

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

(A Component Unit of the CNMI Government)

*Year ended September 30, 2021
with Report of Independent Auditors*



Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Financial Statements

Year ended September 30, 2021

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Commonwealth of the Northern Mariana Islands
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Financial Statements

Year ended September 30, 2021

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Report of Independent Auditors

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, 2021, 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 conformity with U.S. generally accepted accounting principles; 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.

Auditors' 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 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 auditors' 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.

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

Basis for Qualified Opinions

Management has not adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. PSS has not recorded pension expense and related pension asset or liability, deferred inflows of resources and related outflows of resources as of for the year ended September 30, 2021. GASB No. 68 requires an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of PSS has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, 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, 2021, 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

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis on pages 4 through 14 and budgetary comparison information on page 39 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 (GASB), 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, 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 in pages 40 through 41 and the schedule of expenditures/expense (by natural classification) on page 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures/expense (by natural classification) 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/expenses (by natural classification) 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 26, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PSS' 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.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

April 26, 2023

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Management's Discussion & Analysis

September 30, 2021

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, 2021. 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 2021, PSS' net position amounted to \$81,970,522, an increase of \$4,929,254 or 6%, from the amount of \$77,041,268 in fiscal year 2020 net position. PSS total expenses for fiscal year 2021 amounted to \$96,822,838 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$103,177,255.

PSS' net position includes investment in capital assets, net of accumulated depreciation, of \$78,478,335, restricted for special purpose of \$680,188 and unrestricted funds of \$2,811,999. The surplus is due to the excess of revenues over expenses that are funded by appropriations from the CNMI government.

PSS' enrollment for school year 2020-2021 was 9,293 students. There was a decrease of 133 students from 9,426 students for school year 2019-2020.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

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.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Governmental-fund Financial Statements

The second type of statements included in the basic financial statements are the Governmental-fund Financial Statements, which are 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.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Governmental-fund Financial Statements, continued

<i>Condensed Statements of Net Position</i>				
	<u>2021</u>	<u>2020</u>	<u>Difference</u>	<u>% Change</u>
Current assets	\$ 15,392,482	\$ 7,886,404	\$ 7,506,078	\$ 95%
Capital assets, net	79,679,355	79,205,118	474,237	1%
Total assets	95,071,837	87,091,522	7,980,315	9%
Current liabilities	8,535,741	7,107,672	1,428,069	20%
Noncurrent liabilities	4,565,574	2,942,582	1,622,992	55%
Total liabilities	13,101,315	10,050,254	3,051,061	30%
Investment in capital assets and capital improvement projects	78,478,335	79,205,118	(726,783)	-1%
Restricted for special purpose	680,188	696,362	(16,174)	-2%
Unrestricted (deficit)	2,811,999	(2,860,212)	5,672,211	-198%
Net position	\$ 81,970,522	\$ 77,041,268	\$ 4,929,254	\$ 6%

- Current assets of \$15,392,482 as of September 30, 2021 increased by \$7,506,078 or 95% compared to current assets \$7,886,404 as of September 30, 2020.
- Current liabilities of \$8,535,741 as of September 30, 2021 increased by \$1,428,069 or 20% compared to \$7,107,672 as of September 30, 2020 primarily due to the increase in vendors invoices prior to fiscal year end.
- At the end of fiscal year 2021, PSS' net position is at \$81,970,522, net of the \$2,811,999 unrestricted funds.

Commonwealth of the Northern Mariana Islands
Public School System
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Management's Discussion & Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Governmental-fund Financial Statements, continued

<i>Condensed Statements of Activities</i>				
	<u>2021</u>	<u>2020</u>	<u>Difference</u>	<u>% Change</u>
Revenues				
Program revenues	\$ 78,197,576	\$ 67,540,182	\$ 10,657,394	16%
General revenues	24,979,679	20,535,204	4,444,475	22%
Total revenues	103,177,255	88,075,386	15,101,869	17%
Expense:				
Instruction	79,315,134	71,075,462	8,239,672	12%
Support services	18,932,867	16,136,733	2,796,134	17%
Total expenses	98,248,001	87,212,195	11,035,806	13%
Change in net position	4,929,254	863,191	4,066,063	471%
Net position, beginning	77,041,268	76,178,077	863,191	1%
Net position, ending	\$ 81,970,522	\$ 77,041,268	\$ 4,929,254	6%

- The overall increase in revenues and related expenses is due to increase in federal grants received by \$10,657,394 and increase in CNMI appropriations by \$4,444,475. A more detailed revenues and expenses discussion follows.

<i>Revenues</i>				
	<u>2021</u>	<u>2020</u>	<u>Difference</u>	<u>% Change</u>
Program revenues				
Charges for services	\$ 13,067	\$ 19,688	\$(6,621)	-34%
Grants and contributions	78,184,509	67,520,494	10,664,015	16%
Total program revenues	78,197,576	67,540,182	10,657,394	16%
General revenues				
CNMI appropriations	24,787,813	20,319,507	4,468,306	22%
Miscellaneous	191,866	215,697	(23,831)	-11%
Total general revenues	24,979,679	20,535,204	4,444,475	22%
Total revenues	\$ 103,177,255	\$ 88,075,386	\$ 15,101,869	17%

Total revenues for fiscal year 2021 were \$103,177,255, a \$15,101,869 or 17% increase from fiscal year 2020. The increase in 2021 revenue is due to the increase in revenues from federal grants and local appropriations.

The increase in federal grants received is primarily from the U.S Department of Education's Education Stabilization Fund for \$31,719,284.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

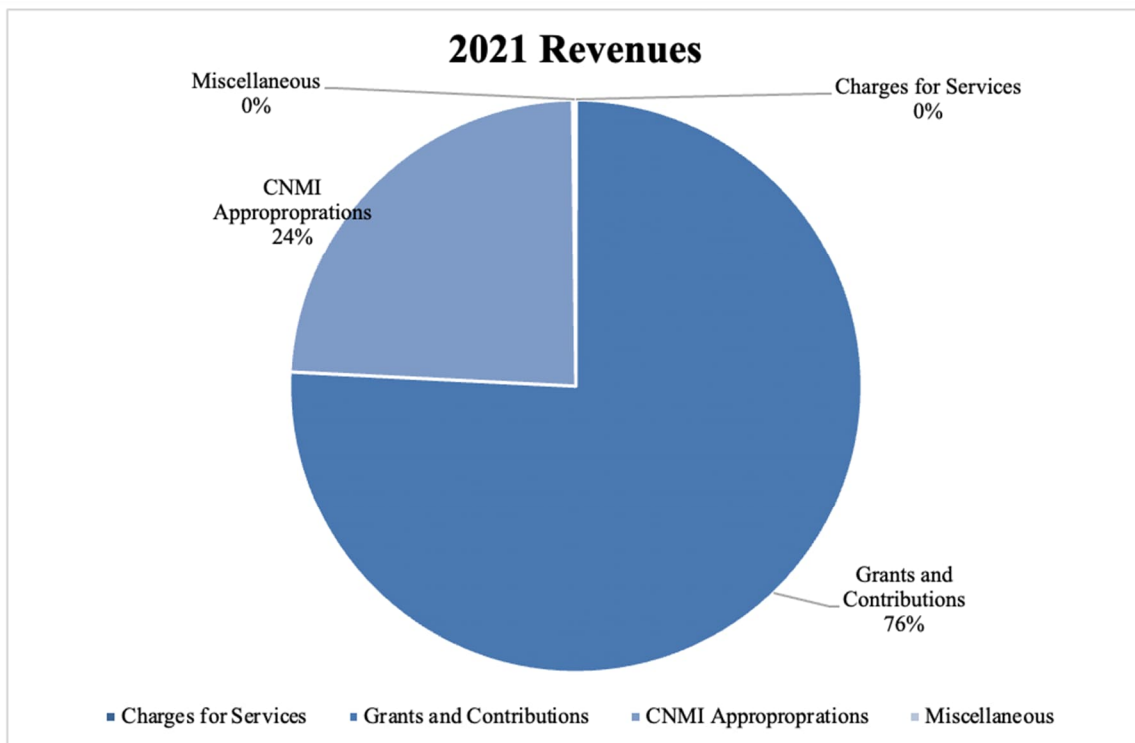
OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Governmental-fund Financial Statements, continued

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.



Commonwealth of the Northern Mariana Islands
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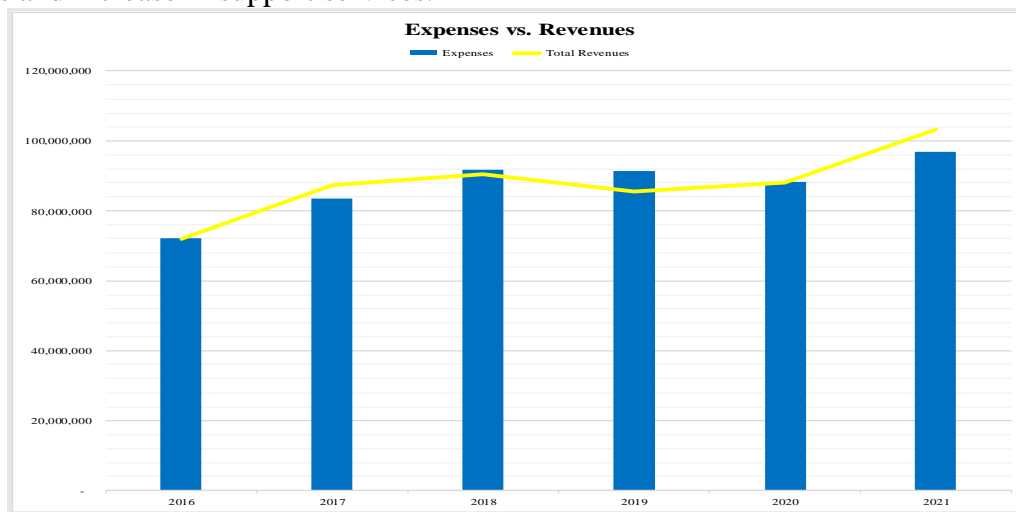
Management's Discussion & Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Governmental-fund Financial Statements, continued

<i>Expenses</i>	<u>2021</u>	<u>2020</u>	<u>Difference</u>	<u>% Change</u>
Instruction:				
Regular	\$ 45,857,782	\$ 36,221,580	\$ 9,636,202	27%
Special	8,138,448	6,701,337	1,437,111	21%
Co-curricular	1,337,007	1,551,938	(214,931)	-14%
Student services	24,230,369	29,284,551	(5,054,182)	-17%
Total instruction expenses	79,563,606	73,759,406	5,804,200	8%
Support services:				
General administration	3,202,044	7,666,974	(4,464,930)	-58%
School administration	512,105	943,993	(431,888)	-46%
Other support	14,970,246	4,841,822	10,128,424	209%
Total support services expenses	18,684,395	13,452,789	5,231,606	39%
Total expenses	\$ 98,248,001	\$ 87,212,195	\$ 11,035,806	13%

Total expenses in 2021 increased by \$11,035,806 or 13% as compared to fiscal year 2020. The increase in fiscal year 2021 expenses is primarily due to increase in both regular instruction expenses and increase in support services.



	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Expenses	72,261,036	83,569,488	91,679,196	91,320,226	87,212,195	98,248,001
Total Revenues	71,935,150	87,341,725	90,429,907	85,524,685	88,075,386	103,177,255

The chart above shows the relationship of revenues and expenses for the past six years. Except for fiscal years 2017, 2020 and 2021, expenses exceeded revenues for 2016, 2018, and 2019.

Commonwealth of the Northern Mariana Islands
Public School System
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Management's Discussion & Analysis, continued

FUND ANALYSIS

<i>Fund Analysis</i>	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non - Major Fund</u>	<u>Total</u>
Fund balance, beginning of year	\$(3,954,636)	\$ 5,101,322	\$ 669,447	\$ 1,816,133
Fund balance, end of year	<u>3,600,757</u>	<u>3,869,781</u>	<u>700,012</u>	<u>8,170,550</u>
Change in fund balance	\$ <u>7,555,393</u>	\$(<u>1,231,541</u>)	\$ <u>30,565</u>	\$ <u>6,354,417</u>
Percentage change	191%	-24%	5%	350%

The Fund balance increased by \$6,354,417 to \$8,170,550 as of September 30, 2021.

Of the \$8,170,550 total fund balance, \$680,188 are restricted for specific purpose by grantors and donor, \$746,779 are assigned for specific programs approved by the Board of Education and \$6,743,583 are unassigned.

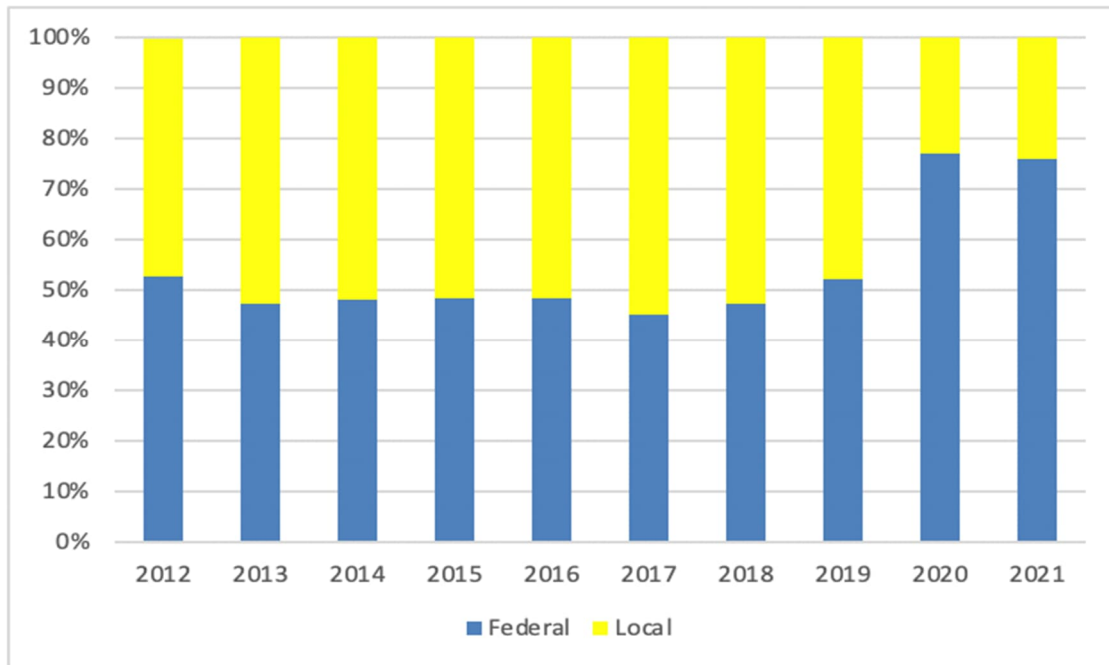
Federal and Local Budget Review

Year	Total	Federal		Local	
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%
2017	85,706,574	38,714,700	45%	46,991,874	55%
2018	91,914,180	43,348,354	47%	48,565,826	53%
2019	85,733,031	44,345,983	52%	41,387,048	48%
2020	84,911,819	65,192,312	77%	19,719,507	48%
2021	102,468,289	78,197,576	76%	24,270,713	24%

Commonwealth of the Northern Mariana Islands
Public School System
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Management's Discussion & Analysis, continued

Federal and Local Budget Review, continued



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, 2021 and 2020 were \$78,478,335 and \$79,205,118, respectively.

More detailed information on capital assets is on page 37 (Note 2) of the basic financial statements.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

FUTURE PLANS AND ECONOMIC OUTLOOK

For the fiscal year 2021, PSS received \$24.7 million in local appropriations. This was a 25% increase from the previous fiscal year where there was a 48.165% budget cut due to the economic impact of the COVID-19 pandemic that resulted in layoffs and a reduction in the salaries of PSS employees.

In January 2021, PSS received the Education Stabilization Fund II (ESF) of \$67.7 million, which enabled the PSS to backfill a huge funding gap in the local fund appropriations. In addition, in April 2021, PSS received \$160 million from the American Rescue Plan Act (ARPA) funding. The ARPA funding is PSS' largest federal grant with a four-year guaranteed funding. Fifty percent or \$75 million of the ARPA funding has been allotted for personnel while the remaining \$75 million was allotted towards combating the learning loss by hiring high dosage tutors, implementation of after school programs, purchase of laptops and internet connectivity for students at home, replacement of school classroom furniture and investment in the repair and retrofitting of school facilities and others. The ARPA funding expires in September 30, 2024.

Future appropriations are dependent on CNMI Government revenue projections. As a result of the COVID-19 pandemic having extreme impacts on the economy, PSS expects a decrease in funding from the central government. This will be supplemented by federal impact aid grants such as the ESF Fund and the ARPA fund. The challenge for PSS is twofold: 1) grow our suite of federal grants and 2) insist on receiving 25% of all CNMI revenues as mandated by our constitution and the recent CNMI Supreme Court slip opinion.

CNMI Public School System remains focused on improving the academic performance of our students. As students in the nation experience learning gaps due to school closures caused by the COVID-19 pandemic, CNMI Public School System was able to provide various interventions and supports to mitigate the students' learning gaps. The high-dosage tutors were provided to the students who fall two levels below proficiency in their STAR Reading and Math. ELL teachers were provided to all the schools. Title 1 teachers continue to provide services to struggling and at-risk students. Summer school and credit recovery programs were implemented. Student transition meetings and data dialogues were conducted.

As a result of the PSS departments continued effort and collaboration with the schools, the students who are in the proficiency level and above in Grades K-2nd early literacy increased from 22% to 46% at the end of the year based on their STAR Early Literacy assessment. The students who are in the proficiency level and above in Grades 3rd to 12th Reading increased from 34% to 38% at the end of the year based on their STAR Reading assessments. The students who are in the proficiency level and above in Grades 1st to 12th Math increased from 39% to 50% at the end of the year based on their STAR Reading assessments.

Commonwealth of the Northern Mariana Islands
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Management's Discussion & Analysis, continued

PSS continues to improve its audit performance as a system. Accountability and transparency are key commitments of PSS as a Public Agency and serving Students First.

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:

Arlene Lizama
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, 2021

Assets

Current assets:

Cash and cash equivalents	\$11,429,622
Receivables from the CNMI Government	92,000
Receivables from federal agencies	3,762,727
Other current assets	<u>108,133</u>
Total current assets	<u>15,392,482</u>

Noncurrent assets:

Depreciable capital assets, net	43,031,505
Non-depreciable capital assets	<u>36,647,850</u>
Total noncurrent assets	<u>79,679,355</u>
Total assets	<u>95,071,837</u>

Liabilities

Current liabilities:

Accounts payable and accrued expenses	7,221,932
Compensated absences due in one year	1,205,750
Current portion of long-term loan	<u>108,059</u>
Total current liabilities	<u>8,535,741</u>

Noncurrent liabilities:

Compensated absences	3,472,613
Loan payable	<u>1,092,961</u>
Total noncurrent liabilities	<u>4,565,574</u>

Total liabilities	<u>13,101,315</u>
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Net position

Investment in capital assets	78,478,335
Restricted for special purpose - CIP General Obligation Bond	680,188
Unrestricted	<u>2,811,999</u>
Net position	<u>\$81,970,522</u>

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
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Statement of Activities

For the year ended September 30, 2021

<u>Functions/Programs</u>	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Total</u>
Governmental activities:				
Instructional programs:				
Regular	\$46,441,906	\$13,067	\$35,460,403	\$(10,968,436)
Special	8,138,448	---	5,969,328	(2,169,120)
Co-curricular	996,892	---	1,603	(995,289)
Student services	<u>23,737,888</u>	<u>---</u>	<u>22,825,622</u>	<u>(912,266)</u>
Total instructional programs	<u>79,315,134</u>	<u>13,067</u>	<u>64,256,956</u>	<u>(15,045,111)</u>
Support services:				
Individual programs	3,288,606	---	4,268,590	979,984
School administration	512,105	---	---	(512,105)
Others	9,276,367	---	8,319,597	(956,770)
General administration	3,202,044	---	1,339,366	(1,862,678)
Depreciation - unallocated	<u>2,653,745</u>	<u>---</u>	<u>---</u>	<u>(2,653,745)</u>
Total support services	<u>18,932,867</u>	<u>---</u>	<u>13,927,553</u>	<u>(5,005,314)</u>
Total governmental activities	<u>\$98,248,001</u>	<u>\$13,067</u>	<u>\$78,184,509</u>	<u>(20,050,425)</u>
				CNMI appropriations
				24,787,813
				Miscellaneous
				<u>191,866</u>
				General revenues
				<u>24,979,679</u>
				Change in net position
				4,929,254
				Net position at beginning of year
				<u>77,041,268</u>
				Net position at end of year
				<u>\$81,970,522</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
Government Funds

September 30, 2021

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-major Fund</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$6,468,054	\$4,633,108	\$328,460	\$11,429,622
Receivable from the CNMI Government	92,000	---	---	92,000
Receivable from federal agencies	---	3,762,727	---	3,762,727
Other current assets	106,023	2,110	---	108,133
Due from (to) other funds	<u>3,256,998</u>	<u>(3,628,550)</u>	<u>371,552</u>	<u>---</u>
Total assets	<u>\$9,923,075</u>	<u>\$4,769,395</u>	<u>\$700,012</u>	<u>\$15,392,482</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	<u>\$6,322,318</u>	<u>\$ 899,614</u>	<u>\$ ---</u>	<u>\$ 7,221,932</u>
Total liabilities	<u>6,322,318</u>	<u>899,614</u>	<u>---</u>	<u>7,221,932</u>
Fund balances:				
Restricted	---	---	680,188	680,188
Assigned	---	---	746,779	746,779
Unassigned	<u>3,600,757</u>	<u>3,869,781</u>	<u>(726,955)</u>	<u>6,743,583</u>
Total fund balances	<u>3,600,757</u>	<u>3,869,781</u>	<u>700,012</u>	<u>8,170,550</u>
Liabilities and fund balances	<u>\$9,923,075</u>	<u>\$4,769,395</u>	<u>\$700,012</u>	
Reconciliation of fund balance of governmental funds to net position – governmental activities:				
Fund balances – governmental funds				8,170,550
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:				
Cost of capital assets			118,561,908	
Accumulated depreciation			<u>(38,882,553)</u>	79,679,355
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the funds:				
Compensated absences			(4,678,363)	
Loan payable			<u>(1,201,020)</u>	<u>(5,879,383)</u>
Net position - governmental activities				<u>\$81,970,522</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
Government Funds

For the year ended September 30, 2021

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-major Fund</u>	<u>Total</u>
Revenues:				
Federal	\$ ---	\$77,822,679	\$361,830	\$ 78,184,509
CNMI appropriations	24,787,813	---	---	24,787,813
Local	---	---	191,866	191,866
Charges for services	<u>---</u>	<u>---</u>	<u>13,067</u>	<u>13,067</u>
 Total revenues	 <u>24,787,813</u>	 <u>77,822,679</u>	 <u>566,763</u>	 <u>103,177,255</u>
Expenditures:				
Instructional programs:				
Regular	10,300,933	35,460,403	96,446	45,857,782
Student services	1,404,747	22,825,622	---	24,230,369
Special	2,167,647	5,969,328	1,473	8,138,448
Co-curricular	<u>926,344</u>	<u>1,603</u>	<u>409,060</u>	<u>1,337,007</u>
 Total instructional programs	 <u>14,799,671</u>	 <u>64,256,956</u>	 <u>506,979</u>	 <u>79,563,606</u>
Support services:				
Other	57,840	9,189,308	29,219	9,276,367
Individual programs	126	4,268,590	---	4,268,716
General administration	1,862,678	1,339,366	---	3,202,044
School administration	<u>512,105</u>	<u>---</u>	<u>---</u>	<u>512,105</u>
 Total support services	 <u>2,432,749</u>	 <u>14,797,264</u>	 <u>29,219</u>	 <u>17,259,232</u>
 Total expenditures	 <u>17,232,420</u>	 <u>79,054,220</u>	 <u>536,198</u>	 <u>96,822,838</u>
Excess (deficiency) of revenues over expenditures and other financing sources				
	7,555,393	(1,231,541)	30,565	6,354,417
Fund balance, beginning	(3,954,636)	<u>5,101,322</u>	<u>669,447</u>	<u>1,816,133</u>
Fund balance, ending	<u>\$ 3,600,757</u>	<u>\$ 3,869,781</u>	<u>\$700,012</u>	<u>\$ 8,170,550</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 Government Funds Statement of Revenues, Expenditures
and Changes in Fund Balance with the District-wide Statement of Activities

For the year ended September 30, 2021

Total net change in fund balances – governmental funds		\$6,354,417
Change in compensated absences		(698,380)
<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 statement 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 depreciation in the period</p>		
Capital outlays	\$1,926,962	
Depreciation expense	(2,653,745)	(<u>726,783</u>)
Total change in net position		<u>\$4,929,254</u>

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements

For the year ended September 30, 2021

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).

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 re-appropriation.

Department-Wide Financial 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 Net Position represents all assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position is presented in the following categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* results when constraints are placed on the use of net position by either externally imposed or imposed by law through enabling legislation.
- *Unrestricted net position* is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Department-Wide Financial Statements, continued

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.

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. PSS presents a balance sheet and a statement of revenues, expenditures and changes in fund balance for its governmental funds. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net position.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. PSS classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Fund balance is classified as follows:

- *Restricted* - Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- *Committed* - Balances that can only be used for specific purposes pursuant to constraints imposed by the CNMI Legislature. Committed fund balance is reported pursuant to Public Laws and directives issued by the Board of Education, PSS' highest level of decision-making authority. No balances were committed at September 30, 2021.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- *Assigned* - Balances that are constrained by PSS management to be used for specific purposes, but are neither restricted nor committed.
- *Unassigned* - Residual balances that are not contained in the other classifications.

When both restricted and unrestricted resources are available for use, generally it is PSS' policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is generally PSS' policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

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.

Department-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, continued

1. Summary of Significant Accounting Policies, continued

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.

Fund Accounting

The financial transactions of PSS are recorded in individual funds that are reported in the fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Major individual governmental funds are reported as separate columns in the fund financial statements. Non major funds are summarized into a single column.

PSS reports the following major governmental funds:

- *General Fund* - The general fund is the main operating fund of PSS. It accounts for all financial resources except for those required to be accounted for in another fund.
- *Federal Fund* - The federal fund accounts for federally funded programs for PSS' major activities. This fund is made up entirely of special revenue funds, which account for the proceeds of specific revenue sources that are for specific purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Fund Accounting, continued

Specific revenues earmarked to finance particular programs and activities of PSS are accounted for in Non-major Funds. The non-major funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

A summary of PSS' Non-major Funds as of September 30, 2021 follows:

- *Local CIP Fund* - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law 8-2.
- *Textbook Fund* - This fund was established to account for the sales of locally published textbooks without fiscal year limitation.
- *GOB Fund* - This fund accounts for the appropriated funds from the CIP General Obligation Bond available at the closure of the Indenture Trust Agreement, which was restricted by Public Law 16-10 to fund critical classroom repairs and renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.
- *Donation and Other Revenue 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.
- *Other Federal Fund* - This fund accounts for federal funds received as appropriated by the CNMI Legislature without fiscal year limitation.
- *JROTC Fund* - This fund was established by Public Law 8-17 to account for the funds received from the United States Department of Defense for the operation of the Junior Reserve Officers Training Corps programs. The Commissioner of Education has the spending authority.
- *Federal Program Income Fund* - This fund accounts for miscellaneous federal funds received from various federally funded programs within the Public School System.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

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:

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

Assets, Liabilities and Net Position

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.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Assets, Liabilities and Net Position, continued

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

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, 2021 was \$4,678,363. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

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.

Commonwealth of the Northern Mariana Islands
Public School System
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Assets, Liabilities and Net Position, continued

Inter-fund Balances

The inter-fund balances as of September 30, 2021 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 drawdowns are received from grantors.

Recently Adopted Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statements will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. In accordance with GASB Statement No. 95, GASB Statement No. 84 is effective for the fiscal year ended September 30, 2021. The implementation of this statement did not have a material effect on the PSS's financial statements.

GASB Statement No. 90, *Majority Equity Interest - an Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. In accordance with GASB Statement No. 95, GASB Statement No. 90 is effective for the fiscal year ended September 30, 2021. The implementation of this statement did not have a material effect on the PSS's financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

During the year ended September 30, 2021, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement postpones the effective dates of GASB Statement No. 89, 91, 92 and 93 by one year and postpones GASB Statement No. 87 by 18 months. In accordance with GASB Statement No. 95, PSS has elected to postpone implementation of these statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for PSS for the fiscal year ending September 30, 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for PSS for the fiscal year ending September 30, 2022.

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this Statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for PSS for the fiscal year ending September 30, 2023.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; clarifying the definition of reference rate, as it is used in Statement 53, as amended. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for PSS for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for PSS for the fiscal year ending September 30, 2023.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for PSS for the fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

Commonwealth of the Northern Mariana Islands
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Notes to the Basic Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

PSS is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Use of Estimates

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

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. 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, 2021, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$13,300,387. From these deposits, \$500,000 is subject to coverage by the FDIC 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.

Receivables

Receivables are amounts due primarily from the CNMI Government and from federal grantor agencies for local appropriations and grants, respectively.

Other Current Assets

Other current assets as of September 30, 2021 consist of the following:

Advances to vendors	\$ 78,614
Travel advances	27,168
Others	<u>2,351</u>
Other current assets	<u>\$108,133</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, continued

2. Detail Notes on all Funds, continued

Capital Assets

Capital asset activities for the year ended September 30, 2021 were as follows:

	Beginning Balance <u>October 1, 2020</u>	<u>Additions</u>	<u>Transfers</u>	Ending Balance September 30, <u>2021</u>
Depreciable capital assets:				
Building and improvements	\$65,514,691	\$ ---	\$3,307,228	\$68,821,919
Vehicles	8,691,447	719,869	---	9,411,316
Others	<u>3,437,813</u>	<u>243,010</u>	<u>---</u>	<u>3,680,823</u>
Total	<u>77,643,951</u>	<u>962,879</u>	<u>3,307,228</u>	<u>81,914,058</u>
Less accumulated depreciation:				
Building and improvements	26,854,113	1,774,279	---	28,628,392
Vehicles	6,397,752	725,669	---	7,123,421
Others	<u>2,976,943</u>	<u>153,797</u>	<u>---</u>	<u>3,130,740</u>
Total	<u>36,228,808</u>	<u>2,653,745</u>	<u>---</u>	<u>38,882,553</u>
Depreciable capital assets, net	<u>\$41,415,143</u>	<u>\$(1,690,866)</u>	<u>\$3,307,228</u>	<u>\$43,031,505</u>
Non-depreciable capital assets:				
Land	\$36,647,850	\$ ---	\$ ---	\$36,647,850
Construction-in-progress	<u>2,343,145</u>	<u>964,083</u>	<u>(3,307,228)</u>	<u>---</u>
Total	<u>\$38,990,995</u>	<u>\$ 964,083</u>	<u>\$(3,307,228)</u>	<u>\$36,647,850</u>

Beginning balance at October 1, 2020 includes \$1,198,973 previously unrecorded construction-in-progress that was funded with a corresponding previously unrecorded bank loan of the same dollar amount.

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, continued

2. 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 the Northern Mariana Islands Settlement Fund (NMISF) and PSS now contributes to the 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.

PSS contributed \$450,615, \$340,929 and \$386,694 to the NMISF for the years ended September 30, 2021, 2020 and 2019, respectively.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. 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' recorded DC contributions for the years ended September 30, 2021, 2020 and 2019 were \$524,699, \$435,521 and \$409,471, 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.

Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the NMIRF. PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and 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 the 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 \$24,209,582 for PSS' operational use and \$153,131 for the Board of Education's operations for the fiscal year ended September 30, 2021. PSS also received \$425,000 from the CNMI Government for the prior year appropriations.

During the year ended September 30, 2021, total utilities expense to CUC amounted to \$1,693,611.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

2. Detail Notes on all Funds, continued

Non-current Liabilities

Long-term loan payable at September 30, 2021 consists of the following:

	<u>2021</u>
United States Department of Agriculture (USDA) Rural Development Bank, 2.25% per annum, monthly payments of principal and interest in the amount of \$11,194 starting on October 8, 2021. The principal balance and all accrued interest will be due and payable on September 8, 2031. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is collateralized by the assignment of income and blanket security interest covering capital assets	\$1,201,020
Less current portion	<u>108,059</u>
	<u>\$1,092,961</u>

Future maturities of the long-term loan payable to USDA are as follows:

<u>Year ending September 30,</u>	
2022	\$ 108,059
2023	110,550
2024	113,039
2025	115,704
2026	118,371
Thereafter	<u>635,297</u>
	<u>\$1,201,020</u>

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

	<u>Outstanding</u>			<u>Outstanding</u>	<u>Due in</u>	<u>Noncurrent</u>
	<u>October 1,</u>	<u>Increase</u>	<u>Decrease</u>	<u>September 30,</u>	<u>1 year</u>	
	<u>2020</u>			<u>2021</u>	<u>1 year</u>	
Compensated absences	\$3,979,983	\$ 834,674	\$(136,294)	\$4,678,363	\$1,205,750	\$3,472,613
Loan payable	<u>1,198,973</u>	<u>1,201,020</u>	<u>(1,198,973)</u>	<u>1,201,020</u>	<u>108,059</u>	<u>1,092,961</u>
	<u>\$5,178,956</u>	<u>\$2,035,694</u>	<u>\$(1,335,267)</u>	<u>\$5,879,383</u>	<u>\$1,313,809</u>	<u>\$4,565,574</u>

Beginning balance of noncurrent liabilities at October 1, 2020 includes \$1,198,973 of previously unrecorded bank loan that was used to fund previously unrecorded construction in-progress of the same dollar amount.

PSS uses its general funds to liquidate its accrued compensated absences and bank loan. Payments will be drawn from the annual CNMI government appropriation.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

3. 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 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, 2021.

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 and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2021, PSS does not have any deferred inflows of resources.

4. 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, 2021 is \$9.2 million.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements, continued

5. Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$5,759,121 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, 2021.

6. Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings. 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, 2021.

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

7. Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ended September 30, 2021, 75.78% and 24.02% of total revenues were received from federal grants and local appropriations, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

8. Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through April 26, 2023, which is the date the financial statements were available to be issued.

Required Supplementary Information

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund

For the year ended September 30, 2021

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$10,000,000	\$ ---	\$10,000,000	\$11,885,502	\$(1,885,502)
All other	<u>14,270,713</u>	<u>---</u>	<u>14,270,713</u>	<u>5,346,918</u>	<u>8,923,795</u>
Total expenditures	<u>24,270,713</u>	<u>---</u>	<u>24,270,713</u>	<u>17,232,420</u>	<u>7,038,293</u>
Revenues:					
CNMI appropriation	<u>24,270,713</u>	<u>---</u>	<u>24,270,713</u>	<u>24,787,713</u>	<u>517,100</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 7,555,393</u>	<u>\$ 7,555,393</u>
Reconciliation of budget of GAAP basis:					
2021 Budget Appropriations				\$24,270,713	
2021 Expenditures Actual (GAAP)				<u>17,232,420</u>	
Variance				<u>\$ 7,038,293</u>	

Supplementary Information

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Combining Balance Sheet
Non-major Funds

September 30, 2021

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	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	\$ 2,735	\$ 302	\$ ---	\$ ---	\$ ---	\$ 325,423	\$ ---	\$ 328,460
Receivable from federal agencies	---	---	---	---	---	---	---	---
Due from other funds	---	---	680,188	441,534	1,133,401	---	58,140	2,313,263
Total assets	\$ 2,735	\$ 302	\$ 680,188	\$ 441,534	\$ 1,133,401	\$ 325,423	\$ 58,140	\$ 2,641,723
Liabilities and Fund Balances								
Liabilities:								
Due to other funds	\$ 1,918,356	\$ 3,177	\$ ---	\$ ---	\$ ---	\$ 20,178	\$ ---	\$ 1,941,711
Total liabilities	1,918,356	3,177	---	---	---	20,178	---	1,941,711
Fund balances:								
Restricted	---	---	680,188	---	---	---	---	680,188
Assigned	---	---	---	441,534	---	305,245	---	746,779
Unassigned	(1,915,621)	(2,875)	---	---	1,133,401	---	58,140	(726,955)
Total fund balances	(1,915,621)	(2,875)	680,188	441,534	1,133,401	305,245	58,140	700,012
Total Liabilities and Fund Balances	\$ 2,735	\$ 302	\$ 680,188	\$ 441,534	\$ 1,133,401	\$ 325,423	\$ 58,140	\$ 2,641,723

See accompanying notes to basic financial statements.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds

For the year ended September 30, 2021

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
Revenues:								
Federal	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 361,830	\$ ---	\$ 361,830
Local	---	---	---	191,866	---	---	---	191,866
Charges for services	---	---	---	---	---	---	13,067	13,067
Total revenues	---	---	---	191,866	---	361,830	13,067	566,763
Expenditures:								
Instructional programs:								
Co-curricular	---	---	---	---	---	409,060	---	409,060
Regular	---	---	---	96,446	---	---	---	96,446
Special	---	---	---	---	---	---	1,473	1,473
Total instructional programs	---	---	---	96,446	---	409,060	1,473	506,979
Supporting services:								
Other	---	---	16,174	13,045	---	---	---	29,219
Total expenditures	---	---	16,174	109,491	---	409,060	1,473	536,198
(Deficiency) excess of revenues over expenditures	---	---	(16,174)	82,375	---	(47,230)	11,594	(30,565)
Fund balance (deficit), beginning of year	(1,915,621)	(2,875)	696,362	359,159	1,133,401	352,475	46,546	669,447
Fund balance (deficit), end of year	\$(1,915,621)	\$(2,875)	\$ 680,188	\$ 441,534	\$ 1,133,401	\$ 305,245	\$ 58,140	\$ 700,012

(1) Fund codes 17000 and 18000

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)

For the year ended September 30, 2021

	General Fund	Federal Fund	Non-Major Fund	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 9,965,103	\$ 38,041,407	\$ 133	\$ 48,006,643	\$ 698,380	\$ 48,705,023
Professional services	257,505	18,118,335	2,090	18,377,930	---	18,377,930
Employee benefits	1,920,399	7,351,191	10	9,271,600	---	9,271,600
Books and instruction materials	700,747	5,214,333	14,635	5,929,715	(16,027)	5,913,688
Travel	419,049	2,615,196	53,363	3,087,608	---	3,087,608
Depreciation	---	---	---	---	2,653,745	2,653,745
Utilities	1,668,657	11,877	13,077	1,693,611	---	1,693,611
Communications	157,211	1,370,454	10,486	1,538,151	---	1,538,151
Dues and subscriptions	21,336	1,127,392	---	1,148,728	---	1,148,728
Rental	112,552	983,484	2,220	1,098,256	---	1,098,256
Cleaning services	298,974	390,844	18,967	708,785	---	708,785
Licenses and fees	96,467	642,821	---	739,288	---	739,288
Travel	91,704	570,320	3,523	665,547	---	665,547
Repairs and maintenance	663,388	1,135,165	20,032	1,818,585	(964,083)	854,502
Miscellaneous	18,929	523,798	18,121	560,848	---	560,848
Printing and photocopying	35,478	229,012	13,264	277,754	---	277,754
Fuel and lubrication	174,286	1,165	3,181	178,632	---	178,632
Security services	59,722	---	7,520	67,242	---	67,242
Advertising	32,377	31,745	400	64,522	---	64,522
Food items	23,192	16,143	13,094	52,429	---	52,429
Freight and handling	4,622	38,248	1,967	44,837	---	44,837
Controlled assets	504,123	638,070	340,115	1,482,308	(946,852)	535,456
Bank charges	6,599	---	---	6,599	---	6,599
Insurance	---	3,220	---	3,220	---	3,220
Total expenditures (page 20)	<u>\$ 17,232,420</u>	<u>\$ 79,054,220</u>	<u>\$ 536,198</u>	<u>\$ 96,822,838</u>	<u>\$ 1,425,163</u>	
				Total expenses (page 18)		<u>\$ 98,248,001</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

REPORT OF INDEPENDENT AUDITORS ON
INTERNAL CONTROL AND ON COMPLIANCE

Year ended September 30, 2021



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Report of Independent Auditors 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 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 (*Government Auditing Standards*), 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 (PSS) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise PSS’ basic financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated April 26, 2023. Our report was qualified due to our inability to determine the effects of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on PSS’ financial statements.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PSS’ internal control over financial reporting (internal control) as a basis for designing 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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

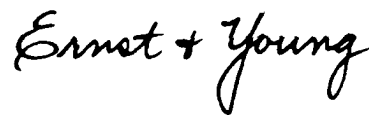
As part of obtaining reasonable assurance about whether PSS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

April 26, 2023



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards 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 U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of PSS' major federal programs for the year ended September 30, 2021. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of PSS' compliance.

Basis for Qualified Opinion on Assistance Listing No. 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance

As described in the accompanying schedule of findings and questioned costs, PSS did not comply with requirements regarding Assistance Listing No. 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance as described in Finding No. 2021-006 for Matching, Level of Effort, Earmarking. Compliance with such requirements is necessary, in our opinion, for PSS to comply with requirements applicable to that program.

Qualified Opinion on Assistance Listing No. 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Assistance Listing No. 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance for the year ended September 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2021.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-003, 2021-004, and 2021-005. Our opinion on each major federal program is not modified with respect to these matters.

PSS' response to the noncompliance 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.

PSS is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. PSS' corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of 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 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 PSS' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-004, 2021-005, and 2021-006 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003 to be significant deficiencies.

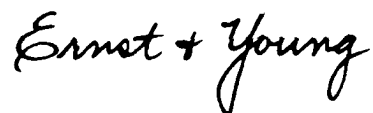
PSS' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the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

PSS is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. PSS' corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of PSS as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We have issued our report thereon dated April 26, 2023, which contained a qualified opinion on those financial statements due to our inability to determine the effects of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on PSS' 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 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 expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

April 26, 2023

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
For the year ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Program	10.555		\$ 14,994,634
Total Child Nutrition Cluster			<u>14,994,634</u>
Food Distribution Cluster:			
Emergency Food Assistance Program	10.568		420,108
Total Food Distribution Cluster			<u>420,108</u>
Community Facilities Loans and Grants Cluster:			
Community Facilities Loans and Grants	10.766		1,201,020
Total Community Facilities Loans and Grants Cluster			<u>1,201,020</u>
Total U.S. Department of Agriculture			<u>16,615,762</u>
U.S. Department of Education			
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		5,727,825
Total Special Education Cluster (IDEA)			<u>5,727,825</u>
Special Education - Grants for Infants and Families	84.181		560,858
School Emergency Grant Program	84.184		108,633
Comprehensive Literacy Development	84.371		309,742
Statewide Longitudinal Data Systems	84.372		330,646
Consolidated Grants to the Outlying Areas	84.403		<u>16,167,081</u>
COVID-19 Education Stabilization Fund:			
COVID-19 Education Stabilization Fund – State Educational Agency (Outlying Areas)	84.425A		31,719,284
COVID-19 American Rescue Plan – State Educational Agency (Outlying Areas)	84.425X		870,952
Total COVID-19 Education Stabilization Fund			<u>32,590,236</u>
Elementary and Secondary Education Hurricane Relief –			
Immediate Aid to Restart School Operations	84.938A		1,112,582
Elementary and Secondary Education Hurricane Relief –			
Project School Emergency Response to Violence (SERV)	84.938G		90,588
Total U.S. Department of Education			<u>56,998,191</u>

See accompanying notes to the schedule of expenditures of federal awards

Commonwealth of the Northern Mariana Islands
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Schedule of Expenditures of Federal Awards, continued
For the year ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listings Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services			
Sexual Risk Avoidance Education	93.060		159,416
Personal Responsibility Education Program	93.092		501,576
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		878,282
Head Start Cluster:			
Head Start Disaster Recovery	93.356		168,643
Head Start	93.600		3,742,789
COVID-19 Head Start	93.600		51,160
Total Head Start Cluster			<u>3,962,592</u>
Native American Programs	93.612		120,686
Mental Health Disaster Assistance and Emergency Mental Health	93.982		455,808
Total U.S. Department of Health and Human Services			<u>6,078,360</u>
Corporation for National and Community Service			
AmeriCorps	94.006		336,875
U.S. Department of Interior			
Technical Assistance Program	11.550		98,209
U.S. Department of Defense			
Army JROTC EFT District	12.U01		409,060
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>80,536,457</u>
Reconciliation:			
Expenditures included in Federal Fund			\$ 79,054,220
Expenditures included in Nonmajor Funds			409,060
Indirect costs recorded as Federal grant revenues			(127,843)
Balance of federal loan with continuing compliance requirement			1,201,020
Total expenditures			\$ <u>80,536,457</u>

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

Commonwealth of the Northern Mariana Islands
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Notes to the Schedule of Expenditures of Federal Awards
For the year ended September 30, 2021

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

Basis of Accounting

The Schedule of Expenditures of Federal Awards (the “Schedule”) is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Because the Schedule presents only a selected portion of the operations of PSS, it is not intended to and does not present the financial position, changes in net position, or cash flows of PSS.

Indirect Cost Allocation

PSS did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. PSS negotiated an indirect cost plan with the U.S. Department of Interior for fiscal year 2021. The approved provisional rate is 4.20%.

The 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.

Loan

As of September 30, 2021, PSS has an outstanding \$1,201,020 loan balance due to the United States Department of Agriculture Rural Development Bank.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs
For the year ended September 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X YES NO
- Significant deficiency(ies) identified? YES X NONE REPORTED

Noncompliance material to financial statements noted?

 YES X NO

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? X YES NO
- Significant deficiency(ies) identified? X YES NONE REPORTED

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

Assistance Listing No.	Federal Agency	Major Program Description	Type of Opinion
84.403	U.S. Department of Education	Consolidated Grants to the Outlying Areas	Unmodified
84.425	U.S. Department of Education	COVID-19 Education Stabilization Fund	Unmodified
93.243	U.S. Department of Health and Human Services	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200 516 (a)?

 X YES NO

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Federal Awards

Identification of major federal programs:

Assistance Listings Number	Name of Federal Program or Cluster
84.403	Consolidated Grants to the Outlying Areas
84.425	COVID-19 Education Stabilization Fund
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance

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

\$ 2,416,094

Auditee qualified as low-risk auditee?

YES NO

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2021-001	General Ledger and Financial Statement Close Process
2021-002	General Ledger and Schedule of Expenditures of Federal Awards

Section III – Federal Awards Findings and Questioned Costs

<u>Reference Number</u>	<u>Assistance Listing No.</u>	<u>Finding</u>	<u>Questioned Costs</u>
2021-003	84.425A	Allowable Costs/Cost Principles	\$ 467,888
2021-004	84.425A	Equipment and Real Property Management	---
2021-005	84.403	Equipment and Real Property Management	---
2021-006	93.243	Matching, Level of Effort and Earmarking	98,711

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-001

Area: General Ledger and Financial Statement Close Process

Criteria:

Accounting principles generally accepted in the United States of America (US GAAP) require that cut off procedures be accurately performed such that transactions and events are recorded in the correct accounting period. In addition, US GAAP requires all assets and liabilities existing as of the end of a fiscal year be included in the statement of net position.

Condition:

We identified significant understatement of cash, capital assets, liabilities and expenses. Material adjusting journal entries were recorded to correct these errors.

Cause:

There appears to have been a combination of (1) lack of reconciliations, (2) improper performance of cut-off procedures, (3) ineffective communication among PSS finance team and other departments, and (4) insufficient supervision and review relating to significant classes of transactions.

Effect or potential effect:

Material errors over the financial statement close process may exist and not be identified and corrected in a timely manner resulting in the preparation of materially misstated financial statements.

Recommendation:

Management should improve controls to ensure all transactions, including non-cash transactions, are recorded in the proper accounting period.

Views of responsible officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-002

Area: General Ledger and Schedule of Expenditures of Federal Awards

Criteria:

2 CFR 200.510 requires an auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) which must include the total federal awards expended for the period covered by the auditee’s financial statements.

2 CFR 200.302(b)(1) states that the nonfederal entity must identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received.

2 CFR 200.502 provides that total federal awards expended during the year must include loan and loan guarantees.

Conditions:

1. The original SEFA provided did not agree or reconcile to the federal awards expended and recorded in the financial statements. The total federal awards expended per the original SEFA differed by \$769,397 as compared to the financial statements. Below is a summary of the affected federal awards:

Assistance Listing No.	Federal Program Name	SEFA is Lower (Higher) By
10.766	Community Facilities Loans and Grants	\$ 1,201,020
84.938A	Elementary and Secondary Education Hurricane Relief - Immediate Aid to Restart School Operations	(435,325)
10.555	National School Lunch Program	(432,936)
84.425X	COVID-19 American Rescue Plan – State Educational Agency (Outlying Areas)	266,252
84.181	Special Education - Grants for Infants and Families	61,655
84.027	Special Education - Grants to States (IDEA, Part B)	49,324
84.403	Consolidated Grants to the Outlying Areas	32,628
93.092	Personal Responsibility Education Program	30,273
12.U01	Army JROTC EFT District	(3,495)
		<u>\$ 769,396</u>

The SEFA originally provided did not include a \$1.2 million loan from the U.S Department of Agriculture (USDA) for which proceeds were used to pay-off a commercial bank loan. The commercial bank loan, obtained in 2018, included a commitment from the USDA that the commercial loan would be repaid from a Community Facilities (CF) loan. The commercial loan proceeds were used to fund the cost of building improvements. The commercial loan had been unrecorded in PSS’ books since December 2018. Expenditures from the commercial loan should have been considered as federal awards expended in prior years, and reported in prior years’ SEFA and financial statements.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-002, continued

Cause:

PSS does not have effective controls over the preparation of the SEFA.

Effect:

Any interim reporting may contain materially misstated information and may also affect major program determination.

Recommendation:

PSS should improve controls to help ensure the SEFA is prepared accurately and completely. Any cut-off procedures performed for the financial statements must also cover the SEFA.

Views of responsible officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-003

Federal Agency:	U.S. Department of Education
Assistance Listing Number and Title:	84.425A COVID-19 Education Stabilization Fund (ESF) – State Educational Agency (Outlying Areas)
Award Numbers:	S425A200001, S425A210001
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$467,888

Criteria:

2 CFR 200.313 (c) (1) provides that a non-Federal entity must not encumber property and equipment without prior approval from the Federal awarding agency. Further, the 2021 ESF Compliance Supplement Addendum page 4-84.425-ESF-14 provides that capital expenditures for general or special purpose equipment purchases are subject to prior approval by the U.S. Department of Education (ED) or the pass-through entity.

2 CFR 200.403 (f) provides that costs must not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period in order to be allowable under Federal awards, except where otherwise authorized by statute.

2 CFR 200.403 (a) provides that costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto. 2 CFR 200.403 (g) also provides that costs must be adequately documented.

In an e-mail communication to PSS, ED had stated that the proposed use of ESF funds for the purpose of paying a 10% retention incentive in response to the COVID-19 pandemic is allowable.

Condition:

1. The result of analytical procedures on the schedule of expenditures for the Federal award showed that two (2) passenger buses were purchased totaling \$344,560 through PO# 163799-OC. PSS charged the costs of the passenger buses to Assistance Listing Number (ALN) 84.425A. However, evidence of prior approval obtained from ED showed that the cost of the passenger buses was approved to be charged under ALN 84.425X and not ALN 84.425A. No questioned costs are raised since after-the-fact approval was obtained from ED in January 2023.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-003, continued

2. Out of sixty (60) payroll expenditures tested totaling \$107,881 out of a total population of \$29,992,984, we noted the following:

- a. One sample (or 2%), Employee No. 2455, a Senior Army Instructor, had 50% and 100% of his gross pay included as a cost for both the US Department of Defense (DOD) – Army JROTC program and ALN 84.425A, respectively. We examined the cost of eight (8) additional instructors which we identified as directly associated with the sample and determined questioned costs of \$261,965 that represents costs that were reimbursed under both the US DOD – Army JROTC Program and ALN 84.425A.
- b. One sample (or 2%), Employee No. 2309, was paid a retention incentive amounting to \$3,000 instead of \$2,265 (10% of his annual salary of \$22,654). We further noted that PSS provided fixed retention incentive payments amounting to \$3,000 for employees whose annual salary amounted to \$30,000 and below, instead of using the rate of 10% as allowed by ED. No evidence was provided to justify the allowability of retention incentives in excess of the 10% of annual salary for the aforementioned group of employees. Total known questioned costs amounted to \$205,923 under ALN 84.425A.

Total salaries of those earning below \$30,000	\$ 9,190,768
Expected 10% incentive amount	919,077
Actual incentive amount	<u>1,125,000</u>
 Excess incentive amount	 <u>\$ 205,923</u>

Cause:

PSS' review of allowability of costs failed to ensure the charging of costs to the correct Federal award and failed to identify costs that were covered by a cost-shared reimbursement program with other Federal agencies. In addition, PSS failed to ensure that retention incentives in excess of 10% of annual salary are reasonable and adequately supported.

Effect:

PSS is noncompliant with the requirements of allowable costs/cost principles. Reportable questioned costs total \$467,888.

Recommendation:

PSS should improve its review controls in its recording process to ensure that costs are charged to the correct grant award. The review must also ensure that costs are not included as a cost of other Federal programs, unless specifically authorized by regulation, and must ensure that costs are supported by appropriate documentation.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-003, continued

Views of responsible officials:

PSS' Corrective Action Plan provides a detailed rationale for disagreement with Conditions 1 and 2a. Management agrees with Condition 2b.

Auditor response:

Condition 1 – The finding does acknowledge that PSS sought and received prior grantor approval. However, PSS did not charge the correct Federal award that U.S. ED approved in May 2021, and subsequent approval to correct the noncompliance was sought and received in January 2023 as a response to the audit finding.

Condition 2a – Ultimately, PSS charged the same costs for Army instructors to both U.S. DOD and U.S. ED.

Commonwealth of the Northern Mariana Islands
Public School System
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-004

Federal Agency:	U.S. Department of Education
Assistance Listing Number and Title:	84.425A COVID-19 Education Stabilization Fund (ESF) – State Educational Agency (Outlying Areas)
Award Number:	S425A200001, S425A210001
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Criteria:

2 CFR 200.313(d) states the following procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition:

1. The property records for equipment and real property acquired using funds from Assistance Listing Number (ALN) 84.425A did not include the following information as required under 2 CFR 200.313(d)(1):
 - Description as to who holds title;
 - The percentage of federal participation in the project costs for the federal award under which the property was acquired; and,
 - The location, use and condition of the property.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-004, continued

Condition, continued:

For the year ended September 30, 2021, equipment acquired using funds from ALN 84.425A totaled to \$371,511.

2. PSS did not perform a physical inventory of the assets in FY2021.
3. No evidence was provided that PSS had complied with the requirements called for under 2 CFR section 200.313(d)(3) through (5).

Cause:

PSS lacks a system of internal controls that meet the compliance requirements for equipment and real property management. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Effect:

PSS is noncompliant with the requirements of equipment and real property management.

Recommendation:

PSS must improve its property records to include information required by Federal regulation. PSS must also maintain a written documentation of its system of internal controls to manage (control, use, preserve, protect, repair, and maintain) federal government property, including policies for the disposition and/or sale.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
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Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-005

Federal Agency:	U.S. Department of Education
Assistance Listing Number and Title:	84.403 Consolidated Grants to the Outlying Areas
Award Number:	S403A190001, S403A200001, S403A210001
Area:	Equipment and Real Property Management
Questioned Costs:	\$0

Criteria:

2 CFR 200.313(d) states the following procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition:

1. The property records for equipment and real property acquired using funds from Assistance Listing Number (ALN) 84.403 did not include the following information as required under 2 CFR 200.313(d)(1):
 - Description as to who holds title;
 - The percentage of federal participation in the project costs for the federal award under which the property was acquired; and,
 - The location, use and condition of the property.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-005, continued

Condition, continued:

The total amount of equipment acquired using funds from ALN 84.403 amounted as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
September 30, 2021	\$50,934
September 30, 2020	35,748
September 30, 2019	324,705

2. PSS did not perform a physical inventory of the assets in FY2021.
3. No evidence was provided that PSS had complied with the requirements called for under 2 CFR section 200.313(d)(3)-(5).

Cause:

PSS lacks an adequate system of internal controls to comply with the requirements of equipment and real property management.

Effect:

PSS is noncompliant with the requirements of equipment and real property management. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation:

PSS must improve its property records to include information required by Federal regulation. PSS must also maintain a written documentation of its system of internal controls to manage (control, use, preserve, protect, repair, and maintain) federal government property, including policies for the disposition and/or sale.

Views of responsible officials:

Management agrees. Refer to separate Corrective Action Plan.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-006

Federal Agency: U.S. Department of Health and Human Services
 Assistance Listing Number and Title: 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
 Award Number: 1H79SM083644-01
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$98,711

Criteria:

Based on the grant terms and conditions, the level of effort requirement for the Project Director and Project Co-coordinator is 50%. Meanwhile, the level of effort (LOE) requirement for the Project Coordinator and Community Project Managers is 100%.

In addition, any changes to key staff – including LOE involving separation from the project for more than three months or a 25% reduction in time dedicated to the project – requires prior approval and must be submitted as a post-award amendment in eRA Commons.

Condition:

The required level of effort is deficient as follows:

<u>Job Description</u>	<u>Annual Gross Pay</u>	<u>Required LOE</u>		<u>Actual LOE</u>	<u>Deficient LOE</u>
		<u>Percentage</u>	<u>Amount</u>		
Project Director	\$ 91,672	50%	\$ 45,836	\$ 37,953	\$ 7,883
SEA Project Coordinator	90,000	100%	90,000	68,393	21,607
SMHA Project Co-coordinator	65,000	50%	32,500	-	32,500
LEA 1 Community Project Manager	75,000	100%	75,000	72,116	2,884
LEA 2 Community Project Manager	75,000	100%	75,000	41,927	33,073
LEA 3 Community Project Manager	75,000	100%	75,000	74,236	764
	Total		\$ 393,336	\$294,625	\$ 98,711

In addition, a change in the LEA 2 Community Project Manager position was not timely communicated. The position was unfilled from the beginning of the grant period (September 30, 2020) until February 2021. The post-award amendment was only submitted in eRA Commons and approved by the Federal agency in June 2021.

Cause:

PSS lacks an adequate system of internal controls to comply with the requirements of matching, LOE and earmarking requirements.

Commonwealth of the Northern Mariana Islands
Public School System
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs, continued
For the year ended September 30, 2021

Finding No. 2021-006, continued

Effect:

PSS is noncompliant with the requirements of matching, LOE and earmarking requirements. Reportable questioned costs total \$98,711.

Recommendation:

PSS must regularly monitor compliance with LOE requirements. If deficiencies in LOE are noted, responsible personnel should timely communicate with the grantor and seek approval for necessary award amendments.

Views of responsible officials:

PSS' Corrective Action Plan provides a detailed rationale for disagreement with the finding.

Auditor response:

Section IV SM Special Terms and Conditions of the Notice of Award issued on September 15, 2020 for grant number 1H79SM083644-01 identified the Project Director as key staff with 50% LOE.

PSS stated that LOE should be measured based on percent of time on the project. No evidence or computation was provided to show how PSS measured and monitored the LOE of key staff using percent of time throughout the grant period.

We understand that changes to key staff, including changes in LOE, were communicated to grant officers in a timely manner through e-mail communications and through discussions in monthly meetings. However, no evidence was provided to show that the necessary post-award amendments for the changes were also made in eRA Commons in a timely manner, as required in Section IV SM Special Terms and Conditions of the Notice of Award issued on September 15, 2020.



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CORRECTIVE ACTION PLAN

Financial Statement Findings

Finding No. 2021-001

Area: General Ledger and Financial Statement Close Process

Views of Auditee and Planned Corrective Action:

Agree with the finding. The Finance department lack of adequate staffing and management personnel contributed to the findings. Finance director and comptroller position was filled and have implemented financial statement close process including cutoff procedures, account reconciliations and in-depth review of transactions related to payroll, purchases and federal award income and cash receipts.

Anticipated Completion Date:

September 30, 2023

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

Finding No. 2021-002

Area: General Ledger and Schedule of Expenditures of Federal Awards

Views of Auditee and Planned Corrective Action:

Agree with the finding. The Federal Programs Office has hired a Director of Internal Control & Evaluation and Deputy Budget Officer to oversee and ensure that SEFA is prepared accurately and completely while working closely with Federal Programs Officer and Financial Budget Analyst. Future preparations of the SEFA will follow the accrual basis, so activities and receipt of goods that occurred during the fiscal year will be reflected in both SEFA and in the books. The Federal Programs Office process of recording grant revenues, reporting and SOPs will be revisited.

Anticipated Completion Date:

September 30, 2023

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Federal Award Findings and Questioned Costs

Finding No. 2021-003

Area: Allowable Costs/Cost Principles

Views of Auditee and Planned Corrective Action

1. Disagree with finding that prior approval to procure two (2) passenger buses using either ESF-SEA and/or ARP-OA SEA was not sought or given.

As demonstrated in an email thread between CNMI PSS and USDOE from May 2021 and again on January 2023, USDOE responded that based on the rationale that was provided on May 2021, the purchase of the buses with ESF-SEA and ARP-OA SEA funds was allowable. Prior approval was given based on that email thread on the understanding that the procurement of these buses was in response to the COVID-19 pandemic, which makes use of either ESF-SEA and/or APR-OA SEA allowable.

- 2a. Disagree with finding of \$261,965 questioned costs that were charged to both the U.S. Department of Defense (DOD) – Army JROTC Program and ESF-SEA.

Under the allowable uses for the ESF funds, continuing to employ existing staff is cited as an acceptable use of funds. When PSS received ESF funds, all locally funded personnel were transferred to ESF accounts. JROTC instructors, as locally funded employees were included in this list. The US Department of Defense does not pay the salaries of the JROTC instructors, and in the CNMI Public School System, neither do the reimbursements received from Cadet Command. The reimbursements from Cadet Command are provided by an agreement between the CNMI Public School System and the United States Army Cadet Command upon the establishment of the JROTC Program. The PSS exercise its authority to decide how to spend these reimbursements.

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- There are **twelve uses** for money provided under the fund, including:
 - Any activity authorized under ESEA or IDEA which might include professional development, instructional materials, resources to support educational programs, and special education for children and youth with disabilities
 - Resources for principals/ school leaders to address needs of their individual schools
 - Activities to address the unique needs of a variety of populations including low-income students, children with disabilities, and racial and ethnic minorities
 - Training for staff on sanitation and minimizing the spread of infectious diseases
 - Purchasing supplies to sanitize and clean school facilities
 - Planning for and coordinating during long-term closures including how to provide meals, technology, guidance for carrying out IDEA
 - Purchasing technology (hardware, software, connectivity) for students to aid in educational interaction between students and their teachers.
 - Providing mental health services and supports
 - Planning and implementing activities related to summer learning
 - Other activities necessary to maintain the operation of and continuity of services and continuing to employ existing staff

The Junior Reserve Officer Training Corps (JROTC) is not a grant. It is a program established under the United States Army Cadet Command, on behalf of the United States Army. Schools or Districts who apply and are approved to establish JROTC programs in eligible school districts are funded in accordance with JROTC Cadet Command Regulations and Policies pertaining to their school districts. JROTC programs' funding sources may differ from district to district, but Minimum Instructor Pay or MIP is the basic pay rate at which all school districts must guarantee all JROTC instructors. The district is then reimbursed for 50% of this cost. There is no stipulation from Cadet Command as to what the district can or cannot do with the reimbursements.

MIP is the difference between official retired pay, reported by the Defense Finance and Accounting Service (DFAS), and the active duty pay and allowances (excluding hazardous duty and special pays) that a JROTC instructor would receive if ordered to active duty.

Base pay is computed of your retired Grade/Rank that is in the retired pay system. If Promoted and unable to fulfill the required time in Grade/Rank then base pay is computed at the lower Grade/Rank.

To calculate the monthly enlisted clothing allowance, use the yearly rate divided by twelve.

Active duty Pay and Allowances are based on DFAS current year Military Pay Tables and include the following:

- Basic Pay
- Basic Allowance for Housing
- Cost of Living Allowance (if applicable)
- Overseas Housing Allowance (if applicable)
- Overseas Cost of Living Allowance (if applicable)
- Clothing Maintenance Allowance (enlisted only)
- Basic Allowance for Subsistence

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Additionally, the CNMI Education Act, established the JROTC Fund directing the reimbursements from the Department of Defense to the operations and logistical support of the program. The CNMI JROTC Program is one of few districts who do not utilize MIP reimbursements as revolving accounts to maintain personnel costs, enabling school units and the Multiple School Unit, or MSU to operate effectively and efficiently in order to achieve and maintain its honor distinction.

(c) Junior Reserve Officers Training Corps (JROTC) Fund.

There is established a Junior Reserve Officers Training Corps (JROTC) Fund to be maintained separate and apart from all other funds of the Public School System. All money received by the government of the Northern Mariana Islands from the United States Department of Defense for the operation of JROTC programs shall be placed in the JROTC Fund to be used solely for the operational and logistical support of the CNMI JROTC Program. The Commissioner of Education or his/her designee, shall have expenditure authority for the JROTC Fund. The JROTC Director of Army Instruction shall report annually to the Board of Education, the Commissioner of Education, the Governor and legislature on the receipts, expenditures and balances of the JROTC Fund.

Source: [PL 20-48](#) § 3 (Mar. 28, 2018), modified.

Cadet Command regulation makes it very clear that JROTC personnel are employees of the school district and that the only responsibility it has in regard to salary is the reimbursement of 50% of the Minimum Instructor Pay.

(1) Individual, school, and Army. The school and the JROTC instructor will negotiate contractual matters. Although the Army is not a party to the employment contract, it will reimburse the school in accordance with AR 145-2. A copy of the contract will be furnished to USACC by school authorities upon request. Though the Army is restricted by the amount that can be reimbursed to the school, the school is not restricted. In negotiating the employment contract, schools are encouraged to pay instructors for their experience, education credentials, and other after school activities as other teachers. Also, when negotiating the length of the employment contract with a school, it is the instructor's responsibility to ensure the school official is aware of the requirement for year-round coverage of government equipment. Schools which do not employ year-round instructor(s) must designate the principal or other school administrator to complete a 100% inventory and sign for all government property. This ensures accountability for property during the period that an instructor is not on contract to provide oversight and accountability. Regardless of the length of their contract, JROTC instructors are required to attend JCLC with their Cadets. If required, contract extensions for JCLC will be restricted to a specific amount of time and will be considered on a case-by-case basis allowing the Army to cost-share for this period of time. The minimum contract length for JROTC instructors is 10 months. Schools will not enter into a contract with an uncertified person for the purpose of teaching JROTC. Applicants must present a qualification letter and be found suitable through a background investigation prior to conducting negotiations.

PSS utilized the ESF to pay the instructor 100% of the salary which is a requirement of the JROTC Program. Cadet Command, as part of the agreement, reimburses PSS 50% of that cost. CNMI Public Law 20-48 redirects that reimbursement to a JROTC account within PSS for operations and logistics and never for personnel costs.

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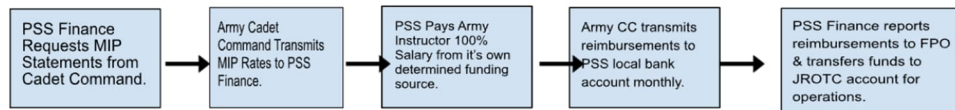
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The Army JROTC does not dictate what funding source to pay its instructors. The Army JROTC merely stipulates that PSS pay all instructors 100% of the Minimum Instructor Pay (MIP) based on the difference between their official retired pay and active duty pay and allowances that they would have received if they were on active duty.

When PSS fulfills this requirement, the Army JROTC then reimburses PSS for 50% of that cost. School district differ in their use of MIP reimbursements. Most schools use them as a way to maintain personnel costs, causing their battalions to have to fundraise for activities. The CNMI legislature, in its wisdom and foresight, delineated the funds towards the operations of the program, protecting the reimbursements to advance the goals and objectives of the program.

See Chart Flowchart Below:



*MIP rates can fluctuate several times a year and can increase or decrease based on allowances (BAH, COLA, etc.). PSS Finance communicates with instructors to make adjustments for under or overpayments when needed.

To reiterate, JROTC funds for the CNMI program are not a cost share of the personnel salaries because the reimbursements are by law, directed towards operating expenses for the five school battalions and the multiple school unit office on Capitol Hill.

2b. Agree with the finding on retention incentive. Current SOP for retention incentive payment will be revisited and implemented before any payout.

Anticipated Completion Date:

September 30, 2023

Name of Contact Person and Title:

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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Finding No. 2021-004

Area: Equipment and Real Property Management

Views of Auditee and Planned Corrective Action

Agree with the finding. The Finance department will create a standard operating procedure that address the grant requirements for managing equipment and real property management whether acquired in whole or in part under a federal award until disposition takes place.

Anticipated Completion Date:

September 30, 2023

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

Finding No. 2021-005

Area: Equipment and Real Property Management

Views of Auditee and Planned Corrective Action

Agree with the finding. The Finance department will create a standard operating procedure that address the grant requirements for managing equipment and real property management whether acquired in whole or in part under a federal award until disposition takes place.

Anticipated Completion Date:

September 30, 2023

Name of Contact Person and Title

Contact Person – Arlene Lizama, Director of Finance

Contact – arlene.lizama@cnmipss.org

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Finding No. 2021-006

Area: Matching, Level of Effort and Earmarking

Views of Auditee and Planned Corrective Action

Disagree with finding that CNMI PSS did not comply with requirements of matching, level of effort and earmarking requirements. The Federal Opportunity Announcement (FOA) for Project HALIGI AWARE No. SM-20-016 identifies 5 (five) Key Personnel with specific Levels of Effort (LOE) required for the project on page 6 of the announcement. See the screenshot of the Key Personnel requirement in the FOA below:

<p>Key Personnel:</p> <p>Key personnel are staff members who must be part of the project regardless of whether or not they receive a salary or compensation from the project. These staff members must make a substantial contribution to the execution of the project.</p> <p>The key personnel for this program are the SEA Project Coordinator with a 1.0 FTE level of effort and the Project Co-Coordinator from the State Mental Health Agency (SMHA) with a .5 FTE minimum level of effort. These positions require prior approval by SAMHSA after a review of job descriptions and staff credentials.</p>
--

Note that:

1. The Project Director is not a key personnel position and does not have a required LOE under the grant terms and conditions. This should not be a deficiency.
2. The Project Co-coordinator, SMHA Co-coordinator who in the FOA is identified as the "Project Co-coordinator from the State Mental Health Agency" is required to be staffed at a 50% LOE. This position was a challenging position to fill, but the vacancy was communicated to the grant officer at the time of award, during the first grant meeting. There were several periods where the grantee was given notice to fill the position by specific dates, but was unable to due to lack of cooperation with the state mental health agency. The status of the grantee's efforts is well documented from the notice of award until most recently when it was resolved in October 2022.

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3. The Project Coordinator, or SEA Project Coordinator, as well as three (3) LEA Community Project Managers identified in the FOA are all required to be staffed at a 100% LOE. Two of these positions were all filled within the three months of the grant award. Two other positions were left vacant by individuals who had been identified in the grant submission but had resigned from the Public School System when the grant was awarded to the district.

A. SEA Project Coordinator – originally designated to Daisy Villagomez- Bier who resigned before the grant was awarded. Director Pangelinan informed Joy Hart, grant officer, that the position would be filled by Bobby Cruz during the first grant meeting in November 2020, well within the three month period required to notify SAMHSA. This position was filled by Bobby Cruz who officially signed his NOPA in February 2021, 5 months after the notice of award due to issues beyond the control of the grant staff.

B. LEA 2 Community Project Manager – originally designated to Martina Diaz who resigned before the grant was awarded. This position was vacant until March 8, 2021. Director Pangelinan informed Joy Hart of all vacancies, including the Tinian LEA position during the first grant meeting in November 2020, meeting the required three month timeline to notify SAMHSA. A proposal to fill the position was submitted, qualified personnel were being actively recruited, however, there were no interested applicants.

In summary, all changes to key staff, including changes in LOE have been made to Grant Officers in a timely manner according to the grant terms and conditions.

Disagree with the findings re: Notification of Position Vacancies. Level of Effort is defined in the Funding Opportunity Announcement as the “*level of effort (percentage of time) that the position contributes to the project*”. There is no LOE requirement for the project director as this is not a key personnel position under the grant. This should be not be a finding at all.

SEA Project Coordinator, NOPA signed on February 2021, at the 100% Level of Effort.
SMHA Co-coordinator, NOPA signed on October 29, 2022, at a 50% Level of Effort.
LEA 1, NOPA signed on October 10, 2020, at a 100% Level of Effort
LEA 2, NOPA signed on March 8, 2021, at a 100% Level of Effort
LEA 3, NOPA signed on October 1, 2020, at a 100% Level of Effort

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The measure being used to define LOE is percent of time on the project. All the key personnel identified are staff at their level of effort performing their duty and contributing to the project at 100% except for the SMHA Co-coordinator's time and attendance is monitored by the grant timekeeper and director on a bi-weekly basis and is stationed in the same office as both the timekeeper and director.

Basing the LOE fulfillment on payout of salary is not an accurate measure of Level of Effort. What you are measuring is pay for work, which cannot be determined within this budget period due to the date that each grant staff was hired.

All the grant staff were hired after the notice of award was received in September 2020 and after fiscal year had begun. The school year had also begun and many of the grant staff were teachers of worked in schools, which meant that they had to give notice to their immediate supervisors before transitioning to central office. Director Pangelinan also had to inform the Commissioner and the Board that she had received the grant award and that staff were identified to fill the positions. She then had to inform HRO to amend NOPAs and prepare to bring grant staff to the central office. The building space had to be prepared for new staff. This means that any staff hired during Year One of the grant award would not have completed an entire fiscal budget period, and the personnel budget would not be fully expended, which was the case with HALIGI AWARE. There were additional factors that prevented the grant staff from fully expending funds in year one.

Name of Contact Person and Title

Contact Person – Jacqueline Che, Interim Federal Programs Officer

Contact – jacqueline.che@cnmipss.org

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COMMONWEALTH of the NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM



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**Summary Schedule of Prior Year Audit Findings
 For the year ended September 30, 2021**

Finding Number	Assistance Listings Number	Requirement	Questioned Costs	Status
2018-001	-	General Ledger and Financial Statement Close Process	\$ -	Not resolved. Similar to Finding No. 2021-001.
2018-002	-	General Ledger and Schedule of Expenditures of Federal Awards	\$ -	Not resolved. Similar to Finding No. 2021-002.
2019-004	-	General Ledger is not Reconciled to Subsidiary Records	\$ -	Not resolved. Similar to Finding No. 2021-001.
2020-001	-	General Ledger and Financial Statement Close Process	\$ -	Not resolved. Similar to Finding No. 2021-001.
2020-002	-	General Ledger and Schedule of Expenditures of Federal Awards	\$ -	Not resolved. Similar to Finding No. 2021-002.
2020-002	84.425A	Reporting	\$ -	Not resolved. Similar to Finding No. 2021-002.
2020-003	84.425A	Allowable Costs/ Cost Principles	\$ 2,467,312	Resolved. US Department of Education granted PSS' request to reimburse the amount back to the federal program and use the amount to offset payroll costs and utilities towards the end of the FY2022 fiscal year, documented in an e-mail communication dated September 12, 2022.
2020-004	84.425A	Cash Management	\$ 1,090,828	Resolved. US Department of Education granted PSS' request to reimburse the amount back to the federal program and use the amount to offset payroll costs and utilities towards the end of the FY2022 fiscal year, documented in an e-mail communication dated September 12, 2022.
2020-005	84.938A	Allowable Costs/ Cost Principles	\$ 1,000	Not resolved. Similar to Finding No. 2021-003, Condition 2b.
2020-006	84.938A	Allowable Costs/ Cost Principles	\$ 84,926	Resolved. PSS updated the process in computing for the modified total direct cost pool to exclude capital expenditures and to use the negotiated indirect cost rate.
2020-007	84.938G	Allowable Costs/ Cost Principles	\$ -	Resolved. PSS updated the process in computing for the modified total direct cost pool to exclude capital expenditures and to use the negotiated indirect cost rate.
2020-008	84.403	Procurement, Suspension and Debarment	\$ 666,325	Corrective action on-going.

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