i>	<i>5,776,449</i>	<i>1,111,965</i>	<i>1,844,278</i>
<i>Change against prior year - percent</i>	<i>9%</i>	<i>2%</i>	<i>3%</i>
Change in net position	(325,886)	189,328	(1,074,027)
Prior year restatement	-	171,178	26,902,270
Net position, beginning	76,359,995	75,999,489	50,171,246
Net position, ending	\$ 76,034,109	\$ 76,359,995	\$ 75,999,489
<i>Change against prior year - dollar amount</i>	<i>(325,886)</i>	<i>360,506</i>	<i>25,828,243</i>
<i>Change against prior year - percent</i>	<i>-0.4%</i>	<i>0.5%</i>	<i>51%</i>

- The overall increase in revenues and related expenses is due to increase in CNMI appropriations by \$2,840,896, increase in federal grants received by \$2,091,045, offset by an aggregate decrease in other grants.

A more detailed revenues and expenses discussion follows.

Revenues

	2016	2015	Difference	% Change
Program revenues				
Charges for Services	\$ 717,777	\$ 620,673	\$ 97,104	16%
Grants and contributions	34,250,289	32,159,244	2,091,045	7%
Total instruction expenses	34,968,066	32,779,917	2,188,149	22%
General revenues				
CNMI appropriations	36,455,094	33,614,198	2,840,896	8%
Miscellaneous	511,990	279,800	232,190	83%
Total Support services expenses	36,967,084	33,893,998	3,073,086	9%
Total revenues	71,935,150	66,673,915	5,261,235	31%

	2015	2014	Difference	% Change
Program revenues				
Charges for Services	\$ 620,673	\$ 807,767	\$ (187,094)	-23%
Grants and contributions	32,159,244	30,319,671	1,839,573	6%
Total instruction expenses	32,779,917	31,127,438	1,652,479	(0.17)
General revenues				
CNMI appropriations	33,614,198	32,362,721	1,251,477	4%
Miscellaneous	279,800	808,436	(528,636)	-65%
Total Support services expenses	33,893,998	33,171,157	722,841	(0.62)
Total revenues	\$ 66,673,915	\$ 64,298,595	\$ 2,375,320	4%

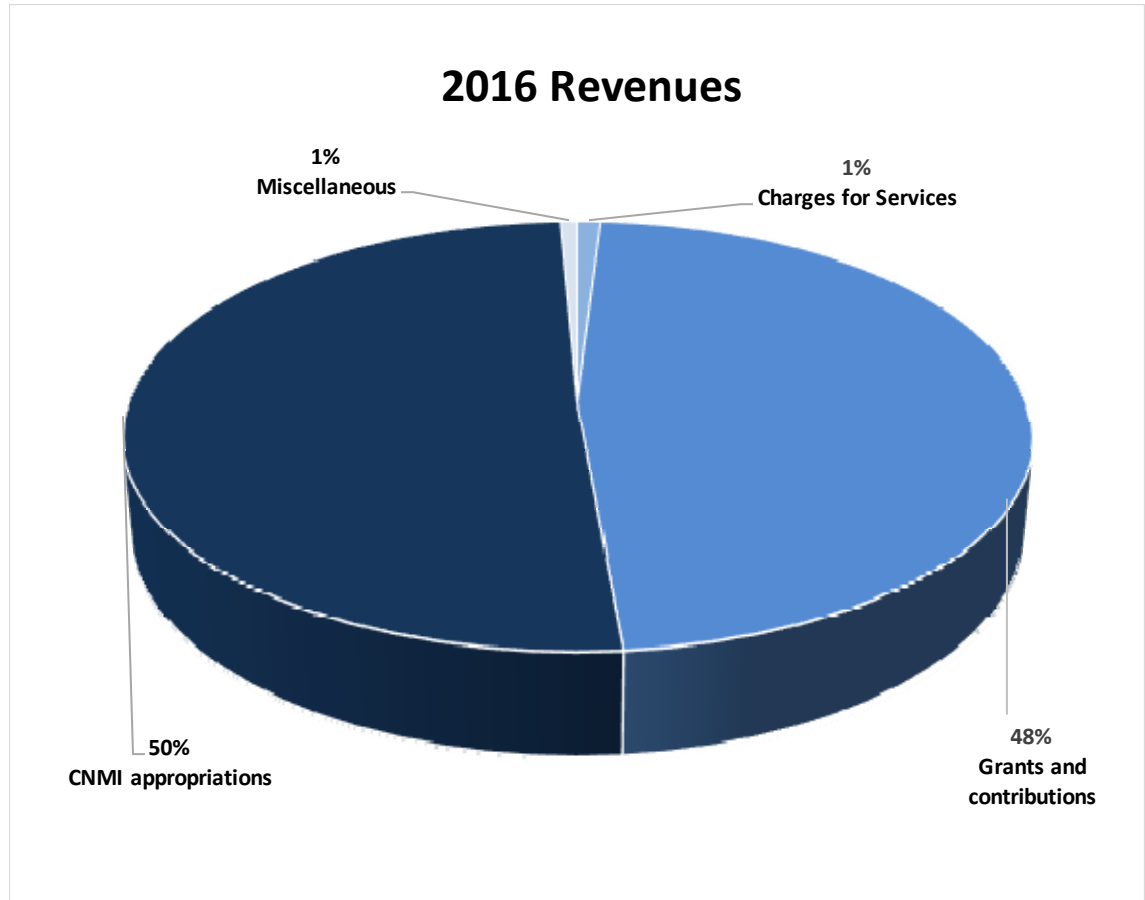
Total revenues for fiscal year 2016 were \$71,935,150, a \$5,261,235 or 31% increase from fiscal year 2015. The increase in 2016 revenue is primarily due to increase in revenues from federal grants and CNMI appropriations.

The increase in federal grants received is primarily from the U.S Department of Education Consolidated grants. PSS expended \$10,935,112 for this grant in fiscal year 2016, a \$960,334 decrease from \$11,895,446 in fiscal year 2015.

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 revenues* classification includes appropriations, interest and other income not identifiable to specific activities.



Expenses

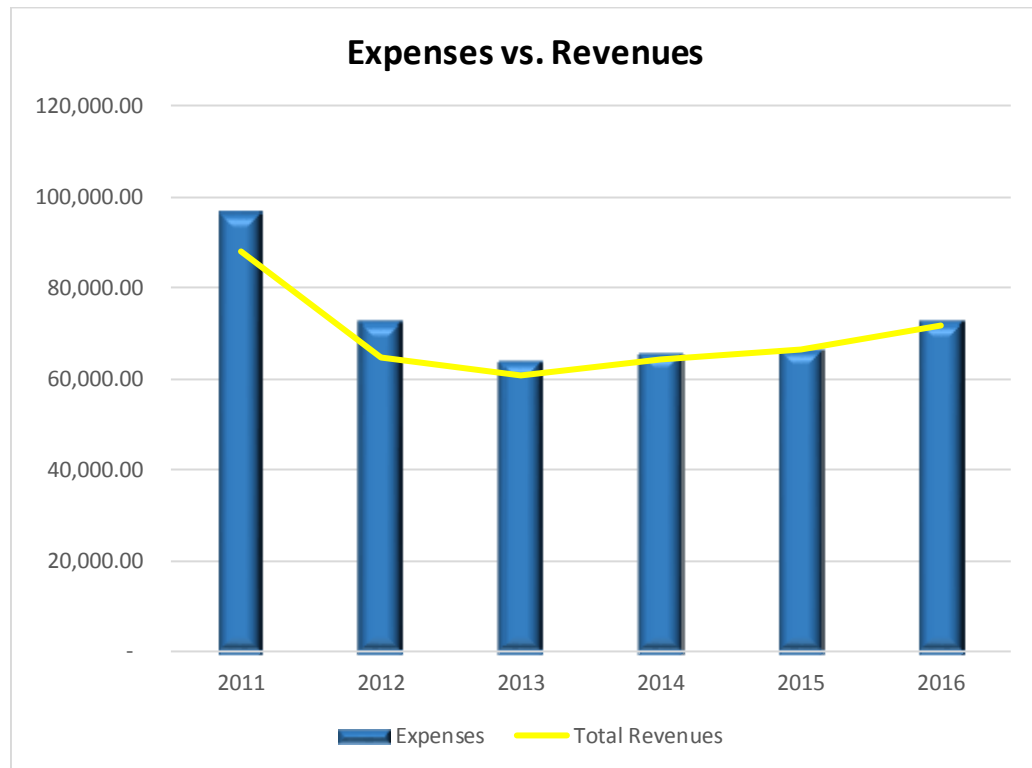
Total district-wide expenses by function are as follows:

	2016	2015	Difference	% Change
Instruction:				
Regular	\$ 37,625,527	\$ 35,384,191	\$ 2,241,336	6%
Special	9,859,830	8,308,027	1,551,803	19%
Co-curricular	3,926,220	3,426,985	499,235	15%
Student services	13,569,338	11,142,824	2,426,514	22%
Total instruction expenses	64,980,915	58,262,027	6,718,888	12%
Support services:				
General administration	2,528,246	3,189,148	(660,902)	-21%
School administration	1,945,967	2,203,341	(257,374)	-12%
Other support	641,235	677,014	(35,779)	-5%
Individual programs	488,164	320,868	167,296	52%
Depreciation - unallocated	1,676,509	1,832,189	(155,680)	-8%
Total Support services expenses	7,280,121	8,222,560	(942,439)	-11%
Total Expenses	\$ 72,261,036	\$ 66,484,587	\$ 5,776,449	9%

	2015	2014	Difference	% Change
Instruction:				
Regular	\$ 35,384,191	\$ 33,922,760	\$ 1,461,431	4%
Special	8,308,027	8,111,000	197,027	2%
Co-curricular	3,426,985	3,850,116	(423,131)	-11%
Student services	11,142,824	12,680,725	(1,537,901)	-12%
Total instruction expenses	58,262,027	58,564,601	(302,574)	-1%
Support services:				
General administration	3,189,148	1,714,023	1,475,125	86%
School administration	2,203,341	1,910,869	292,472	15%
Other support	677,014	1,075,456	(398,442)	-37%
Individual programs	320,868	696,036	(375,168)	-54%
Depreciation - unallocated	1,832,189	1,411,637	420,552	30%
Total Support services expenses	8,222,560	6,808,021	1,414,539	21%
Total Expenses	\$ 66,484,587	\$ 65,372,622	\$ 1,111,965	2%

Total expenses in 2016 increased by \$5,776,449 or 9% as compared to fiscal year 2015. The increase in fiscal year 2016 expenses is primarily due to increase in total instructional expenditures used to improve the quality of instruction.

Total expenses in 2015 increased by \$1,111,965 or 2% as compared to fiscal year 2014. The increase in fiscal year 2015 expenses is primarily due to increase in general administration expenses for settlement of liabilities and related penalties assessed by the U.S. Internal Revenue Service amounting to \$782,676. The expenses for regular instruction also increased by \$1,461,431, primarily due to the Consolidated Grants funding used to improve the quality of instruction.



	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expenses	96,606,71	72,443,73	63,762,35	65,372,62	66,484,58	72,261,036
Total Revenues	88,242,21	64,785,35	60,559,80	64,298,59	66,673,91	71,935,150

The chart above shows the relationship of revenues and expenses for the past five years. Except for 2015, expenses exceeded revenues from 2011 to 2014 and 2016. With the increase in CNMI appropriations, the gap between revenues and expenses narrows. PSS needs revenues to exceed expenses to fund its current deficit.

FUND ANALYSIS

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
Fund balance, beginning of year	1,916,853	685,234	2,293,602	4,895,689
Fund balance, end of year	<u>2,418,598</u>	<u>684,845</u>	<u>1,852,751</u>	<u>4,956,194</u>
Change in fund balance	<u>501,745</u>	<u>(389)</u>	<u>(440,851)</u>	<u>60,505</u>
Percentage change	26%	0%	-19%	1%

The Fund balance increased by \$60,505 as of September 30, 2016.

Of the \$4,956,194, \$2,040,367 or 41% are restricted for specific purpose by grantors and donor, \$767,305 or 15% are assigned for specific programs approved by the Board of Education and \$2,148,522 or 43% are unassigned.

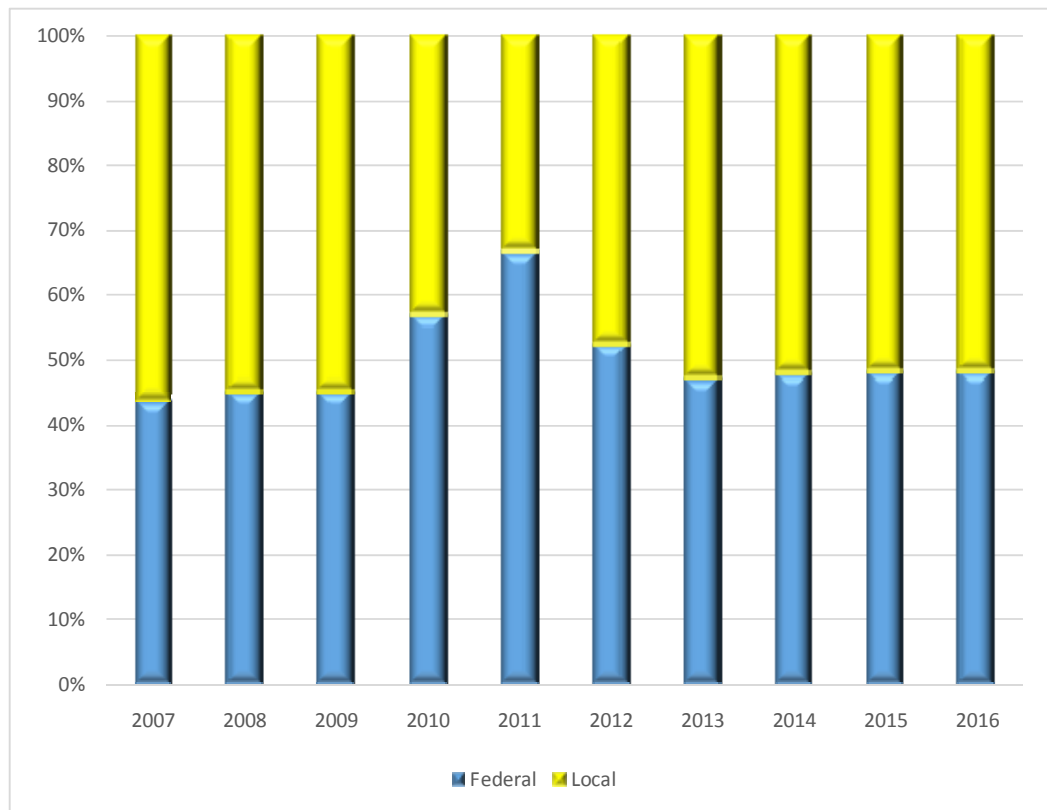
BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 29,127,834	\$ -	\$ 29,127,834	\$ 30,288,450	\$ (1,160,616)
All other	7,327,260	-	7,327,260	5,709,435	1,617,825
Total expenditures	36,455,094	-	36,455,094	35,997,885	457,209
Operating Transfers-In	36,455,094	-	36,455,094	36,455,094	-
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ 457,209	\$ 457,209
Reconciliation of Budget to GAAP Basis					
2016 Budget					
Appropriations				\$ 36,455,094	
2016 Expenditures					
Actual (GAAP)			\$ 35,997,885		
Transfer to GO Bond Fund			240,000	36,237,885	
Restricted for purchase of buses				254,000	
Variance				\$ (36,791)	

PSS' general fund has been under-funded by \$36,791.

Federal and Local Budget Review

Year	Total	Federal		Local	
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	62,339,197	32,779,735	53%	29,619,462	47%
2013	60,559,808	28,532,681	47%	32,027,127	53%
2014	62,991,869	30,319,671	48%	32,672,198	52%
2015	65,033,822	31,419,624	48%	33,614,198	52%
2016	70,672,847	34,217,753	48%	36,455,094	52%



The table and the chart above show the relationship between federal and local funding.

CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2016, 2015 and 2014 were \$76,830,389, \$77,939,922 and \$78,137,682, respectively. Depreciation expense for the 2016, 2015 and 2014 was \$1,676,509, \$1,832,189 and \$2,370,618, respectively.

More detailed information on capital assets is on page 38 (Note 3) of the basic financial statements.

LONG-TERM DEBT

At September 30, 2016, amounts payable to CUC from prior years of \$2,736,202 were classified as long-term debt in the accompanying Statement of Net Position. PSS paid this amount in full in January 2017.

FUTURE PLANS AND ECONOMIC OUTLOOK

For fiscal year 2016, PSS received \$36.4 million in appropriations. This was a significant increase from the previous fiscal year. HLI 18-12 which guarantees PSS 25% of locally generated revenues resulted in this increase and we project a \$2 million increase per year based on our growing tourism-based economy. This modest increase of 5% per year will allow the hiring of more teachers to further manage class sizes, but also to repair, improve, and modernize PSS campuses.

In addition, PSS secured a \$3 million loan from the USDA Rural Development Program to construct additional classrooms and other school infrastructure needs. The repayment of this loan is committed through local appropriations. This loan will fulfill some of the needs of PSS that cannot be funded from other sources.

Future appropriations will be dependent on CNMI Government revenue projections. Given the upturn in the CNMI economy it is hoped that guaranteed funding, as a result of the passage of HLI 18-12, will increase in the coming years at the projected rate of at least 5% or more. Investment in education is vital for any society and economy.

Despite the funding challenges year-to-year, PSS has much to celebrate. PSS students have won national awards in theater, debate, show choir and STEM competitions. Student success is a PSS success. There will be at least one student from the CNMI who will be attending Harvard and several at Stanford this next school year.

The scholarships awarded to our students to attend prestigious colleges and universities in the mainland are evidence of the quality of public education in the CNMI. For the seventh consecutive year PSS senior student survey data shows that 62% of our graduating seniors plan to attend college, 15% enlist in the armed services and 25% are career-ready and are securing jobs in our growing tourism-based economy.

FUTURE PLANS AND ECONOMIC OUTLOOK (continued)

Another measure of success is that PSS has attained low risk auditee status. This highlights the school system efforts to secure and then expend local appropriations, federal grants and non-appropriated funds wisely with accountability and transparency.

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:

Tim Thornburgh
Acting 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 Position
September 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 6,866,683
Receivables from the CNMI Government	6,910
Receivables from Federal agencies	1,425,723
Other receivables, net	<u>493,708</u>
Total current assets	<u>8,793,024</u>

Noncurrent assets:

Capital assets, net	<u>76,830,389</u>
Total Assets	<u>85,623,413</u>

Liabilities

Current liabilities:

Accounts payable and accrued expenses	2,882,244
Current portion of long-term debt - CUC	1,200,000
Compensated absences due in one year	<u>1,005,424</u>
Total current liabilities	<u>5,087,668</u>

Noncurrent liabilities:

Long-term debt - CUC	1,536,202
Compensated absences	<u>2,010,848</u>
Total noncurrent liabilities	<u>3,547,050</u>

Total Liabilities	<u>8,634,718</u>
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Deferred Inflows of Resources

Grants received	<u>954,586</u>
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Net Position

Investment in:

Capital assets	76,830,389
Restricted for special purpose	2,040,367
Deficit	<u>(2,836,647)</u>
Net Position	<u>\$ 76,034,109</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, 2016

<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	\$ 37,625,527	\$ 717,777	\$ 10,935,112	\$ (25,972,638)
Student services	13,569,338	-	12,358,307	(1,211,031)
Special	9,859,830	-	8,099,128	(1,760,702)
Co-curricular	<u>3,926,220</u>	<u>-</u>	<u>1,967,893</u>	<u>(1,958,327)</u>
Total instruction	<u>64,980,915</u>	<u>717,777</u>	<u>33,360,440</u>	<u>(30,902,698)</u>
Support services:				
Other	641,235	-	407,185	(234,050)
School administration	1,945,967	-	-	(1,945,967)
General administration	2,528,246	-	-	(2,528,246)
Individual programs	488,164	-	482,664	(5,500)
Depreciation - unallocated	<u>1,676,509</u>	<u>-</u>	<u>-</u>	<u>(1,676,509)</u>
Total support services	<u>7,280,121</u>	<u>-</u>	<u>889,849</u>	<u>(6,390,272)</u>
Total governmental activities	<u>\$ 72,261,036</u>	<u>\$ 717,777</u>	<u>\$ 34,250,289</u>	<u>(37,292,970)</u>
				36,455,094
				<u>511,990</u>
				<u>36,967,084</u>
				(325,886)
				<u>76,359,995</u>
				<u>\$ 76,034,109</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 Sheet
Governmental Funds
September 30, 2016

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 3,246,328	\$ 823,952	\$ 2,796,403	\$ 6,866,683
Receivables from CNMI	6,910	-	-	6,910
Receivables from Federal agencies	-	1,249,627	176,096	1,425,723
Other receivables	466,686	-	27,022	493,708
Due from (to) other funds	956,168	(754,678)	(201,490)	-
TOTAL ASSETS	\$ 4,676,092	\$ 1,318,901	\$ 2,798,031	\$ 8,793,024
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 2,257,494	\$ 624,750	\$ -	\$ 2,882,244
Total liabilities	2,257,494	624,750	-	2,882,244
Deferred Inflows of Resources:				
Grants received	-	9,306	945,280	954,586
Total deferred inflows of resources	-	9,306	945,280	954,586
Fund Balances:				
Restricted	254,000	684,845	1,101,522	2,040,367
Assigned	-	-	767,305	767,305
Unassigned	2,164,598	-	(16,076)	2,148,522
Total fund balances	2,418,598	684,845	1,852,751	4,956,194
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,676,092	\$ 1,318,901	\$ 2,798,031	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
Cost of capital assets			\$ 105,044,192	
Accumulated depreciation			(28,213,803)	76,830,389
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 debt - CUC				(2,736,202)
Compensated absences				(3,016,272)
Net position - governmental activities				\$ 76,034,109

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 Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2016

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 407,185	\$ 33,170,132	\$ 672,972	\$ 34,250,289
Local	-	-	511,990	511,990
Charges for services	-	-	717,777	717,777
Total revenues	<u>407,185</u>	<u>33,170,132</u>	<u>1,902,739</u>	<u>35,480,056</u>
Expenditures:				
Instructional programs:				
Regular	25,222,673	10,935,501	1,154,410	37,312,584
Student services	1,211,031	12,358,307	-	13,569,338
Special	1,760,702	8,099,128	-	9,859,830
Co-curricular	1,958,329	1,294,921	672,970	3,926,220
Total instructional programs	<u>30,152,735</u>	<u>32,687,857</u>	<u>1,827,380</u>	<u>64,667,972</u>
Supporting services:				
Other	983,713	-	155,583	1,139,296
School administration	1,945,967	-	-	1,945,967
General administration	2,915,470	-	717,776	3,633,246
Individual programs	-	482,664	5,500	488,164
Total supporting services	<u>5,845,150</u>	<u>482,664</u>	<u>878,859</u>	<u>7,206,673</u>
Total expenditures	<u>35,997,885</u>	<u>33,170,521</u>	<u>2,706,239</u>	<u>71,874,645</u>
Excess (deficiency) of revenues over expenditures	<u>(35,590,700)</u>	<u>(389)</u>	<u>(803,500)</u>	<u>(36,394,589)</u>
Other Financing Sources:				
Operating transfers in	36,455,094	-	-	36,455,094
Operating transfers out	(362,649)	-	362,649	-
Total other financing sources	<u>36,092,445</u>	<u>-</u>	<u>362,649</u>	<u>36,455,094</u>
Excess of revenues over expenditures and other financing sources	501,745	(389)	(440,851)	60,505
Fund balance, beginning, as restated	<u>1,916,853</u>	<u>685,234</u>	<u>2,293,602</u>	<u>4,895,689</u>
Fund balance, ending	<u>\$ 2,418,598</u>	<u>\$ 684,845</u>	<u>\$ 1,852,751</u>	<u>\$ 4,956,194</u>

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 Statement of Revenues, Expenditures
and Changes in Fund Balance with the District-wide Statement of Activities
For the Year Ended September 30, 2016

Total net change in fund balances - governmental funds	\$	60,505
Amounts reported for governmental activities in the statements of activities is different because of:		
Payment for prior year utilities - CUC long term debt		1,105,000
Change in compensated absences		(381,858)
<p>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 position 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 (are less than) depreciation in the period.</p>		
Capital outlays	\$ 566,976	
Depreciation expense	<u>(1,676,509)</u>	<u>(1,109,533)</u>
Total change in net position	\$	<u>(325,886)</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 Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund
For the Year Ended September 30, 2016

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 29,127,834	\$ -	\$ 29,127,834	\$ 30,288,450	\$ (1,160,616)
All other	<u>7,327,260</u>	<u>-</u>	<u>7,327,260</u>	<u>5,709,435</u>	<u>1,617,825</u>
Total expenditures	<u>36,455,094</u>	<u>-</u>	<u>36,455,094</u>	<u>35,997,885</u>	<u>457,209</u>
Operating Transfers-In	<u>36,455,094</u>	<u>-</u>	<u>36,455,094</u>	<u>36,455,094</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,209</u>	<u>\$ 457,209</u>
Reconciliation of Budget to GAAP Basis					
2016 Budget					
Appropriations				\$ 36,455,094	
2016 Expenditures					
Actual (GAAP)			\$ 35,997,885		
Transfer to GO Bond Fund			<u>240,000</u>	(36,237,885)	
Restricted for purchase of buses				<u>(254,000)</u>	
Variance				<u>\$ (36,791)</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, 2016

(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 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 (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. 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 CNMI 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 and House Legislative Initiative 18-12, the public education school system is guaranteed an annual budget of not less than twenty five percent (25%) 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 Position and Statement of Activities present information about PSS. These statements include the overall financial activities of the school system. PSS operates only with governmental funds. It does not have any fiduciary or 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, 2016

(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 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, 2016 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. This is presented as part of Non-major funds.

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

Notes to the Basic Financial Statements
September 30, 2016

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

Government Fund Financial Statements

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

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

Notes to the Basic Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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 and 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 costs to the fiscal year when items are used.

Expenditures for claims, judgments, compensated absences and employer retirement contributions are reported at 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.

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. PSS has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to Public Laws and directives issued by the Board of Education, PSS' highest level of decision making authority. Commitments may be modified or rescinded only through legislation or if Board designated, by Board Resolution.

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

Notes to the Basic Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2016 pertain to appropriated funds restricted by Public Law No. 16-10 available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.

Assigned – includes amounts that PSS intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

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 1st.
2. By the fifth working day of November, the Commissioner of Education presents the budget to the Board of Education (BOE).
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, 2016

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Position

1. Cash and Cash Equivalents

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

For purposes of the Statement of Net Position, 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 Position.

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
Building improvements	15 years
Vehicles	5 years
Others	3 - 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, 2016 was \$3,016,272. 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, 2016

(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 includes appropriations, interest and other income not identifiable to specific activities.

5. Net Position/Fund Balances

Net position in the district-wide financial statements are classified as investment in capital assets; investment in capital improvement projects in progress; restricted and unrestricted. Restricted net position represents 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 a 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, 2016

(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, 2016 pertains to unreimbursed advances between the general fund and the other funds.

PSS uses its general fund for all disbursements and records payments made for other funds as due from other funds in the general fund.

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

F. New Accounting Standards

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and did not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statement 67 and 68*, which aligns the reporting requirements for pensions and pension plan not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statements will have on the 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, 2016

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standards are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement had a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 31, 2015. Management does not believe that the implementation of this statement will have a material effect on the 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, 2016

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this Statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the 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, 2016

(1) Summary of Significant Accounting Policies, Continued

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.

(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 position – governmental activities as reported in the government-wide statement of net position. The net adjustments for 2016 include the following elements:

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

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:	
Total capital assets on district-wide financial statements in governmental activities column	\$ 105,044,192
Accumulated depreciation	<u>(28,213,803)</u>
Net capital assets	76,830,389
Accrual for 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:	
Long-term debt – CUC	(2,736,202)
Compensated absences	<u>(3,016,272)</u>
Total adjustments	<u>\$ 71,077,915</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, 2016

(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 position of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2016 pertain to the following:

Payment for prior year utilities - CUC long term debt	\$ 1,105,000
Change in compensated absences	(381,858)
Capital outlay expenditures recorded in the Statement of Activities	566,976
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(1,676,509)</u>
Total adjustments	<u>\$ (386,391)</u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

For purposes of the Statement of Net Position, 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, 2016, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$9,686,056. From these deposits, \$500,000 is subject to coverage by FDIC; \$101,187 is deposited in a financial institution not subject to FDIC coverage and the remaining balance exceeds 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.

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

Notes to the Basic Financial Statements
September 30, 2016

(3) Detail Notes on all Funds, Continued

Accounts Receivable

Accounts receivable are amounts due primarily from the CNMI Government and from Federal grantor agencies for appropriations and grants, respectively.

Other Receivables

Other receivables as of September 30, 2016 consist of the following:

Travel advances	\$ 367,348
Advances to vendors	185,275
Others	<u>156,825</u>
Total other receivables	709,448
Allowance	<u>(215,740)</u>
Other receivables, net	\$ <u>493,708</u>

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.

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

Notes to the Basic Financial Statements
September 30, 2016

(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activities for the year ended September 30, 2016 were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending</u>
Capital assets not being depreciated:				
Land	\$ 36,647,850	\$ -	\$ -	\$ 36,647,850
Capital assets being depreciated:				
Building and improvements	59,793,331	56,770	-	59,850,101
Vehicles	5,978,871	-	(644,870)	5,334,001
Others	<u>2,740,516</u>	<u>12,145</u>	<u>(38,482)</u>	<u>2,714,179</u>
Total	<u>68,512,718</u>	<u>68,915</u>	<u>(683,352)</u>	<u>67,898,281</u>
Less accumulated depreciation:				
Building and improvements	19,130,088	1,458,266	-	20,588,354
Vehicles	5,579,930	136,452	(644,870)	5,071,512
Others	<u>2,510,628</u>	<u>81,791</u>	<u>(38,482)</u>	<u>2,553,937</u>
Total	<u>27,220,646</u>	<u>1,676,509</u>	<u>(683,352)</u>	<u>28,213,803</u>
Capital assets being depreciated, net	<u>41,292,072</u>	<u>(1,607,594)</u>	-	<u>39,684,478</u>
Capital assets, net	<u>\$ 77,939,922</u>	<u>\$ (1,607,594)</u>	<u>\$ -</u>	<u>\$ 76,332,328</u>

Capital Improvements Projects in Progress and Related Commitments

Construction in progress and related commitments for the year ended September 30, 2016 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfer</u>	<u>Ending</u>
Construction in progress	\$ -	\$ 498,061	\$ -	\$ 498,061

Assets essentially serve all functions, hence depreciation is charged as unallocated expense.

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

Notes to the Basic Financial Statements
September 30, 2016

(3) Detail Notes on all Funds, Continued

Retirement Plan

PSS contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and administered by the CNMI. On September 30, 2013, the DB Plan was transferred to Northern Mariana Islands Settlement Fund (NMISF) and PSS now contributes to NMISF.

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 CNMI Pension Reform Recovery Act of 2012 was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan.

Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan and PSS contributed \$446,606, \$423,015 and \$407,855 to the NMISF during the years ended September 30, 2016, 2015 and 2014, respectively.

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

Notes to the Basic Financial Statements
September 30, 2016

(3) Detail Notes on all Funds, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law 15-13 was enacted which created the DC Plan, a multi-employer 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. PSS's recorded DC contributions for the years ended September 30, 2016, 2015 and 2014 were \$265,203, \$267,863 and \$269,784, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Unremitted Employer Contribution prior to September 30, 2013

The amount PSS recognized as payable to the Retirement fund prior to the creation of the Settlement Fund totaled \$26,902,270 including penalties as of September 30, 2013 and the amount due from PSS based on the actuarially determined rate including interest amounted to \$41,016,171. 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 \$14,113,902, as well as the \$26,902,270 is ultimately due from the CNMI central government and not from PSS. The Settlement Order for Federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities, strengthen PSS' position. In fiscal year 2015, the beginning net position in the Statement of Activities was restated to reverse the liabilities and prior year expenses accrued amounting to \$26,902,270.

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

Notes to the Basic Financial Statements
September 30, 2016

(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 \$36,455,094 for PSS' operational use for the fiscal year ended September 30, 2016.

At September 30, 2016, amounts payable for utilities expense to the Commonwealth Utilities Corporation (CUC), which is included as long-term debt in the accompanying Statement of Net Position, amounted to \$2,736,202, excluding penalties of approximately \$2 million, which shall be waived by CUC upon full payment of the amount owed by PSS pursuant to the Settlement Agreement between the two agencies. During the year ended September 30, 2016, total utilities expense to CUC amounted to \$1,643,297.

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

Notes to the Basic Financial Statements
September 30, 2016

(3) Detail Notes on all Funds, Continued

Non-current Liabilities

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

	<u>Balance</u> <u>9/30/15</u>	<u>Change</u>	<u>Balance</u> <u>9/30/16</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Compensated absences	<u>\$ 2,634,414</u>	<u>\$ 381,858</u>	<u>\$ 3,016,272</u>	<u>\$ 1,005,424</u>	<u>\$ 2,010,848</u>
Long-term Debt – CUC	<u>\$ 3,841,202</u>	<u>(\$ 1,105,000)</u>	<u>\$ 2,736,202</u>	<u>\$ 1,200,000</u>	<u>\$ 1,536,202</u>

PSS uses its general funds to liquidate its accrued compensated absences and to pay for the long-term debt to CUC. Payments will be drawn from the annual CNMI government appropriation.

(4) Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. PSS does not have any deferred outflows of resources as of September 30, 2016.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2016, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

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

Notes to the Basic Financial Statements
September 30, 2016

(5) Contingencies

CNMI Contributions

A substantial amount of PSS' funding is provided by appropriations from the CNMI Government. PSS is guaranteed an annual budget of not less than twenty five percent (25%) 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 U.S. 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.

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.

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, 2016 is approximately \$6 million.

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

Notes to the Basic Financial Statements
September 30, 2016

(6) 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, \$745,516 of outstanding purchase orders and purchase commitments for which goods and services have not been received are not reported in the financial statements as of September 30, 2016.

(7) 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 CNMI 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, PSS is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2016.

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

(8) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ending September 30, 2016, 50.68% and 47.61% 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.

(9) Fair Value of Financial Instruments

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

PSS categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

Notes to the Basic Financial Statements
September 30, 2016

(10) Subsequent Events

PSS has evaluated subsequent events from October 1, 2016 through April 28, 2017, the date the financial statements were available to be issued.

In December 2016, through the Supplemental Appropriation (PL 19-75) PSS was able to pay in full the \$2,736,202 owed to CUC.

(11) Reclassification and Restatements

Restatement

The reported beginning General Fund Governmental Fund balance was restated to adjust the liabilities to record only those liabilities requiring expenditure of current resources. The General Fund Governmental Fund beginning fund balance was restated as follows:

Fund balance, beginning	\$	4,724,511
Restatement		
Reduce accounts payable and accrued expenses for payment recorded as expense in prior year instead of reduction of liabilities		171,178
Fund balance, beginning as restated	\$	4,895,689

The restatements of the 2015 balances are summarized as follows:

	<u>As Stated</u>	<u>Restatements</u>	<u>Restated</u>
Total Assets	\$ 8,866,389	\$ -	\$ 8,866,389
Total Liabilities	\$ 3,060,360	\$ (171,178)	\$ 2,889,182
Total Deferred Inflows	\$ 1,081,518	\$ -	\$ 1,081,518
Total Fund Balance	\$ 4,724,511	\$ 171,178	\$ 4,895,689

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

Notes to the Basic Financial Statements
September 30, 2016

(11) Reclassification and Restatements, Continued

The reported beginning net position in the Statement of Activities was also restated as follows:

Net position, beginning	\$ 76,188,817
Restatement	
Reduce accounts payable and accrued expenses for payment recorded as expense in prior year instead of reduction of liabilities	<u>171,178</u>
Net position, beginning, as restated	<u>\$ 76,359,995</u>

The restatements of the 2015 balances are summarized as follows:

	<u>As Stated</u>	<u>Restatements</u>	<u>Restated</u>
Total Assets	\$ 86,806,311	\$ -	\$ 86,806,311
Total Liabilities	\$ 9,535,976	\$ (171,178)	\$ 9,364,798
Total Deferred Inflows	\$ 1,081,518	\$ -	\$ 1,081,518
Total Fund Balance (Deficit)	\$ 76,188,817	\$ 171,178	\$ 76,359,995

(12) Other Matters

As disclosed in Note 3, PSS has 30 active members of the CNMI Settlement Fund (the Fund).

The Fund released its actuarial report for the year ended September 30, 2015. The actuarial report indicated that the Fund shall be funded by the minimum annual settlement payments by the CNMI government. The report did not disclose any unfunded pension obligation allocated to PSS.

PUBLIC SCHOOL SYSTEM

SUPPLEMENTAL INFORMATION

Year Ended September 30, 2016

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, 2016

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
Assets:									
Current Assets:									
Cash	\$ -	\$ -	\$ 1,104,397	\$ 380,913	\$ 767,305	\$ -	\$ 493,652	\$ 50,136	\$ 2,796,403
Receivable from Federal Agencies	-	-	-	-	-	176,096	-	-	176,096
Other receivables	8,588	-	-	16,149	-	269	2,016	-	27,022
Due from (to) other funds	(24,667)	(2,875)	-	-	-	(173,948)	-	-	(201,490)
Total assets	\$ (16,079)	\$ (2,875)	\$ 1,104,397	\$ 397,062	\$ 767,305	\$ 2,417	\$ 495,668	\$ 50,136	\$ 2,798,031
Liabilities, Deferred Inflows and Fund Balances									
Liabilities:									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources:									
Grants received	-	-	-	397,061	-	2,417	495,668	50,134	945,280
Fund Balances:									
Restricted	-	(2,875)	1,104,397	-	-	-	-	-	1,101,522
Assigned	-	-	-	-	767,305	-	-	-	767,305
Unassigned	(16,079)	-	-	1	-	-	-	2	(16,076)
Total fund balances	(16,079)	(2,875)	1,104,397	1	767,305	-	-	2	1,852,751
Total Liabilities, Deferred Inflows and Fund Balances									
	\$ (16,079)	\$ (2,875)	\$ 1,104,397	\$ 397,062	\$ 767,305	\$ 2,417	\$ 495,668	\$ 50,136	\$ 2,798,031

⁽¹⁾ Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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, 2016

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
Revenues:									
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178,674	\$ 474,012	\$ 20,286	\$ 672,972
Local	50,507	-	-	-	461,483	-	-	-	511,990
Charges for services	-	-	-	717,777	-	-	-	-	717,777
Total revenues	<u>50,507</u>	<u>-</u>	<u>-</u>	<u>717,777</u>	<u>461,483</u>	<u>178,674</u>	<u>474,012</u>	<u>20,286</u>	<u>1,902,739</u>
Expenditures:									
Instructional programs:									
Regular	-	701,663	-	-	452,747	-	-	-	1,154,410
Special	-	-	-	-	-	-	-	-	-
Co-curricular	-	-	-	-	-	178,674	474,012	20,284	672,970
Student services	-	-	-	-	-	-	-	-	-
Total instructional programs	<u>-</u>	<u>701,663</u>	<u>-</u>	<u>-</u>	<u>452,747</u>	<u>178,674</u>	<u>474,012</u>	<u>20,284</u>	<u>1,827,380</u>
Supporting services:									
General administration	-	-	-	717,776	-	-	-	-	717,776
Individual programs	5,500	-	-	-	-	-	-	-	5,500
Other	-	-	155,583	-	-	-	-	-	155,583
Total supporting services	<u>5,500</u>	<u>-</u>	<u>155,583</u>	<u>717,776</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>878,859</u>
Total Expenditures	<u>5,500</u>	<u>701,663</u>	<u>155,583</u>	<u>717,776</u>	<u>452,747</u>	<u>178,674</u>	<u>474,012</u>	<u>20,284</u>	<u>2,706,239</u>
Excess	45,007	(701,663)	(155,583)	1	8,736	-	-	2	(803,500)
Operating Transfers	-	362,649	-	-	-	-	-	-	362,649
Fund balance (deficit), beginning of year	<u>(61,086)</u>	<u>336,139</u>	<u>1,259,980</u>	<u>-</u>	<u>758,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,293,602</u>
Fund balance (deficit), end of year	<u>\$ (16,079)</u>	<u>\$ (2,875)</u>	<u>\$ 1,104,397</u>	<u>\$ 1</u>	<u>\$ 767,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 1,852,751</u>

⁽¹⁾ Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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

Schedule of Expenditures/Expense (By Natural Classification)
Year Ended September 30, 2016

	General Fund	Federal Fund	Non-Major Funds	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 25,864,188	\$ 8,324,930	\$ 568,827	\$ 34,757,945	\$ 381,858	\$ 35,139,803
Professional services	126,882	14,979,866	85,196	15,191,944	-	15,191,944
Employee benefits	4,424,262	1,201,636	80,968	5,706,866	-	5,706,866
Controlled assets	245,788	1,909,969	28,980	2,184,737	-	2,184,737
Travel	227,973	1,431,458	499,694	2,159,125	-	2,159,125
Books and instruction materials	36,530	1,214,403	731,842	1,982,775	-	1,982,775
Depreciation	-	-	-	-	1,676,509	1,676,509
Utilities	2,700,891	34,611	12,795	2,748,297	(1,105,000)	1,643,297
Supplies and materials	263,209	669,806	105,102	1,038,117	-	1,038,117
Rental	123,314	867,395	44,453	1,035,162	-	1,035,162
Repairs and maintenance	759,082	458,303	344,774	1,562,159	(554,831)	1,007,328
Indirect costs	-	750,825	23,387	774,212	-	774,212
Licenses and fees	41,098	574,714	2,240	618,052	-	618,052
Cleaning services	240,637	82,406	30,116	353,159	-	353,159
Communications	208,322	120,099	19,115	347,536	-	347,536
Miscellaneous	103,697	145,406	37,469	286,572	-	286,572
Provision for uncollectible accounts	222,665	-	-	222,665	-	222,665
Fuel and lubricants	150,066	21,962	7,962	179,990	-	179,990
Dues and subscriptions	21,472	137,135	17,871	176,478	-	176,478
Security services	117,191	-	20,794	137,985	-	137,985
Printing and photocopying	11,494	111,904	5,033	128,431	-	128,431
Food items	36,955	14,796	21,949	73,700	-	73,700
Advertising	7,137	54,633	6,505	68,275	-	68,275
Recruitment and repatriation	-	41,049	7,760	48,809	-	48,809
Small tools and equipment	27,565	9,995	-	37,560	(12,145)	25,415
Freight and handling	1,973	13,220	3,407	18,600	-	18,600
Insurance	15,378	-	-	15,378	-	15,378
Furniture and fixtures <5,000	14,284	-	-	14,284	-	14,284
Bank charges	5,832	-	-	5,832	-	5,832
Total expenditures (page 22)	\$ 35,997,885	\$ 33,170,521	\$ 2,706,239	\$ 71,874,645	\$ 386,391	\$ 72,261,036
					Total Expenses (page 20)	\$ 72,261,036

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

**INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

Year Ended September 30, 2016

**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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the PSS' basic financial statements and have issued our report thereon dated April 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the PSS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PSS' internal control. Accordingly, we do not express an opinion on the effectiveness of the PSS' internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2016-001 through 2016-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PSS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PSS' Response to Findings

PSS' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Saipan, Commonwealth of the Northern Mariana Islands
April 28, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the PSS' major federal programs for the year ended September 30, 2016. PSS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the PSS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the PSS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the PSS' compliance.

Opinion on Each Major Federal Program

In our opinion, the PSS complied, in all material respects, with the types of 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, 2016.

Report on Internal Control over Compliance

Management of the PSS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the PSS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PSS' internal control over compliance.

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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004 and 2016-006 that we consider to be significant deficiencies.

PSS' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the PSS, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We issued our report thereon dated April 28, 2017 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of the Uniform Guidance 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Saipan, Commonwealth of the Northern Mariana Islands
April 28, 2017

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal Grantor/Program Title	CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 12,342,071
Total U.S. Department of Agriculture		<u>12,342,071</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Army JROTC	12.Unknown	464,758
Total U.S. Department of Defense		<u>464,758</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Consolidated Grants to the Outlying Areas	84.403	10,935,112
Special Education - Grants to States (IDEA, Part B) Territories and Freely Associated States Education Grant Program	84.027	5,089,015
Special Education - Grants for Infants and Families	84.256	749,786
Striving Readers	84.181	405,714
	84.371	<u>161,401</u>
Total U.S. Department of Education		<u>17,341,028</u>
<u>U.S. Department of Transportation</u>		
Direct Program:		
Formula Grants for Other Than Urbanized Areas	20.509	12,289
Total U.S. Department of Transportation		<u>12,289</u>
Sub-total carried forward		<u>\$ 30,160,146</u>

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

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total brought forward		\$ 30,160,146
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	2,601,811
Personality Responsibility Education	93.092	228,752
Project Traditional Technology	93.612	169,914
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.079	3,947
Sub-total Direct Programs		3,004,424
Pass-Through the Government of the CNMI:		
Child Care	93.575	2,588
Total U.S. Department of Health and Human Services		<u>3,007,012</u>
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	213,820
Total Corporation for National and Community Service		<u>213,820</u>
<u>U.S. Department of the Interior</u>		
Direct Program:		
Technical Assistance Programs	11.550	253,912
Pass-through the CNMI Government:		
Compact impact	15.875	407,185
Total U.S. Department of the Interior		<u>661,097</u>
<u>U.S. Department of Homeland Security</u>		
Pass-through the CNMI Government		
FEMA Disaster Recovery - Typhoon Soudelor	97.unknown	175,678
Total U.S. Department of Homeland Security		<u>175,678</u>
Total expenditures		<u>\$ 34,217,753</u>

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

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal Grantor/Program Title	CFDA Number	Expenditures
Reconciliation:		
Expenditures Federal Fund		\$ 33,170,132
Expenditures included in nonmajor funds		640,436
Expenditures included in General Fund		<u>407,185</u>
Total expenditures		<u><u>\$ 34,217,753</u></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, 2016

(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 Uniform Guidance 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 Interior for fiscal year 2016. The approved rates are as follows:

Unrestricted	5.19%
Restricted rate	3.82%

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.

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, 2016

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)? 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, 2016

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>
84.403	Consolidated Grant to the Outlying Areas	\$ 10,935,112
93.600	Head Start	2,601,811
84.256	Territories and Freely Associated States Education Grant Program	<u>749,786</u>
Total Federal Expenditures-Major Programs		<u>\$ 14,286,709</u>
Percentage of total awards tested		42%

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

\$ 1,026,533
3% of the total awards expended

Auditee qualified as low-risk auditee

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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-001, Travel Authorization Supporting Documents

Finding type: Significant deficiency in Internal Control

Criteria:

PSS Regulation § 60-20-720 (c) (6) for travelers outside the CNMI states that the following information must be attached to the travel authorization before being presented to the Chairperson of the Board and to the Commissioner as appropriate:

- i. Justification memorandum for the travel
- ii. Document of invitation and/or agenda
- iii. Specific purpose
- iv. Itinerary (schedule of departure, arrival and destinations)
- v. Estimated cost

Condition:

We noted that for two (2) or 4% of the fifty (50) travel authorizations tested, the justification memo and specific purpose information were missing.

Cause:

The cause of the above condition is the lack of adherence to established policies and procedures regarding the submission of travel authorization.

Effect:

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

**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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-001, Travel Authorization Supporting Documents, Continued

Recommendation:

PSS should strictly enforce its travel policies and procedures and establish internal control monitoring procedures to ensure that all required supporting documents are attached to the travel authorization.

View of Responsible Officials:

PSS agrees with the finding. See auditee corrective action plan on page 77.

**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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-002, Travel Advance Liquidation

Finding type: Significant deficiency in Internal Control

Criteria:

Public School Systems Rules and Regulation § 60-20-721 (g) (5) and § 60-20-720 (g) (7) for commuters within and travelers outside the CNMI, respectively, states that Commuters must file a travel voucher with supporting documentation within thirty working days upon completion of each individual commute as set forth on the commute form and travelers must file a travel voucher with supporting documentation within fifteen working days upon completion of travel.

Furthermore, within thirty and fifteen working days, for travels within and outside the CNMI, respectively, after the voucher was or should have been submitted, the travel section of the Fiscal and Budget Office will issue the employee a statement notifying him/her of any discrepancies in the submitted documents and all amounts owed to PSS. This statement shall include the following:

- vi. The date of each commute resulting in an outstanding balance;
- vii. The place of each commute resulting in an outstanding balance;
- viii. The amount advanced for each commute;
- ix. The amount owed for each commute;
- x. The total amount owed;
- xi. Any discrepancies or problems with the submitted documents; and
- xii. Notification that the amount will be deducted from the employee's paycheck for the next pay period unless resolved.

Condition:

During the test of PSS compliance with the travel and commuting policies we noted that five (5) or 6% of ninety (90) travel authorizations selected were not liquidated within the prescribed period and were outstanding as of September 30, 2016. Furthermore, the statement of discrepancy that meets the requirements of Public School Systems Rules and Regulation was either not issued on time or was not issued at all.

Cause:

The cause of the above conditions is the lack of adherence to established policies and procedures regarding the liquidation of travel advances. In one case, the travel advance was for a new recruit. One of the causes seems to be an understaffing situation wherein one or more employees were not able to maintain a full time working schedule.

**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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-002, Travel Advance Liquidation, Continued

Effect:

Unliquidated travel advances have the effect of understating PSS expenses. If the travel is covered by a Federal grant, unliquidated travel advances means that PSS has not submitted the expense for reimbursement and therefore has not collected money from the grantor for such travel.

Travel advances received for travel authorizations that are not timely liquidated pursuant to PSS Regulations may be subject to tax pursuant to Internal Revenue Service Publication 5137, *Fringe Benefit Guide for Office of Federal, State and Local Governments* and 26 CFR 1.622, *Reimbursements and other expense allowance arrangements*.

The Publication states that, under an accountable plan, allowances or reimbursements paid to employees for job-related expenses are excluded from wages and are not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) that includes the following requirements is considered an accountable plan:

- There is a business connection to the expenditure.
- There is adequate accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances are returned within a reasonable period of time. IRC §62(c); Reg. §1.62(c)(2)-2(c)(2)

Recommendation:

PSS should consider including as taxable compensation the travel advances issued to travelers who did not timely liquidate. Travelers might be enticed to timely liquidate their advances. In addition, we recommend that PSS comply with its policies and procedures and regulations regarding travel advances.

View of Responsible Officials:

PSS agrees with the finding. See auditee corrective action plan on page 78.

**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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-003, Human Resources

Finding type: Significant deficiency in Internal Control

Criteria:

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

Condition:

Based on results of testing of personnel records the following were noted:

- a. For three (3) or 3% of 90 personnel records selected for testing, the employment contract had expired.
- b. For eight (8) or 9% of 90 personnel records selected for testing, the employment contract was not processed before the expiration of the contract term.
- c. For one (1) or 1% of 90 personnel records selected for testing, there was no current medical certificate.

Cause:

PSS did not adhere to policies and procedures for the maintenance of Human Resources records.

Effect:

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

**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, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2016-003, Human Resources, Continued

Recommendation:

PSS should ensure that all the required documents pursuant to PSS regulation §60-30.1-190 are properly completed and filed.

Employment contracts should be updated in a timely manner.

View of Responsible Officials:

PSS agrees with the finding. See auditee corrective action plan on pages 78-79.

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-004 Internal Control over Compliance- Travel Advance Liquidation

Grantor:	Department of Education
Program Name:	Consolidated Grant
CFDA No.:	84.403
Award No.:	S403A150008
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-005
Finding Type:	Significant deficiency

Criteria:

Public School Systems Rules and Regulation § 60-20-721 (g) (5) and § 60-20-720 (g) (7) for commuters within and travelers outside the CNMI, respectively, states that Commuters must file a travel voucher with supporting documentation within thirty working days upon completion of each individual commute as set forth on the commute form and travelers must file a travel voucher with supporting documentation within fifteen working days upon completion of travel.

Furthermore, within thirty and fifteen working days, for travels within and outside the CNMI, respectively, after the voucher was or should have been submitted, the travel section of the Fiscal and Budget Office will issue the employee a statement notifying him/her of any discrepancies in the submitted documents and all amounts owed to PSS. This statement shall include the following:

- i. The date of each commute resulting in an outstanding balance;
- ii. The place of each commute resulting in an outstanding balance;
- iii. The amount advanced for each commute;
- iv. The amount owed for each commute;
- v. The total amount owed;
- vi. Any discrepancies or problems with the submitted documents; and
- vii. Notification that the amount will be deducted from the employee's paycheck for the next pay period unless resolved.

Condition:

During the test of PSS compliance with the travel and commuting policies we noted that three (3) or 3% of ninety (90) travel authorization selected were not liquidated within the prescribed period and were still outstanding as of September 30, 2016. Furthermore, the statement of discrepancy that meets the requirements of Public School Systems Rules and Regulation was either not issued on time or was not issued at all.

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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2016-004 Internal Control over Compliance- Travel Advance Liquidation,
Continued**

Grantor:	Department of Education
Program Name:	Consolidated Grant
CFDA No.:	84.403
Award No.:	S403A150008
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-005
Finding Type:	Significant deficiency

Context:

Randomly selected 90 travel authorizations for testing, using the travel voucher selected for the test of travel.

Cause:

The cause of the above conditions is the lack of adherence to established policies and procedures regarding the liquidation of travel advances. In one case, the travel advance was for a new recruit. One of the causes seems to be an understaffing situation wherein one or more employees were not able to maintain a full time working schedule.

Effect:

Unliquidated travel advances have the effect of understating PSS expenses. If the travel is covered by a Federal grant, unliquidated travel advances means that PSS has not submitted the expense for reimbursement and therefore has not collected money from the grantor for such travel.

Travel advances received for travel authorizations that are not timely liquidated pursuant to PSS Regulations may be subject to tax pursuant to Internal Revenue Service Publication 5137, *Fringe Benefit Guide for Office of Federal, State and Local Governments* and 26 CFR 1.622, *Reimbursements and other expense allowance arrangements*.

The Publication states that, under an accountable plan, allowances or reimbursements paid to employees for job-related expenses are excluded from wages and are not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) that includes the following requirements is considered an accountable plan:

- There is a business connection to the expenditure.
- There is adequate accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances are returned within a reasonable period of time. IRC §62(c); Reg. §1.62(c)(2)-2(c)(2)

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2016-004 Internal Control over Compliance- Travel Advance Liquidation,
Continued**

Grantor:	Department of Education
Program Name:	Consolidated Grant
CFDA No.:	84.403
Award No.:	S403A150008
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-005
Finding Type:	Significant deficiency

Questioned costs:

No costs have been questioned as a result of this finding.

Recommendation:

PSS should consider including as taxable compensation the travel advances issued to travelers who did not timely liquidate. Travelers might be enticed to timely liquidate their advances. In addition, we recommend that PSS comply with its policies and procedures and regulations regarding travel advances.

View of Responsible Official:

PSS agrees with the finding. See auditee corrective action plan on page 80.

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-005 Internal Control: Procurement- Sole Source Justification

Grantor:	Department of Health & Human Services
Program Name:	Head Start
CFDA No.:	93.600
Award No.:	09CH9165 / 09HP0029
Award Year:	2015-2016
Repeat Finding From Prior Audit?	No
Finding Type:	Control deficiency

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 and shall be approved by the expenditure authority:

- a. the unique capabilities required and why they are required;
- b. the consideration given to alternative sources, how was the price determined reasonable and what vendors were sought to determine price reasonableness; and
- c. the items selected meet the unique capabilities that are required in comparison to other items that were reviewed from other vendors.

Condition:

For 1 (PV No. 242587) or 1% of 68 items tested, the written sole source justification memo was not approved by an authorized officer and written determination does not mention the consideration given to alternative sources, how the price was determined to be reasonable and what vendors were sought to determine price reasonableness.

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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-005 Internal Control: Procurement- Sole Source Justification, Continued

Grantor:	Department of Health & Human Services
Program Name:	Head Start
CFDA No.:	93.600
Award No.:	09CH9165 / 09HP0029
Award Year:	2015-2016
Repeat Finding From Prior Audit?	No
Finding Type:	Control deficiency

Context:

We tested 68 expenditures charged to the grant for compliance with procurement regulations. The tested population covered expenditures of \$104,751. The total population included approximately 536 expenditures totaling \$796,937. A statistical random sampling methodology was used to select the sample.

Cause:

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

Effect:

PSS is not in compliance with its sole-source procurement regulation.

Questioned costs:

No costs have been questioned as a result of this finding.

Recommendation:

PSS should ensure that all sole-sourced contracts are supported by a written determination that meets the established PSS procurement regulations.

View of Responsible Official:

PSS agrees with the finding. See auditee corrective action plan on pages 80-82.

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-006 Internal Control: Head Start – Health Certificate

Grantor:	Department of Health & Human Services
Program Name:	Head Start
CFDA No.:	93.600
Award No.:	09CH9165 / 09HP0029
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-007
Finding Type:	Significant deficiency

Criteria:

Pursuant to Head Start policies § 60-60-404.

The use of immunizations is recommended to prevent young children from becoming seriously ill or dying from once common and feared childhood diseases. The recommended immunization schedule begins during infancy and, with the exception of boosters, is completed during early childhood.

- a. CNMI Public law 6-10 § 1163 states that “If the child has not received all of the required immunization, the parents shall be notified immediately that they are required to initiate all required immunization for their child within two weeks after the date of such notice. Failure to comply shall be grounds for suspension of the child from school until immunization standards have been met.”
- b. Pursuant to CNMI Law, every parent of a child shall, at the time of first enrollment of the child in any Commonwealth public or non-public school and for each subsequent school year, irrespective of grade level, provide the school of attendance with proof that the child has received vision and hearing tests and all of the immunizations required by the Department of Public Health. Every parent/guardian of a child whose health records show incomplete tests and immunizations shall be immediately notified of the test or immunization deficiency.
- c. Parents are required to initiate all required examinations, tests and immunizations for their child within two weeks after the date of such notice. Except as provided in 3 CMC § 1164, failure to comply shall be grounds for suspension of the child from school until the examination, testing or immunization standards have been met.

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-006 Internal Control: Head Start – Health Certificate, Continued

Grantor:	Department of Health & Human Services
Program Name:	Head Start
CFDA No.:	93.600
Award No.:	09CH9165 / 09HP0029
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-007
Finding Type:	Significant deficiency

Condition:

9 or 13% of 68 students selected for testing do not have the updated health certification on file.

<u>Center</u>	<u>Date of Birth</u>	<u>Last Certification on file</u>
Chalan Kanoa Center - CK/A-AM	08/08/11	06/07/16 (temporary certificate)
Chalan Kanoa Center - CK/A-PM	02/11/11	12/02/16 (temporary certificate)
Chalan Kanoa Center - CK/B-AM	12/11/10	12/02/16 (temporary certificate)
Chalan Kanoa Center - CK/C-PM	11/28/11	None on file
Chalan Kanoa Center - CK/D-AM	06/10/11	None on file
Joaquina M. Rabauliman Center - JMR/A-AM	05/03/11	03/17/16 (temporary certificate)
Kagman Center - PM	07/31/12	None on file
Rota Center	01/29/11	None on file
San Antonio Center - AM	02/13/12	12/02/16 (temporary certificate)

Context:

Out of 453 Head Start participants, we tested 68, and found 9 that do not have updated health certifications on file.

Cause:

The responsibility to obtain proof that the child has received vision and hearing tests and all of the immunizations required by the Department of Public Health lies with the parents. PSS Head Start informs the parents of children with expiring health certifications to obtain an updated certification to comply with the CNMI laws. However, most parents are not able to obtain the “Blue Card” (Health Certification) because of the fee. PSS Head Start considers the students in compliance with the health certifications for as long as they are current with their immunizations. Most of the returning Head Start students fail to obtain the Blue Card.

**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, 2016

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2016-006 Internal Control: Head Start – Health Certificate, Continued

Grantor:	Department of Health & Human Services
Program Name:	Head Start
CFDA No.:	93.600
Award No.:	09CH9165 / 09HP0029
Award Year:	2015-2016
Repeat Finding From Prior Audit?	Yes / 2015-007
Finding Type:	Significant deficiency

Effect:

The Head Start program is not in compliance with regulations.

Questioned cost:

This finding does not result in questioned costs.

Recommendation:

PSS Head Start should consider amending the Memorandum of Agreement with the Commonwealth Healthcare Corporation to include the Health Certification of Head Start students in lieu of the individual certifications.

View of Responsible Official:

PSS agrees with the finding. See auditee corrective action plan on page 83.



COMMONWEALTH of the NORTHERN MARIANA ISLANDS
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 Angelly Marie Guiang

Cynthia I. Deleon Guerrero, M.Ed.
 COMMISSIONER OF EDUCATION

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2015-001	Travel Advances	Resolved.
2015-002	Travel Advances Liquidation	Not Corrected. Similar condition noted in Finding No. 2016-002.
2015-003	Fixed Assets	Resolved.
2015-004	Human Resources	Not Corrected. Similar condition noted in Finding Nos. 2016-003.

STUDENTS FIRST

**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, 2016

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.	Findings	Status
2015-005	Liquidation of Travel Advances	Not Corrected. Similar condition noted in Finding Nos. 2016-002 & 2016-004.
2015-006	Human Resources	Not Corrected. No condition noted in federal award.
2015-007	Health Certificate	Not Corrected. Similar Condition noted in Finding No. 2016-006.



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CORRECTIVE ACTION PLAN

REPLY TO FY2016 AUDIT FINDINGS

Finding No. 2016-001, Travel Authorization Supporting Documents

Auditee Response:

Contact Person – Rodolfo Urbano, Comptroller
 Contact – rodolfo.urbano@cnmipss.org
 Completion Date – Corrective actions have been implemented

PSS Travel section is diligent in reviewing documents that are required to be attached on Travel Authorization requests. In the case of the 4% sampled travels, the travelers were part of a batch coming from one school. The batch they belong to have one identical justification memo and one specific purpose.

Since these travelers will be traveling together, some of them did not attach justification memo and specific purpose. PSS Travel section acknowledges that it failed to enforce that each individual traveler should attached a justification memo and specific purpose regardless if they are travelling by group.

PSS Travel section has been advised on this finding and it will adopt a stricter procedure not to process any travel authorization requests with incomplete attachments and will return the documents to the requester for completion of required documents.

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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, 2016

Finding No. 2016-002, Travel Advance Liquidation

Auditee Response:

Contact Person – Rodolfo Urbano, Comptroller
Contact – rodolfo.urbano@cnmipss.org
Completion Date – Corrective actions have been implemented

PSS Finance Travel section has been notified and has already begun utilizing and issuing the notices of discrepancy for fiscal year 2017. Payroll deductions are then immediately implemented upon expiration of the time allowed for in the notices. Moreover, all travel authorization forms (commutes and TAs) and the advance form have been updated to include language on traveler's liability, as well.

Finally, the audit report states that late travel liquidations “may” be subject to tax pursuant to the IRS. However, from PSS’ perspective this is not necessary, as PSS recovers funds advanced to non-compliant travelers through payroll deduction, which is what is required by PSS travel regulations. PSS travel regulations provide remedies for collecting advanced travel funds.

Finding No. 2016-003, Human Resources

Auditee Response:

Contact Person – Lucretia Borja, Human Resources Officer
Contact –lucretia.borja@cnmipss.org
Completion Date – Corrective actions have been implemented

Condition A – Expired Contracts

HRO will continue to download the JDE personnel data report on a monthly basis. HRO will continue to filter the JDE personnel data report for the purpose of monitoring the “*next review date*” (expiration date). HRO will continue to send email reminders to both employees and their supervisors on required documents for contract renewal. Upon receipt of all required documents for contract renewal, HRO will continue to process contract renewal. HRO will continue to provide monthly data report updates to supervisors and report on timeline of submission of documents necessary to process contract renewals. HRO will also provide to the supervisors the Monthly Contract Renewals Summary Report to ensure that they are reminded of which employees have yet to submit required documents. (Note: 1 (Employee Number 2408) without a valid contract is processed and routing for approval. 2 (Employee Numbers: 2237 and 2422) without a

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, 2016

Finding No. 2016-003, Human Resources, Continued

Condition A – Expired Contracts, Continued

valid contract is pending supporting documents for employment contract renewal to be processed.)

Condition B – Expired Contracts

HRO will continue to download the JDE personnel data report on a monthly basis. HRO will continue to filter the JDE personnel data report for the purpose of monitoring the "*next review date*" (expiration date). HRO will continue to send email reminders to both employees and their supervisors on the required documents for contract renewal. Upon receipt of all required documents for contract renewal, HRO will continue to process contract renewals. HRO will continue to provide monthly data report updates to supervisors and report on the timeline of submission for required documents necessary to process contract renewals. HRO will also provide to the supervisors the Monthly Contract Renewals Summary Report to ensure that they are reminded of which employees have yet to submit required documents. [Note: 5 (Employee Numbers: 2901, 14707, 15288, 15685, 15895) valid employment contracts have all been renewed. 3 (Employee Numbers: 9377, 2028,11126) employment contract renewals have been processed and routing for approval.)

Condition C – Expired Medical Certificates

HRO will notify the applicant selected for hire of the requirement for medical certificate submission. This notification will be sent via email with the Letter of Intent to Offer Employment. HRO will monitor the submission of medical certificates to ensure that it is submitted at the point of contract review and signature. No contract without the required medical certificate will be considered valid and it will not be filed. These contracts will remain in the file cart labeled "Pending Medical Certificate" until the document is received. Administrative Assistant will review each completed contract to ensure that the medical certificate has been received for that contract before filing. (Note: 1 (Employee Number: 17882) with missing current medical certificates has been received by HRO on 12/12/2016.)

**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, 2016

Finding No. 2016-004, Internal Control over Compliance – Travel Advance Liquidation

Auditee Response:

Contact Person – Rodolfo Urbano, Comptroller

Contact – rodolfo.urbano@cnmipss.org

Completion Date – Corrective actions have been implemented

PSS Finance Travel section has been notified and has already begun utilizing and issuing the notices of discrepancy for fiscal year 2017. Payroll deductions are then immediately implemented upon expiration of the time allowed for in the notices. Moreover, all travel authorization forms (commutes and TAs) and the advance form have been updated to include language on traveler's liability, as well.

Finally, the audit report states that late travel liquidations “may” be subject to tax pursuant to the IRS. However, from PSS’ perspective this is not necessary, as PSS recovers funds advanced to non-compliant travelers through payroll deduction, which is what is required by PSS travel regulations. PSS travel regulations provide remedies for collecting advanced travel funds.

Finding 2016-005, Internal Control: Procurement – Sole Source Justification

Contact - Kimo Rosario, Procurement and Supply Officer

Contact - kimo.rosario@cnmipss.org

Completion Date - Corrective actions have been implemented

The PSS Office of Procurement and Supply (PSS-P&S), partially agrees with the external auditor's finding that: 1. The requesting program (Head Start Program) failed to provide sufficient information in support of its sole-source procurement request and 2. The PSS-P&S failed to secure/obtain the required signature of the expenditure authority (Commissioner of Education) as required by CNMI-PSS procurement regulations at Section 60-40-215.

Our office agrees that:

- (1) There is no documentation on file that shows consideration was given to alternative sources; and
- (2) The authorized officer's (Commissioner of Education) signature indicating approval is devoid on the justification memorandum in support of this sole-source procurement request.

**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, 2016

Finding 2016-005, Internal Control: Procurement – Sole Source Justification, Continued

Conversely, the PSS-P&S disagrees with the following criteria used by the external auditor as its basis for this finding:

- (1) How was the price determined reasonable and what vendors were sought to determine [sic] price reasonableness; and
- (2) The items selected meet the unique capabilities that are required in comparison to other items that were reviewed from other vendors.

Our reasons for disagreeing with the criteria used are twofold. First, the regulation on sole-sourcing does not include, require, reference, or cover “price-reasonableness.” Second, if this criterion (price-reasonableness) is a determining factor—which it is not—then there is no reason for sole-sourcing as Head Start would be required to select another vendor providing the same items at lower prices and as required by other PSS procurement regulations that cover price-reasonableness, e.g., Subsection 60-40-220 (a)(4) Emergency Procurement, which reads: “A determination that the anticipated cost to PSS will be fair and reasonable.”

CORRECTIVE ACTIONS

To prevent repeated errors of this sort in the future, the PSS-P&S has started implementing the following actions since February 14, 2017:

1. All sole-source procurement requests shall be routed to the Office of the Commissioner of Education for approval/disapproval prior to submission at the PSS-P&S (current practice).
2. Reject/return sole source procurement requests that are inconsistent with procurement regulations and notifying requesting schools/programs/offices reason(s) for rejection/return of these requests listing devoid items and/or corrections that need to be made to muster approval (current practice);
3. Develop comprehensive standard operating procedures manual (attached) for Legal’s review and COE’s approval.

**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, 2016

Finding 2016-005, Internal Control: Procurement – Sole Source Justification, Continued

NOTE: The PSS Legal Counsel approved the draft SOP manual on April 19, 2017. The draft manual has been forwarded to the COE for her review and consideration on April 20, 2017; and

4. Supply and provide all PSS personnel handling procurement matters with the following documents and formal training:

- (a) Procurement regulations (completed)
- (b) Periodic Notices/Reminders of requirements on sole-source procurement (ongoing)
- (c) Justification memorandum template for sole-source procurement (completed);
- (d) Copy of draft standard operating procedures manual (completed);
- (e) Process flow chart on sole source procurement (completed);
- (f) Conduct formal training on procurement (work in progress); and
- (g) Proposal to offer procurement class or certification course for support/administrative staff as well as for aspiring and current PSS leaders with the goal of producing procurement-savvy PSS employees (work in progress).

**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, 2016

Finding 2016-006, Internal Control:Head Start – Health Certificate

Auditee Response:

Contact Person – Lathania Santos, Director, PSS- Early Head Start/ Head Start Program

Contact –lathania.santos@cnmipss.org

Completion Date – Corrective actions have been implemented

Upon entry to the program, Family Services (FCPM Manager and FPAs) staff will ensure that the Application Part 2: Health Required forms (such as Physical Examination Form, Immunization Form, Dental Health Form, and School Health Entrance Certificate) are complete and up-to-date.

The program Health, Nutrition, Mental Health Manager and Health Assistant will monitor and track child’s School Health Entrance Certificate and other health required documents to ensure all required health forms are up-to-date. The status of School Health Certificate’s will be reported to the Program Director on a monthly basis.

30 days prior to the expirations of School Entrance Health Certificate and/or required health forms notifications will be sent to parents to ensure that update forms will be submitted.

The Head Start/Early Head Start Program in collaboration with CHCC-Immunization Program will:

- Provide information packets for families explaining the importance of Public Law 6-10 and the requirements to obtain a School Health Entrance Certificate.
- Facilitate Parent Education Trainings on EPSDT.
- Schedule on-site vaccination drives twice a year; first thirty (30) days of enrollment and the end of each school year.
- Process and secure a Purchase Order to pay for the cost of school health certificate for families that cannot afford to pay for the \$2.50