

EXECUTIVE SUMMARY

PSS Single Audit Report as of September 30, 2006

Single Audit Summary No. 07-006, August 22, 2007

Summary

This summary presents the Office of the Public Auditor's (OPA) review of the *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* of the CNMI Public School System (PSS) for the fiscal year ended September 30, 2006. This audit was conducted by the independent CPA firm J. Scott Magliari and Company. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. This summary is provided solely for informational purposes. No audit opinion on the related data is expressed nor inferred by OPA.

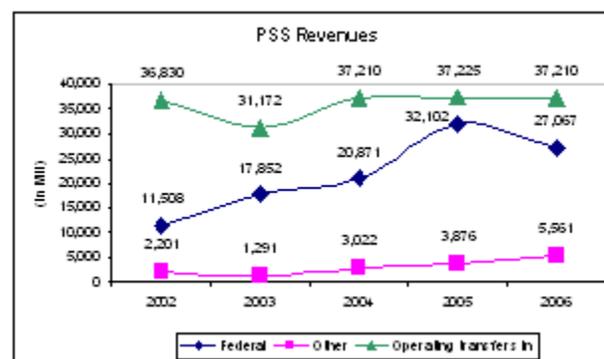
The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components, which taken together, give an informed reader an overview of the financial condition of the audited entity. PSS received an unqualified opinion, or "clean" opinion, indicating that the data contained in the report can be relied upon. Presented on pages 3-18 of the audit report is an unaudited *Management Discussion and Analysis* (MD&A) which provides in common language, a more detailed summary of PSS's financial activity.

Background

On October 25, 1988, the Public School System was established as a non-profit government agency by Public Law 6-10. PSS is operated through a board of education consisting of 5 voting members elected at-large with four year terms and 3 non-voting appointed members. A commissioner is appointed by the Board to oversee and manage the operations of the school system for the islands of Saipan, Rota, and Tinian. There are 12 elementary schools, 3 middle schools, 5 high schools and 10 head start centers in the CNMI public school system.

Fiscal Year 2006 Performance

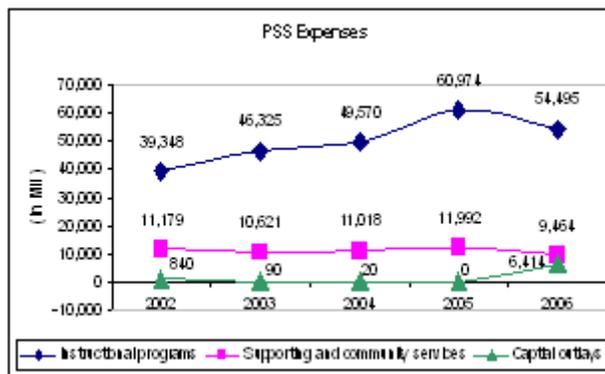
PSS' total net assets showed a positive increase of \$4.8M or 5.9% over the prior year of \$81M. Increases in cash and cash equivalents of \$1.01M, receivables from the CNMI of \$1.2M and \$5.3M of net capital assets, contributed to the increase. Liabilities, however, increased about \$517K from \$8.2M in FY05 to \$8.7M in FY06 due to increases in vouchers payable of \$378K and deferred revenue of \$474K. Accrued leave decreased \$528K for the same period from \$4.4M in FY05 to \$3.9M in FY06.



Revenues are derived from three main sources: 1) CNMI appropriations (operating transfers); 2) federal grants; and 3) other revenue sources which consists of local donations, charges for services and indirect costs allocation. In FY06, PSS received \$5M less in federal grants compared to the previous year from \$32M in FY05 to \$27M in FY06. CNMI appropriations remained constant at \$37M while other grants increased by \$1.7M or 43% from \$3.8M in FY05

to \$5.5M in FY06 including \$3.6M for capital projects. In total, revenues including transfers from the CNMI decreased by about \$3.36M or 4.6% from \$73M received the prior year.





Instructional programs account for 77% of PSS' main expenditures, 13% for support and community services, and 9% for capital outlays. In FY06, instructional, supporting services and community services expenditures decreased from the prior year.

Instructional expenditures fell \$6.5M or 10.6% from \$60.9M in FY05 to \$54.4M in FY06; support and community services dropped 21% or \$2.5M from \$11.9M in FY05 to \$9.4M in FY06. Capital outlays,

however, increased dramatically to \$6.4M from zero the prior year. The increase in capital outlays are a result of increases in building and improvements of \$4.5M, vehicles of \$487K and other capital improvement activities of \$1.4M.

The Public School System projects student enrollment to exceed 15,000 by the year 2010. As a result, PSS was approved by House Bill 14-62 to build additional classrooms for Kagman elementary and Kagman high school, including a Headstart center for both Tinian and Rota. Funding for these expansions will come from proceeds of the General Obligation Bond issued in 1997 to help leverage Federal capital improvement project funds for school construction projects. The bond will be repaid by the central government through an appropriation of liquid fuel taxes. Other capital projects in As-Matusi, Marpi, Rota and Tinian are planned as well, and are included in PSS' long-term Capital Improvement Projects plan submitted to the CNMI government.

According to PSS, all Public School teachers, excluding a few vocational teachers, have a bachelor's degree. Since passage of the 'No Child Left Behind' Act, requirements for teaching in the public schools have increased tremendously. For instance, teachers must have a bachelor's degree, be fully state certified, and have passed a rigorous state examination testing knowledge in core content areas. PSS expects that within 5 years all teachers will be teaching in their core subject areas. Presently, out of 511 teachers with degrees, 381 or 75% have bachelor's degrees, 125 or 24% have Master's degrees, 3 or 1% have a Juris Doctorate, and 2 have Ph.D.'s.

Student enrollment for FY06 was 11,693, a slight decrease of 25 students from the previous year of 11,718 students. In 1997, student enrollment was approximately 9,200, a steady increase of 27% over the 10 year period.

Audit Findings

Audit findings are reportable items considered material by the auditors. Findings document situations where established policy, procedures or standards have not been followed. Such deviations may lead to losses for the CNMI or misstatements in its financial reports. Findings, if they remain uncorrected, can ultimately lead to qualifications in the Opinion of the auditors. For FY06, there were seven reported findings, a decrease of 15 reported in FY05. Three of those findings were related to Federal Awards. These findings are as follows:

- Exposure of credit risk due to insufficient collateral of deposits in bank.
- Travel policies and procedures were not adhered to (3 findings).
- Noncompliance of eligibility requirements for Food and Nutrition Services (2).
- Noncompliance of Childcare eligibility.



A copy of the full financial statements may be obtained from the Office of the Public Auditor or PSS

Michael S. Sablan, CPA
Public Auditor
Commonwealth of the Northern Mariana Islands
Web Site: www.opacnmi.com

P.O. Box 501399
Saipan, MP 96950
Tel. No. (670) 322-6481
Fax No. (670) 322-7812