

**PUBLIC SCHOOL SYSTEM**

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**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

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**Year Ended September 30, 2015**

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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September 30, 2015

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of PSS, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures/Expense are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2016, on our consideration of PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.



Saipan, Commonwealth of the Northern Mariana Islands  
March 23, 2016



# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

STATE BOARD OF EDUCATION  
PUBLIC SCHOOL SYSTEM  
P.O. BOX 501370  
SAIPAN, MP 96950



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**Rita A. Sablan, Ed.D.**  
*coe.ras@cnmipss.org*

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, 2015. 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 2015, PSS’ net position amounted to \$76,188,817, an increase of \$189,328 or 0.2%, from the \$75,999,489 in fiscal year 2014 restated net position (See note 11 of the accompanying audited financial statements). This increase was primarily due to excess revenues over expenses. PSS total expenses for fiscal year 2015 amounted to \$66,484,587 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$ 66,673,915.

PSS’ net position includes investment in capital assets, net of accumulated depreciation, of \$77,939,922, restricted for special purpose of \$2,281,353 and deficit of \$4,032,458. The deficit is due to noncurrent liabilities that are to be funded appropriation from the CNMI government.

PSS’ enrollment for school year 2014-2015 was 10,367 students. There was a decrease of 268 students from 10,635 students for school year 2013-2014.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### *Management's Discussion and Analysis (MD&A)*

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

### *District-wide Statements*

The first two financial statements presented are highly condensed and are somewhat based on the accounting model used by private sector businesses. The district-wide statements are presented on the full accrual basis of accounting and include the Statement of Net Position and the Statement of Activities.

### *Statement of Net Position*

The Statement of Net Position includes all of the CNMI Public School System assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This Statement provides a summary of the school system's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this Statement.

Net position, which is the difference between the school system's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the district's financial health or position. Over time, increases or decreases in PSS' net position are an indicator of whether its financial position is improving or deteriorating.

### *Statement of Activities*

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

### Governmental-fund Financial Statements

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

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

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

PSS' major funds are:

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

*Federal Fund* - Accounts for PSS' Grants from Federal Agencies.

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

**Condensed Statements of Net Position**

	<b>2015</b>	<b>2014 Restated</b>	<b>2013</b>
Current assets	\$ 8,866,389	\$ 8,212,679	\$ 5,740,906
Capital improvement projects	-	1,051,447	1,051,447
Capital assets, net	<u>77,939,922</u>	<u>78,137,682</u>	<u>80,458,805</u>
<b>Total assets</b>	<b>86,806,311</b>	<b>87,401,808</b>	<b>87,251,158</b>
<i>Change against prior year - dollar amount</i>	<i>(595,497)</i>	<i>150,650</i>	<i>(4,561,361)</i>
<i>Change against prior year - percent</i>	<i>-1%</i>	<i>0%</i>	<i>-5%</i>
Current liabilities	5,247,486	7,958,224	10,623,378
Noncurrent liabilities	4,288,490	2,220,325	25,162,535
<b>Total liabilities</b>	<b>9,535,976</b>	<b>10,178,549</b>	<b>35,785,913</b>
<i>Change against prior year - dollar amount</i>	<i>(642,573)</i>	<i>(25,607,364)</i>	<i>(1,853,284)</i>
<i>Change against prior year - percent</i>	<i>-6%</i>	<i>-72%</i>	<i>-5%</i>
Deferred inflows of resources	1,081,518	1,223,770	1,293,999
<i>Change against prior year - dollar amount</i>	<i>(142,252)</i>	<i>(70,229)</i>	<i>(245,851)</i>
<i>Change against prior year - percent</i>	<i>-12%</i>	<i>-5%</i>	<i>-16%</i>
Investment in capital assets and			
capital improvement projects	77,939,922	79,189,129	81,510,252
Restricted for special purpose	2,281,353	1,087,689	1,087,689
Deficit	<u>(4,032,458)</u>	<u>(4,277,329)</u>	<u>(32,426,695)</u>
<b>Net position</b>	<b>\$ 76,188,817</b>	<b>\$ 75,999,489</b>	<b>\$ 50,171,246</b>
<i>Change against prior year - dollar amount</i>	<i>189,328</i>	<i>25,828,243</i>	<i>(2,462,226)</i>
<i>Change against prior year - percent</i>	<i>0.2%</i>	<i>51%</i>	<i>-5%</i>

- Current assets of \$8,866,389 as of September 30, 2015 increased by \$653,710 or 8% compared to current assets \$8,212,679 as of September 30, 2014 due to increase in cash by \$1,497,630 or 27%.

The increase in cash is primarily due to cash reserved for school repairs mandated by Public Law 16-10 and for purchase of textbooks in lieu of the 1% OPA fee.

- The decrease in capital assets is primarily due to depreciation expense.

- Current liabilities of \$5,247,486 as of September 30, 2015 decreased by \$2,710,738 or 34% compared to \$7,958,224 as of September 30, 2014 primarily due to the reclassification of the utilities payable to the Commonwealth Utilities Corporation (CUC) to long-term debt as a result of the settlement agreement between PSS and CUC.
- Prior year noncurrent liabilities, as it related to the unremitted employer contribution to the NMI Retirement Plan, have been restated. This is as a result of the Settlement Order for federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities, strengthen PSS' position.
- Deferred inflows of resources pertains to monies received in advance from federal and local sources. There were no significant changes in the account balance as activities are consistent with prior year.
- At the end of fiscal year 2015, PSS' net position is at \$76,188,817, net of the \$4,032,458 deficit. The deficit is primarily due to the long-term debt to CUC, which is to be paid from the CNMI appropriation and the accrued annual leave, which is also funded by appropriation as employees avail of the benefit.

### Condensed Statements of Activities

	2015	2014	2013
<b>Revenues:</b>			
Program revenues	\$ 32,779,917	\$ 31,127,438	\$ 29,538,995
General revenues	33,893,998	33,171,157	31,020,813
<b>Total revenues</b>	<b>66,673,915</b>	<b>64,298,595</b>	<b>60,559,808</b>
<i>Change against prior year - dollar amount</i>	2,375,320	3,738,787	(4,225,544)
<i>Change against prior year - percent</i>	4%	6%	-7%
<b>Expenses:</b>			
Instruction	58,262,027	58,564,601	57,458,511
Support services	8,222,560	6,808,021	6,069,833
<b>Total expenses</b>	<b>66,484,587</b>	<b>65,372,622</b>	<b>63,528,344</b>
<i>Change against prior year - dollar amount</i>	1,111,965	1,844,278	(8,915,393)
<i>Change against prior year - percent</i>	2%	3%	-12%
Change in net position	189,328	(1,074,027)	(2,968,536)
Prior year restatement	-	26,902,270	-
<b>Net position, beginning</b>	<b>75,999,489</b>	<b>50,171,246</b>	<b>53,139,782</b>
<b>Net position, ending</b>	<b>\$ 76,188,817</b>	<b>\$ 75,999,489</b>	<b>\$ 50,171,246</b>
<i>Change against prior year - dollar amount</i>	189,328	25,828,243	(2,462,226)
<i>Change against prior year - percent</i>	0.2%	51%	-5%

- The overall increase in revenues and related expenses is due to increase in CNMI appropriations by \$1,251,477, increase in federal grants received by \$1,839,573, offset by an aggregate decrease in other grants.

A more detailed revenues and expenses discussion follows.

## Revenues

	2015	2014	Difference	% Change
Program revenues				
Charges for services	\$ 620,673	\$ 807,767	\$ (187,094)	-23%
Grants and contributions	32,159,244	30,319,671	1,839,573	6%
Total program revenues	32,779,917	31,127,438	1,652,479	5%
General revenues				
CNMI Appropriation	33,614,198	32,362,721	1,251,477	4%
Miscellaneous	279,800	808,436	(528,636)	-65%
Total general revenues	33,893,998	33,171,157	722,841	2%
Total revenues	\$ 66,673,915	\$ 64,298,595	\$ 2,375,320	4%

	2014	2013	Difference	% Change
Program revenues				
Charges for services	\$ 807,767	\$ 1,006,314	\$ (198,547)	-20%
Grants and contributions	30,319,671	28,532,681	1,786,990	6%
Total program revenues	31,127,438	29,538,995	1,588,443	5%
General revenues				
CNMI Appropriation	32,362,721	30,239,861	2,122,860	7%
Miscellaneous	808,436	780,952	27,484	4%
Total general revenues	33,171,157	31,020,813	2,150,344	7%
Total revenues	\$ 64,298,595	\$ 60,559,808	\$ 3,738,787	6%

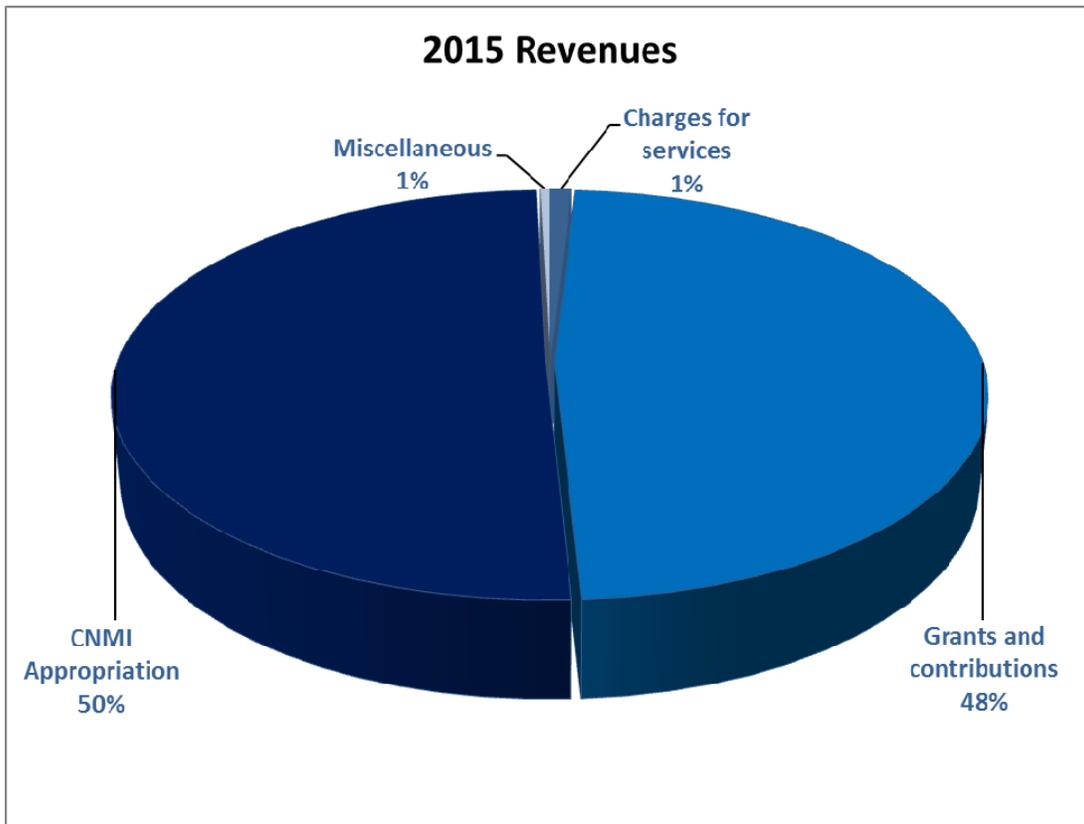
Total revenues for fiscal year 2015 were \$66,673,915, a \$2,375,320 or 4% increase from fiscal year 2014. The increase in 2015 revenue is primarily due to increase in revenues from federal grants and CNMI appropriations.

The increase in federal grants received is primarily from the U.S Department of Education Consolidated grants. PSS expended \$11,895,446 for this grant in fiscal year 2015, a \$1,072,929 increase from \$10,822,517 in fiscal year 2014.

Revenues are classified as either program or general.

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

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



## Expenses

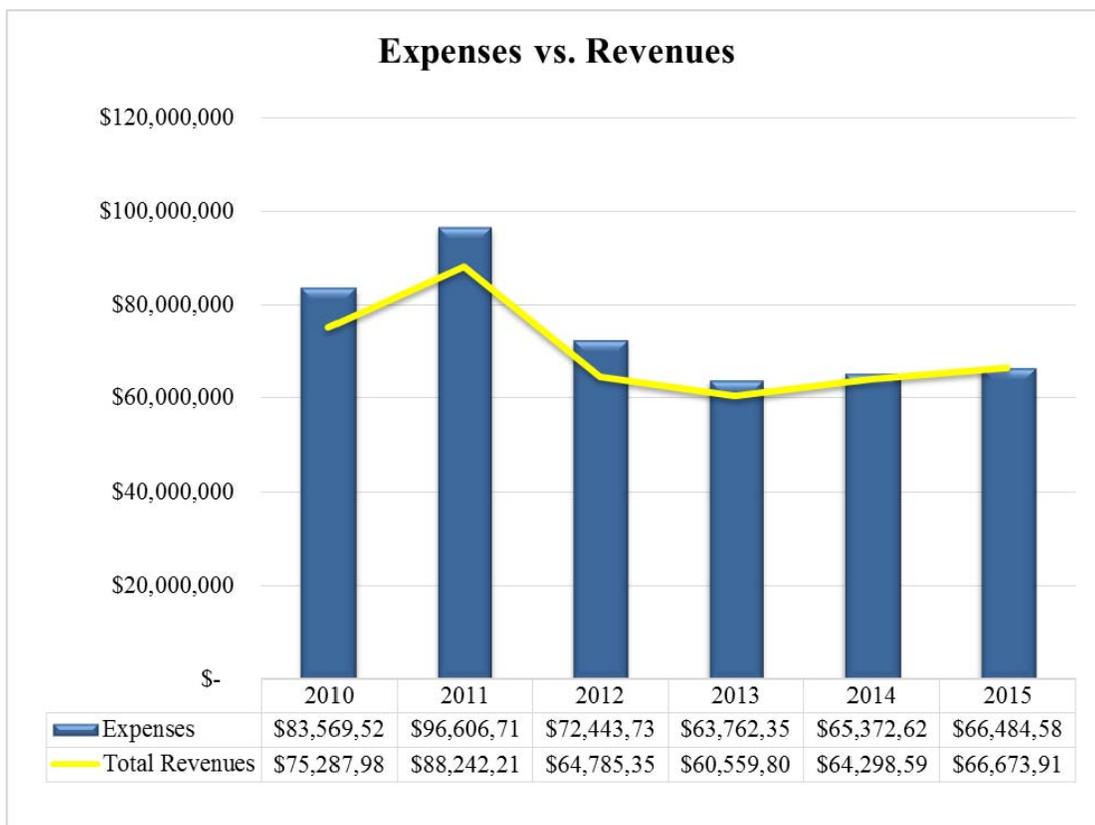
Total district-wide expenses by function are as follows:

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

	2014	2013	Difference	% Change
Instruction:				
Regular	\$ 33,922,760	\$ 33,515,406	\$ 407,354	1%
Special	8,111,000	8,244,887	(133,887)	-2%
Co-curricular	3,850,116	3,606,553	243,563	7%
Student services	12,680,725	12,091,665	589,060	5%
<b>Total instruction expenses</b>	<b>58,564,601</b>	<b>57,458,511</b>	<b>1,106,090</b>	<b>2%</b>
Support services:				
General administration	1,714,023	1,458,537	255,486	18%
School administration	1,910,869	1,899,836	11,033	1%
Other support	1,075,456	609,089	466,367	77%
Maintenance	-	171,382	(171,382)	-100%
Individual programs	696,036	519,352	176,684	34%
Depreciation - unallocated	1,411,637	1,411,637	-	0%
<b>Total Support services expenses</b>	<b>6,808,021</b>	<b>6,069,833</b>	<b>738,188</b>	<b>12%</b>
<b>Total expenses</b>	<b>\$ 65,372,622</b>	<b>\$ 63,528,344</b>	<b>\$ 1,844,278</b>	<b>3%</b>

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

Total expenses in 2014 increased by \$1,844,278 or 3% as compared to fiscal year 2013. The increase in fiscal year 2014 expenses is due to increase in expenditures authorized through the federal funding for Consolidated Grants by \$1,181,546 and National School Lunch Program grant by \$707,155.



The chart above shows the relationship of revenues and expenses for the past five years. Except for current fiscal year, expenses exceeded revenues from 2010 to 2014 which contributed to the deficit of \$4,032,458 as of September 30, 2015. With the increase in CNMI appropriations, the gap between revenues and expenses narrows. PSS needs revenues to exceed expenses to fund its current deficit.

## FUND ANALYSIS

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
Fund balance, beginning of year as restated	\$ 1,060,781	\$ 685,214	\$ 1,889,203	\$ 3,635,198
Fund balance, end of year	<u>\$ 1,745,675</u>	<u>685,234</u>	<u>2,293,602</u>	<u>4,724,511</u>
Change in fund balance	<u>\$ 684,894</u>	<u>\$ 20</u>	<u>\$ 404,399</u>	<u>\$ 1,089,313</u>
Percentage change	65%	0%	21%	30%

The Fund balance increased by \$1,089,313 to \$4,724,511 as of September 30, 2015.

Of the \$4,724,511, \$2,281,353 or 48% are restricted for specific purpose by grantors and donor, \$758,569 or 17% are assigned for specific programs approved by the Board of Education and \$1,684,589 or 35% are unassigned.

## BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 28,337,636	\$ 31,882	\$ 28,369,518	\$ 28,254,061	\$ 115,457
All other	<u>5,698,622</u>	<u>1,002,311</u>	<u>6,700,933</u>	<u>5,363,294</u>	<u>1,337,639</u>
Total expenditures	<u>34,036,258</u>	<u>1,034,193</u>	<u>35,070,451</u>	<u>33,617,355</u>	<u>1,453,096</u>
Operating Transfers-In	<u>34,036,258</u>	<u>1,034,193</u>	<u>35,070,451</u>	<u>35,070,451</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,453,096</u>	<u>\$ 1,453,096</u>

### Reconciliation of Budget to GAAP Basis

#### 2015 Budget

Appropriations including Compact Impact funds and Commonwealth Worker Fund	\$ 34,036,258	
Prior year carryover	783,620	
Reimbursement from FEMA	<u>250,573</u>	35,070,451

#### 2015 Expenditures

Actual (GAAP)	\$ 33,617,355	
Transfer to GO Bond Fund	400,000	
Transfer to Textbook Fund	336,139	
Payment of past due utilities	<u>560,000</u>	<u>34,913,494</u>

        Favorable variance \$ 156,957

#### Variance per statement

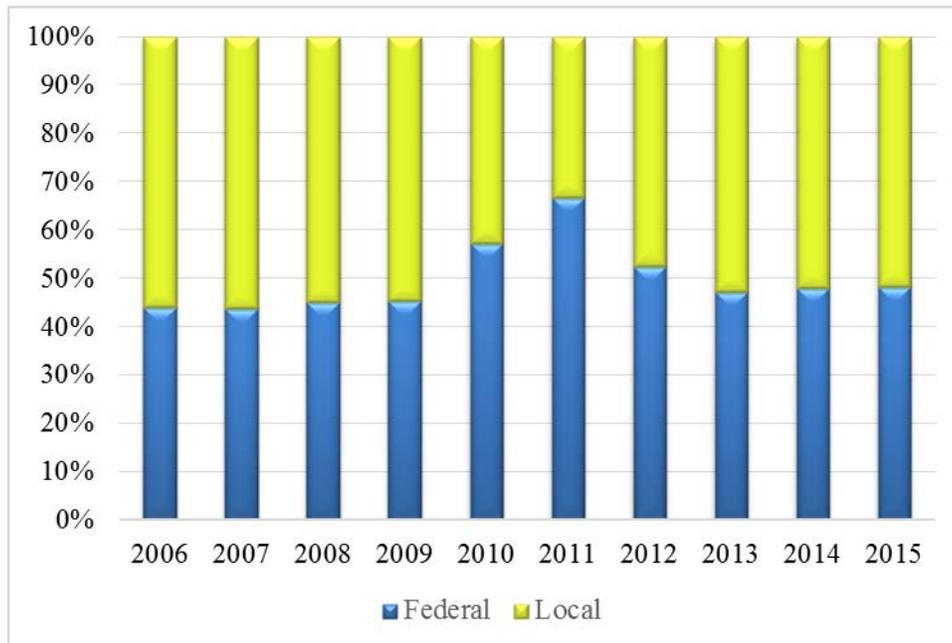
Transfer to GO Bond Fund	\$ 400,000	\$ 1,453,096
Transfer to Textbook Fund	336,139	
Payment of past due utilities	<u>560,000</u>	<u>1,296,139</u>

        Favorable variance \$ 156,957

At initial glance, PSS' general fund appears to have been over-funded. However, after accrual of expenses, the favorable appropriation variance was reduced to \$156,957.

## Federal and Local Budget Review

	Total	Federal		Local	
2006	66,582,346	29,372,418	44%	37,209,928	56%
2007	65,357,368	28,635,954	44%	36,721,414	56%
2008	65,381,534	29,534,090	45%	35,847,444	55%
2009	63,308,437	28,706,673	45%	34,601,764	55%
2010	72,908,603	41,688,947	57%	31,219,656	43%
2011	87,123,334	58,191,215	67%	28,932,119	33%
2012	62,399,197	32,779,735	53%	29,619,462	47%
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%



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, 2015, 2014 and 2013 were \$77,939,922, \$78,137,682 and \$80,458,805, respectively. Depreciation expense for the 2015, 2014 and 2013 was \$1,832,189, \$2,370,618 and \$2,084,283, respectively.

More detailed information on capital assets is on page 36 (Note 3) of the basic financial statements.

## **LONG-TERM DEBT**

At September 30, 2015, amounts payable to CUC from prior years of \$3,841,202 were classified as long-term debt in the accompanying Statement of Net Position. PSS is committed to make monthly payments of at least \$100,000 until the total amount is fully paid. In the event PSS defaults, CUC shall begin charging 12% per annum on the unpaid principal balance. PSS is still contingently liable for the accrued interest and penalties of \$2,392,703 as of September 30, 2015. Such penalties and interest shall be waived upon full payment of the debt.

## **FUTURE PLANS AND ECONOMIC OUTLOOK**

For fiscal year 2015, PSS received \$36.4 million in appropriations. This was a slight increase from the previous fiscal year. HLI 18-12 resulted in this increase and it is hoped that this funding level can be, at the least, maintained or increased year-to-year. This is to allow the hiring of more teachers to further manage class sizes, but also to repair, improve, and modernize PSS campuses.

Given that funding levels have been inconsistent, PSS secured a \$3 million loan from the USDA Rural Development Program to construct additional classrooms, kindergarten, and other infrastructure needs. The repayment of this loan is committed through local appropriations. This loan will fulfill some of the needs of PSS that cannot be funded through local appropriation.

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

Despite the funding challenges year-to-year, PSS has much to celebrate. PSS students have won national awards such as the National Championship for Aeronautics in the Real World Design Challenge and PSS musical bands have received national accolades. Student success is PSS success. There will be at least one student from the CNMI who will be walking the campus of the Massachusetts Institute of Technology or MIT. Furthermore, compared to our partners from other insular areas, CNMI PSS sets the bar in terms of performance and PSS is one of the least funded of them all by far.

This illustrates PSS' commitment to Students First. Despite significant funding limitations, PSS does its best to produce for its students.

## **FUTURE PLANS AND ECONOMIC OUTLOOK**

Finally, another measure of success for PSS is the improvement in audit performance as a system. Accountability and transparency are key commitments of PSS as a Public Agency in addition to 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:

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, 2015

Assets

Current assets:

Cash and cash equivalents	\$ 6,897,988
Receivables from the CNMI Government	132,298
Receivables from Federal agencies	1,273,703
Other receivables, net	562,400
Total current assets	8,866,389

Noncurrent assets:

Capital assets, net	77,939,922
Total Assets	86,806,311

Liabilities

Current liabilities:

Accounts payable and accrued expenses	3,060,360
Current portion of long-term debt - CUC	1,100,000
Compensated absences due in one year	1,087,126
Total current liabilities	5,247,486

Noncurrent liabilities:

Long-term debt - CUC	2,741,202
Compensated absences	1,547,288
Total noncurrent liabilities	4,288,490

Total Liabilities	9,535,976
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Deferred Inflows of Resources

Grants received	1,081,518
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Net Position

Investment in:

Capital assets	77,939,922
Restricted for special purpose	2,281,353
Deficit	(4,032,458)
Net Position	\$ 76,188,817

See accompanying notes to basic financial statements.

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

Statement of Activities  
For the Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	
		<u>Services</u>	<u>Grants and</u>	<u>Revenues</u>
			<u>Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 35,384,191	\$ 620,673	\$ 12,375,075	\$ (22,388,443)
Student services	11,142,824	-	9,910,464	(1,232,360)
Special	8,308,027	-	6,523,991	(1,784,036)
Co-curricular	<u>3,426,985</u>	<u>-</u>	<u>1,993,959</u>	<u>(1,433,026)</u>
Total instruction	<u>58,262,027</u>	<u>620,673</u>	<u>30,803,489</u>	<u>(26,837,865)</u>
Support services:				
Other	677,014	-	-	(677,014)
School administration	2,203,341	-	417,899	(1,785,442)
General administration	3,189,148	-	663,477	(2,525,671)
Individual programs	320,868	-	274,379	(46,489)
Depreciation - unallocated	<u>1,832,189</u>	<u>-</u>	<u>-</u>	<u>(1,832,189)</u>
Total support services	<u>8,222,560</u>	<u>-</u>	<u>1,355,755</u>	<u>(6,866,805)</u>
Total governmental activities	<u>\$ 66,484,587</u>	<u>\$ 620,673</u>	<u>\$ 32,159,244</u>	<u>(33,704,670)</u>
				CNMI appropriations 33,614,198
				Miscellaneous <u>279,800</u>
				General revenues <u>33,893,998</u>
				Change in net position 189,328
				Net position, beginning of year <u>75,999,489</u>
				Net position, end of year <u>\$ 76,188,817</u>

See accompanying notes to basic financial statements.

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

Balance Sheet  
Governmental Funds  
September 30, 2015

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 3,378,844	\$ 761,737	\$ 2,757,407	\$ 6,897,988
Receivables from CNMI	132,298	-	-	132,298
Receivables from Federal agencies	250,573	921,399	101,731	1,273,703
Other receivables	553,612	-	8,788	562,400
Due from (to) other funds	(493,569)	-	493,569	-
TOTAL ASSETS	<u>\$ 3,821,758</u>	<u>\$ 1,683,136</u>	<u>\$ 3,361,495</u>	<u>\$ 8,866,389</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 2,076,083	\$ 984,277	\$ -	\$ 3,060,360
Total liabilities	2,076,083	984,277	-	3,060,360
Deferred Inflows of Resources:				
Grants received	-	13,625	1,067,893	1,081,518
Total deferred inflows of resources	-	13,625	1,067,893	1,081,518
Fund Balances:				
Restricted	-	685,234	1,596,119	2,281,353
Assigned	-	-	758,569	758,569
Unassigned	1,745,675	-	(61,086)	1,684,589
Total fund balances	1,745,675	685,234	2,293,602	4,724,511
Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,821,758</u>	<u>\$ 1,683,136</u>	<u>\$ 3,361,495</u>	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
			\$ 105,160,568	
			(27,220,646)	77,939,922
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.				
				(3,841,202)
				(2,634,414)
Net position - governmental activities				<u>\$ 76,188,817</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  
Governmental Funds  
For the Year Ended September 30, 2015

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 1,024,190	\$ 29,997,964	\$ 550,642	\$ 31,572,796
Local	-	-	586,448	586,448
Charges for services	-	-	620,673	620,673
Total revenues	1,024,190	29,997,964	1,757,763	32,779,917
Expenditures:				
Instructional programs:				
Regular	23,638,273	11,788,607	340,362	35,767,242
Student services	1,231,884	9,910,464	476	11,142,824
Special	1,776,107	6,523,991	7,929	8,308,027
Co-curricular	1,937,126	1,082,604	553,653	3,573,383
Total instructional programs	28,583,390	29,305,666	902,420	58,791,476
Supporting services:				
Other	685,677	-	-	685,677
School administration	1,785,442	417,899	-	2,203,341
General administration	2,562,846	-	626,302	3,189,148
Individual programs	-	274,379	160,781	435,160
Total supporting services	5,033,965	692,278	787,083	6,513,326
Total expenditures	33,617,355	29,997,944	1,689,503	65,304,802
Excess (deficiency) of revenues over expenditures	(32,593,165)	20	68,260	(32,524,885)
Other Financing Sources:				
Operating transfers in	33,278,059	-	336,139	33,614,198
Total other financing sources	33,278,059	-	336,139	33,614,198
Excess of revenues over expenditures and other financing sources	684,894	20	404,399	1,089,313
Fund reclassification	(991,095)	(298,985)	1,290,080	-
Fund balance, beginning, as restated	2,051,876	984,199	599,123	3,635,198
Fund balance, ending	\$ 1,745,675	\$ 685,234	\$ 2,293,602	\$ 4,724,511

See accompanying notes to basic financial statements.

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balance with the District-wide Statement of Activities  
For the Year Ended September 30, 2015

Total net change in fund balances - governmental funds		\$	1,089,313
Amounts reported for governmental activities in the statements of activities is different because of:			
Change in compensated absences			349,222
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statements of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.			
	Capital outlays	\$	582,982
	Depreciation expense		<u>(1,832,189)</u>
			<u>(1,249,207)</u>
Total change in net position		\$	<u>189,328</u>

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
Budget and Actual (GAAP Basis) - General Fund  
For the Year Ended September 30, 2015

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 28,337,636	\$ 31,882	\$ 28,369,518	\$ 28,254,061	\$ 115,457
All other	5,698,622	1,002,311	6,700,933	5,363,294	1,337,639
Total expenditures	<u>34,036,258</u>	<u>1,034,193</u>	<u>35,070,451</u>	<u>33,617,355</u>	<u>1,453,096</u>
Operating Transfers-In	<u>34,036,258</u>	<u>1,034,193</u>	<u>35,070,451</u>	<u>35,070,451</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,453,096</u>	<u>\$ 1,453,096</u>

Reconciliation of Budget to GAAP Basis

2015 Budget

    Appropriations including Compact Impact funds and

        Commonwealth Worker Fund

\$ 34,036,258

    Prior year carryover

783,620

    Reimbursement from FEMA

250,573

35,070,451

2015 Expenditures

    Actual (GAAP)

\$ 33,617,355

    Transfer to GO Bond Fund

400,000

    Transfer to Textbook Fund

336,139

    Payment of past due utilities

560,000

34,913,494

Favorable variance

\$ 156,957

Variance per statement

\$ 1,453,096

    Transfer to GO Bond Fund

\$ 400,000

    Transfer to Textbook Fund

336,139

    Payment of past due utilities

560,000

1,296,139

Favorable variance

\$ 156,957

See accompanying notes to basic financial statements.

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies

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

The PSS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

A. Reporting Entity

PSS, as the state educational agency for pre-school, elementary and secondary education programs in the CNMI, is under the direction of the CNMI Board of Education (BOE), which consists of five voting members elected at-large on a nonpartisan basis: one from Rota, one from Tinian, and three from Saipan. The Commissioner of Education, who is appointed by the Board of Education, is responsible for administering PSS in accordance with applicable laws and BOE policies.

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

B. Basis of Presentation

*District-wide Statements:* The Statement of Net Position and Statement of Activities present information about PSS. These statements include the overall financial activities of the school system. PSS operates only on governmental funds. It does not have any fiduciary or proprietary funds.

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

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

Indirect expense allocations recorded in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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

PSS reports the following major governmental funds:

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

*Federal Fund* - This fund accounts for activities pertaining to Federal operations grants. The primary revenue source of this fund is grant awards from various Federal agencies

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

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2015 follows:

*Local Donations Fund* - This fund accounts for activities pertaining to local donations received for specific purposes. The primary revenue source of this fund is donations from private individuals or organizations. This is presented as part of Non-major funds.

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

The PSS has directed that indirect costs of the general fund expended for Federal grant activity be accounted for in a non-major fund and be used for particular programs and activities.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to the timing of recognition, that is, when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

*District-wide Fund Financial Statements*

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

*Government Fund Financial Statements*

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

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating costs to the fiscal year when items are used.

Expenditures for claims, judgments, compensated absences and employer retirement contributions are reported at the amount accrued during the fiscal year and normally would not be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

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

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

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

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

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

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2015 pertain to with the appropriated funds restricted by Public Law No. 16-10 available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.

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

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

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI Legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the CNMI Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds. Pursuant to the approved policies and regulations of the Public School System, Policy 3100 outlines PSS' general budgetary procedures. A summary of the key budgetary steps and data reflected in the financial statements are as follows:

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

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Position

1. Cash and Cash Equivalents

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

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

2. Capital Assets

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

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

Buildings	20 - 50 years
Building improvements	15 years
Vehicles	5 years
Others	3 - 5 years

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2015 was \$2,634,414. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

3. Compensated Absences, Continued

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

4. Revenues

Revenues are classified as either program or general.

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

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

5. Net Position/Fund Balances

Net position in the district-wide financial statements are classified as investment in capital assets; investment in capital improvement projects in progress; restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of Federal agencies, or imposed by law through state statute.

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriated, are legally segregated for a specific purpose, or are restricted by a grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

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

Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

6. Inter-fund Balances

The inter-fund balances as of September 30, 2015 pertains to unreimbursed advances between the general fund and the other funds.

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

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

F. New Accounting Standards

*Adopted Pronouncement*

PSS adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes new financial reporting requirements for most governments that provide their employees with pension benefits. PSS believes that the implementation of this Statement does not have a material effect on the financial statements of PSS. The accompanying financial statements have not been adjusted to reflect any liability that may arise in relation to the implementation of this standard.

PSS's liability, as it related to the Defined Benefit Plan, will be accrued based on the allocated share of the unfunded pension obligation based on the last actuarial valuation of the NMI Settlement Fund. As of report date, the NMI Settlement Fund has not provided the allocated unfunded pension obligation of PSS.

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Notes to the Basic Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

G. Use of Estimates

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustments for 2015 consist of several elements as follows:

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

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:	
Total capital assets on district-wide financial statements in governmental activities column	\$ 105,160,568
Accumulated depreciation	<u>(27,220,646)</u>
Net capital assets	77,939,922
Accrual for unfunded retirement contribution	(23,767,066)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	<u>(2,634,414)</u>
Total adjustments	<u>\$ 51,538,442</u>

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

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the district-wide statement of activities

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2015 pertain to the following:

Change in compensated absences	\$ 349,222
Capital outlay expenditures recorded in the Statement of Activities	582,982
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(1,832,189)</u>
Total adjustments	\$ <u><u>(899,985)</u></u>

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(3) Detail Notes on all Funds

*Cash and Cash Equivalents*

For purposes of the Statement of Net Position, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2015, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$8,541,040. From these deposits, \$500,000 is subject to coverage by FDIC; \$101,256 deposited in a financial institution not subject to FDIC coverage and the remaining balance exceed insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

*Accounts Receivable*

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

*Other Receivables*

Other receivables as of September 30, 2015 consists of the following:

Travel advances	\$	313,161
Advances to vendors		258,004
Others		<u>198,816</u>
 Total other receivables		 769,981
Allowance		<u>(207,581)</u>
 Other receivables, net		 <u>\$ 562,400</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.

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Notes to the Basic Financial Statements  
September 30, 2015

(3) Detail Notes on all Funds, Continued

*Capital Assets*

Capital assets activity for the year ended September 30, 2015 was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending</u>
Capital assets not being depreciated:				
Land	\$ 36,647,850	\$ -	\$ -	\$ 36,647,850
Capital assets being depreciated:				
Building and improvements	58,627,592	1,165,739	-	59,793,331
Vehicles	5,995,124	279,800	(296,053)	5,978,871
Others	<u>2,791,182</u>	<u>188,890</u>	<u>(239,556)</u>	<u>2,740,516</u>
Total	<u>67,413,898</u>	<u>1,634,429</u>	<u>(535,609)</u>	<u>68,512,718</u>
Less accumulated depreciation:				
Building and improvements	17,679,593	1,450,495	-	19,130,088
Vehicles	5,654,632	221,351	(296,053)	5,579,930
Others	<u>2,589,841</u>	<u>160,343</u>	<u>(239,556)</u>	<u>2,510,628</u>
Total	<u>25,924,066</u>	<u>1,832,189</u>	<u>(535,609)</u>	<u>27,220,646</u>
Capital assets being depreciated, net	<u>41,489,832</u>	<u>(197,760)</u>	<u>-</u>	<u>41,292,072</u>
Capital assets, net	<u>\$ 78,137,682</u>	<u>\$ (197,760)</u>	<u>\$ -</u>	<u>\$ 77,939,922</u>

*Capital Improvements Projects in Progress and Related Commitments*

Construction in progress and related commitments for the year ended September 30, 2015 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfer</u>	<u>Ending</u>
Construction in progress	<u>\$ 1,051,447</u>	<u>\$ -</u>	<u>\$ 1,051,447</u>	<u>\$ -</u>

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

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Notes to the Basic Financial Statements  
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(3) Detail Notes on all Funds, Continued

*Retirement Plan*

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

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

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

Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan and PSS contributed \$423,015 and \$407,855 to the NMISF during the years ended September 30, 2015 and 2014, respectively and \$2,422,689 to the NMIRF during the year ended September 30, 2013.

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(3) Detail Notes on all Funds, Continued

*Defined Contribution Plan (DC Plan)*

On June 16, 2006, Public Law 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. PSS's recorded DC contributions for the years ended September 30, 2015, 2014 and 2013 were \$267,863, \$269,784 and \$254,075, respectively, equal to the required contributions for each year.

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

*Unremitted Employer Contribution prior to September 30, 2013*

The amount PSS recognized as payable to the Retirement fund prior to the creation of the Settlement Fund totaled \$26,902,270 including penalties as of September 30, 2013 and the amount due from PSS based on the actuarially determined rate including interest amounted to \$41,016,171. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Fund.

PSS believes that the difference of \$14,113,902, as well as the \$26,902,270 is ultimately due from the CNMI central government and not from PSS. The Settlement Order for federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities, strengthen PSS' position. The beginning net position in the Statement of Activities was restated to reverse the liabilities and prior year expenses accrued amounting to \$26,902,270.

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(3) Detail Notes on all Funds, Continued

*Medical and Life Insurance Benefits*

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund (“Trust Fund”), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll withholdings.

*Federal Grants*

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

*Related Party Transactions*

The CNMI Government appropriated \$33,614,198 for PSS’ operational use for the fiscal year ended September 30, 2015.

At September 30, 2015, amounts payable for utilities expense to the Commonwealth Utilities Corporation (CUC) which is included long-term debt in the accompanying Statement of Net Position amounted to \$3,841,202, excluding penalties of approximately \$2 million. During the year ended September 30, 2015, total utilities expense to CUC amounted to \$1,970,676.

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(3) Detail Notes on all Funds, Continued

*Non-current Liabilities*

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

	<u>Balance</u> <u>9/30/14</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>9/30/15</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Compensated absences	<u>\$ 2,983,636</u>	<u>\$ 1,281,466</u>	<u>\$(1,630,688)</u>	<u>\$ 2,634,414</u>	<u>\$ 1,087,126</u>	<u>\$ 1,547,288</u>
Long-term Debt – CUC	<u>\$ -</u>	<u>\$ 3,841,202</u>	<u>\$ -</u>	<u>\$ 3,841,202</u>	<u>\$ 1,100,000</u>	<u>\$ 2,741,202</u>

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

(4) Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. PSS does not have any deferred outflows of resources as of September 30, 2015.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2015, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

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Notes to the Basic Financial Statements  
September 30, 2015

(5) Contingencies

*CNMI Contributions*

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

*Financial and Compliance Audits*

PSS administers significant financial assistance from the 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.

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

*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, 2015 is approximately \$5.3 million.

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Notes to the Basic Financial Statements  
September 30, 2015

(6) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$2,683,290 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, 2015.

(7) Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2015.

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

(8) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ending September 30, 2015, 51.51% and 47.55% of total revenues were received from local appropriations and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

(9) Fair Value of Financial Instruments

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

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Notes to the Basic Financial Statements  
September 30, 2015

(10) Subsequent Events

PSS has evaluated subsequent events from October 1, 2015 through March 23, 2016, the date the financial statements were available to be issued.

On November 30, 2015, PSS entered into a settlement agreement with the Commonwealth Utilities Corporation (CUC), wherein PSS will make monthly payments of \$100,000 beginning November 15, 2015 until all unpaid principal owed to CUC amounting to \$3,841,202 is fully paid. CUC agreed to waive all accrued interest amounting to \$2,392,703 as of September 30, 2015, upon full payment of the principal. PSS general fund balance in the Governmental Fund Balance Sheet was restated to reduce the accounts payable and record the \$3,841,202 as long term debt in the Statement of Net Position.

(11) Reclassification and Restatements

*Reclassification*

The Governmental Fund balances have been reclassified to properly reflect the interfund due to (from) balances. The reclassification did not have an effect on the district-wide Fund balances.

*Restatement*

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

Deficit, beginning, as previously reported	\$ (4,924,530)
 Restatement	
Reduce accounts payable for accrued Retirement contributions (Note 3)	3,135,204
Reduce accounts payable for accrued utilities Payable (Notes 3 and 10)	<u>3,841,202</u>
Fund balance, beginning, as restated	<u>\$ 2,051,876</u>

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Notes to the Basic Financial Statements  
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(11) Reclassification and Restatements, Continued

The restatements of the 2014 balances are summarized as follows:

	<u>As Stated</u>	<u>Restatements</u>	<u>Restated</u>
Total Assets	\$ 8,212,679	\$ -	\$ 8,212,679
Total Liabilities	\$ 10,330,117	\$ (6,976,406)	\$ 3,353,711
Total Deferred Inflows	\$ 1,223,770	\$ -	\$ 1,223,770
Total Fund Balance (Deficit)	\$ (3,341,208)	\$ 6,976,406	\$ 3,635,198

The reported beginning net position in the Statement of Activities was restated to reverse the accrual of liability to the NMI Retirement Fund. The Settlement Order for federal District Court for the CNMI Case No. 09-00023, states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities. Since PSS' liability to the NMI Retirement Fund is funded by the CNMI government, essentially the CNMI government is liable for the \$26,902,270.

Net position, beginning, as previously reported	\$ 49,097,219
Restatement	
Reversal of accrual of Retirement contributions payable	<u>26,902,270</u>
Net position, beginning, as restated	<u>\$ 75,999,489</u>

The restatements of the 2014 balances are summarized as follows:

	<u>As Stated</u>	<u>Restatements</u>	<u>Restated</u>
Total Assets	\$ 87,401,808	\$ -	\$ 87,401,808
Total Liabilities	\$ 37,080,819	\$(26,902,270)	\$ 10,178,549
Total Deferred Inflows	\$ 1,223,770	\$ -	\$ 1,223,770
Total Fund Balance	\$ 49,097,219	\$ 26,902,270	\$ 75,999,489

PSS's liability, as it related to the Defined Benefit Plan, will be accrued based on the allocated share of the unfunded pension obligation based on the last actuarial valuation of the NMI Settlement Fund. As of report date, the NMI Settlement Fund has not provided the allocated unfunded pension obligation of PSS.

**PUBLIC SCHOOL SYSTEM**

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**SUPPLEMENTAL INFORMATION**

**Year Ended September 30, 2015**

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**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
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Combining Balance Sheets  
Non-major Funds  
For the Year Ended September 30, 2015

	Local CIP Fund <sup>(1)</sup>	Textbook Fund (15000)	ARRA Fund (25000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Func (66000)	Total Non-major Funds
<u>Assets:</u>										
Current Assets:										
Cash	\$ -	\$ 336,139	\$ -	\$ 600,000	\$ 342,135	\$ 758,369	\$ -	\$ 660,936	\$ 59,828	\$ 2,757,407
Receivable from Federal Agencies:	-	-	-	-	-	-	101,731	-	-	101,731
Other receivables	8,588	-	-	-	-	200	-	-	-	8,788
Due from (to) other funds	(69,674)	-	-	659,980	-	-	(96,737)	-	-	493,569
<b>Total assets</b>	<b>\$ (61,086)</b>	<b>\$ 336,139</b>	<b>\$ -</b>	<b>\$ 1,259,980</b>	<b>\$ 342,135</b>	<b>\$ 758,569</b>	<b>\$ 4,994</b>	<b>\$ 660,936</b>	<b>\$ 59,828</b>	<b>\$ 3,361,495</b>
<u>Liabilities, Deferred Inflows and Fund Balance</u>										
Liabilities										
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources:										
Grants received	-	-	-	-	342,135	-	4,994	660,936	59,828	1,067,893
Fund Balances										
Restricted	-	336,139	-	1,259,980	-	-	-	-	-	1,596,119
Assigned	-	-	-	-	-	758,569	-	-	-	758,569
Unassigned	(61,086)	-	-	-	-	-	-	-	-	(61,086)
<b>Total fund balance:</b>	<b>(61,086)</b>	<b>336,139</b>	<b>-</b>	<b>1,259,980</b>	<b>-</b>	<b>758,569</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,293,602</b>
<u>Total Liabilities, Deferred Inflow and Fund Balance:</u>										
	<b>\$ (61,086)</b>	<b>\$ 336,139</b>	<b>\$ -</b>	<b>\$ 1,259,980</b>	<b>\$ 342,135</b>	<b>\$ 758,569</b>	<b>\$ 4,994</b>	<b>\$ 660,936</b>	<b>\$ 59,828</b>	<b>\$ 3,361,495</b>

<sup>(1)</sup> Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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Combining Statements of Revenues, Expenditures, and Changes in Fund Balance  
Non-major Funds  
For the Year Ended September 30, 2015

	Local CIP Fund <sup>(1)</sup>	Textbook Fund (15000)	ARRA Fund (25000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
<b>Revenues:</b>										
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 237,481	\$ 294,606	\$ 18,555	\$ 550,642
Local	140,257	-	-	-	-	446,191	-	-	-	586,448
Charges for services	-	-	-	-	612,457	-	-	-	8,216	620,673
Total revenues	<u>140,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,457</u>	<u>446,191</u>	<u>237,481</u>	<u>294,606</u>	<u>26,771</u>	<u>1,757,763</u>
<b>Expenditures:</b>										
Instructional programs										
Regular	-	-	-	-	-	340,362	-	-	-	340,362
Special	-	-	-	-	-	3,195	-	-	4,734	7,929
Co-curricular	-	-	-	-	-	-	237,485	294,607	21,561	553,653
Student services	-	-	-	-	-	-	-	-	476	476
Total instructional program:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>343,557</u>	<u>237,485</u>	<u>294,607</u>	<u>26,771</u>	<u>902,420</u>
Supporting services										
General administrator	-	-	-	-	612,454	13,848	-	-	-	626,302
Individual program:	116,642	-	-	-	-	44,139	-	-	-	160,781
Other	-	-	-	-	-	-	-	-	-	-
Total supporting service:	<u>116,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,454</u>	<u>57,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>787,083</u>
Total Expenditures	<u>116,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,454</u>	<u>401,544</u>	<u>237,485</u>	<u>294,607</u>	<u>26,771</u>	<u>1,689,503</u>
Excess	23,615	-	-	-	3	44,647	(4)	(1)	-	68,260
Operating Transfers	-	336,139	-	-	-	-	-	-	-	336,139
Fund reclassification	(357,819)	-	(400,513)	172,290	1,360,791	339,857	(157,760)	39,522	293,712	1,290,080
Fund balance (deficit), beginning of year	<u>273,118</u>	<u>-</u>	<u>400,513</u>	<u>1,087,690</u>	<u>(1,360,794)</u>	<u>374,065</u>	<u>157,764</u>	<u>(39,521)</u>	<u>(293,712)</u>	<u>599,123</u>
Fund balance (deficit), end of year	<u>\$ (61,086)</u>	<u>\$ 336,139</u>	<u>\$ -</u>	<u>\$ 1,259,980</u>	<u>\$ -</u>	<u>\$ 758,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,293,602</u>

<sup>(1)</sup> Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDSPUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Expenditures/Expense (By Natural Classification)  
Year Ended September 30, 2015

	General	Federal	Non-Major	Total		Total
	Fund	Fund	Funds	Expenditures	Conversion	Expenses
Salaries and wages	\$ 24,742,773	\$ 7,795,422	\$ 703,203	\$ 33,241,398	\$ (349,222)	\$ 32,892,176
Professional services	426,904	12,239,474	61,605	12,727,983	-	12,727,983
Employee benefits	3,511,288	994,522	89,056	4,594,866	-	4,594,866
Books and instruction materials	8,624	4,083,395	36,414	4,128,433	-	4,128,433
Utilities	1,945,866	7,958	16,852	1,970,676	-	1,970,676
Depreciation	-	-	-	-	1,832,189	1,832,189
Travel	94,436	1,272,352	246,544	1,613,332	-	1,613,332
Rental	128,363	987,266	70,656	1,186,285	-	1,186,285
Supplies and materials	184,422	839,213	63,335	1,086,970	-	1,086,970
Indirect Costs	-	820,819	12,862	833,681	-	833,681
Penalties	822,925	-	-	822,925	-	822,925
Repairs and maintenance	314,649	180,313	199,148	694,110	(114,292)	579,818
Cleaning Services	427,500	67,071	16,851	511,422	-	511,422
Fuel and lubricants	226,929	38,746	9,960	275,635	-	275,635
Communications	103,577	144,192	16,433	264,202	-	264,202
Dues and subscriptions	40,559	161,074	29,300	230,933	-	230,933
Security services	201,468	1,216	26,457	229,141	-	229,141
Controlled Assets	156,248	-	10,054	166,302	-	166,302
Printing and photocopying	13,801	139,434	13,000	166,235	-	166,235
Licenses and fees	40,110	79,765	890	120,765	-	120,765
Food Items	58,831	13,960	19,256	92,047	-	92,047
Advertising	3,303	48,205	21,487	72,995	-	72,995
Recruitment and repatriation	3,130	42,674	7,369	53,173	-	53,173
Miscellaneous	8,582	-	8,829	17,411	-	17,411
Freight and handling	438	7,044	1,279	8,761	-	8,761
Bank charges	4,983	-	-	4,983	-	4,983
Equipment	147,646	33,829	8,663	190,138	(188,890)	1,248
<b>Total expenditures (page 22)</b>	<b>\$ 33,617,355</b>	<b>\$ 29,997,944</b>	<b>\$ 1,689,503</b>	<b>\$ 65,304,802</b>	<b>\$ 1,179,785</b>	
					Total Expenses (page 20)	<b>\$ 66,484,587</b>

See accompanying notes to basic financial statements.

**PUBLIC SCHOOL SYSTEM**

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**REPORTS ON INTERNAL CONTROL  
AND COMPLIANCE**

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**Year Ended September 30, 2015**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
 OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
 IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements and have issued our report thereon dated March 23, 2016.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control. Accordingly, we do not express an opinion on the effectiveness of PSS' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain

deficiencies in internal control that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2015-001 through 2015-004.

### **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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **PSS' Response to Findings**

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

### **Purpose of this Report**

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



Saipan, Commonwealth of the Northern Mariana Islands  
March 23, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of PSS' major federal programs for the year ended September 30, 2015. PSS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of PSS' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Commonwealth of the Northern Mariana Islands Public School System, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item:

<u>Finding #</u>	<u>CFDA #</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2015-007	93.600	Head Start	Eligibility

Our opinion on each major federal program is not modified with respect to this matter.

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.

### **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 OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2015-005 and 2015-006.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2015, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We issued our report thereon dated March 23, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of this Report**

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Saipan, Commonwealth of the Northern Mariana Islands  
March 23, 2016

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Direct Program:		
National School Lunch Program	10.555	\$ 9,818,470
<b>Total U.S. Department of Agriculture</b>		<u>9,818,470</u>
<b><u>U.S. Department of Commerce</u></b>		
Direct Program:		
Public Telecommunications Facilities Planning and Construction	11.550	454,599
<b>Total U.S. Department of Commerce</b>		<u>454,599</u>
<b><u>U.S. Department of Defense</u></b>		
Direct Program:		
Army JROTC	12.Unknown	294,607
<b>Total U.S. Department of Defense</b>		<u>294,607</u>
<b><u>U.S. Department of Education</u></b>		
Direct Program:		
Consolidated Grants to the Outlying Area:	84.403	11,895,446
Special Education - Grants to States (IDEA, Part B) Territories and Freely Associated States Education Grant Program	84.027	4,200,702
Special Education - Grants for Infants and Families Striving Readers	84.256	679,722
	84.181	387,403
	84.371	109,488
		-
<b>Total U.S. Department of Education</b>		<u>17,272,761</u>
<b><u>U.S. Department of Transportation</u></b>		
Direct Program:		
Formula Grants for Other Than Urbanized Areas	20.509	86,222
<b>Total U.S. Department of Transportation</b>		<u>86,222</u>
<b>Sub-total carried forward</b>		<u>\$ 27,926,659</u>

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

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
<b>Sub-total brought forward</b>		\$ <u>27,926,659</u>
<b><u>U.S. Department of Health and Human Service</u></b>		
Direct Programs:		
Head Start	93.600	1,934,155
Personality Responsibility Education	93.092	237,679
Project Traditional Technology	93.612	6,812
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>5,772</u>
Sub-total Direct Programs		2,184,418
Pass-Through the Government of the CNMI		
Child Care	93.575	<u>104,610</u>
<b>Total U.S. Department of Health and Human Service</b>		<u>2,289,028</u>
<b><u>Corporation for National and Community Service</u></b>		
Direct Program:		
AmeriCorps	94.006	<u>179,747</u>
<b>Total Corporation for National and Community Service</b>		<u>179,747</u>
<b><u>U.S. Department of the Interior</u></b>		
Passed-through the CNMI Government		
Compact impact	15.875	<u>273,617</u>
<b>Total U.S. Department of the Interior</b>		<u>273,617</u>
<b><u>U.S. Department of Homeland Security</u></b>		
Passed-through the CNMI Government		
FEMA Disaster Recovery - Typhoon Soudelo	97.unknown	250,573
Commonwealth Worker Func	97.unknown	<u>500,000</u>
<b>Total U.S. Department of Homeland Security</b>		<u>750,573</u>
<b>Total expenditures</b>		\$ <u>31,419,624</u>

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

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures
<b>Reconciliation:</b>		
Expenditures Federal Func		\$ 29,997,944
Expenditures included in nonmajor fund		522,878
Expenditures included in General Fun		<u>898,802</u>
<b>Total expenditures</b>		<u>\$ 31,419,624</u>

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

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

(A Component Unit of the CNMI Government)

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as PSS' cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any Federal funds expended in excess of Federal funds received are recorded as a receivable from the grantor agency and any Federal funds received in excess of Federal funds expended are recorded as a payable to the grantor agency.

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Interior for fiscal year 2015. The approved rates are as follows:

Unrestricted	4.71%
Restricted rate	3.35%

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance: Unmodified

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

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued**

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.403	Consolidated Grant to the Outlying Areas	\$ 11,895,446
10.555	National School Lunch Program	9,818,470
84.027	Special Education Grants to States	4,200,702
93.600	Head Start	<u>1,934,155</u>
Total Federal Expenditures-Major Programs		<u>\$ 27,848,773</u>
Percentage of total awards tested		89%

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

\$ 942,589  
3% of the total awards expended

Auditee qualified as low-risk auditee

yes  no

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-001, Travel Advances**

Criteria:

Travel advances and liquidation should be pursuant to PSS Travel and Commuting Regulations and should be timely liquidated or there should be a return of unexpended funds.

Furthermore, the design or operation of a control should allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition:

During the test of travel and commuting policies the PSS commuting policy states that all official commutes shall be initiated and authorized with an approved Commute Form. We noted that the official Commute Form was updated in January 2015 and does include a date. For some of items we tested, the traveler used an outdated form that did not include a date. The approvers might not put dates beside their signatures. The absences of these dates make it difficult to validate whether the actual travel really happened after the approval occurred.

Cause:

Internal control weakness in the design of the PSS commuting policy.

Effect:

The weakness in the design of the internal control over commuting provides opportunity for abuse and misuse of the commuting expenses. Furthermore, fraud and abuse might exist and not be detected on a timely manner.

Recommendation:

PSS should review its Commuting policy to ensure that it is effectively designed and implemented.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-001, Travel Advances, Continued**

Auditee Response:

PSS did update and post the official travel forms to the PSS website in January 2015, which added in traveler responsibility language, as well as a date portion on the signature lines on the form. We acknowledge that some travelers may have used the outdated forms. Thus, PSS Travel has implemented a procedure where travel requests will not be processed if the submitted forms are incorrect. PSS issued an email to all PSS employees notifying them of this procedure and their responsibility to use the proper forms. Moreover, Finance Travel will also not process travel requests that do not have dates next to approver signatures. This was also communicated in the PSS-wide email communication.

As for the possible difficulty in validating whether a travel happened after approval, PSS travel will not process any travel request that is not fully approved. Furthermore, no transaction on any proposed travel, such payment of registration fees or deposits to hold reservations, will occur without a fully approved travel request. This was mandated by the Commissioner of Education and is also how Finance enforces travel submission compliance. Moreover, as mentioned in the paragraph above, PSS travel will not process any travel request where an approver did not date their approval.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-002, Travel Advances Liquidation**

Criteria:

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

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

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

Conditions:

We selected 90 travel authorizations for testing and noted the following conditions:

- A. 2 or 2% of the travel authorizations selected were unliquidated as of September 30, 2015.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>
125796	Consolidated (CFDA 84.403A)	6/23/2015
126110	Consolidated (CFDA 84.403A)	7/20/2015

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-002, Travel Advances Liquidation, Continued**

**Conditions, Continued:**

- B. 7 or 8% of the travel authorizations selected, the statement of discrepancy that meets the requirement of Public School Systems Rules and Regulation are not readily accessible.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>
126110	Consolidated (CFDA 84.403A)	7/20/2015
125840	Consolidated (CFDA 84.403A)	6/30/2015
125796	Consolidated (CFDA 84.403A)	6/23/2015
124020	Consolidated (CFDA 84.403A)	2/24/2015
122162	NSLP (CFDA 10.555)	10/24/2014
124227	T&FASEG (CFDA 84.256A)	3/30/2015
124340	SPED (CFDA 84.027)	3/30/2015

**Cause:**

The cause of the above condition is the lack of adherence to established policies and procedures regarding the liquidation of travel advances. In addition, required attachments are not readily accessible for review.

**Effect:**

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

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

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

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-002, Travel Advances Liquidation, Continued**

Recommendations:

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

Auditee Response:

PSS is cited for 2% of the sample size in terms of travels liquidated by the end of fiscal year 2015. In this case 2% of the sampled travels were not liquidated by September 30, 2015. 2% seems non-substantive from PSS' perspective but PSS does acknowledge the untimely liquidation of these two non-PSS employee travelers. These two travelers are students from two separate private schools. Despite communications, they liquidated late. Given that they are not PSS employees, PSS travel is unable to payroll deduct these travelers. The only remedy is to collect on their obligation by offsetting their next PSS travel, which is allowed by regulation.

As for the 8% of travels sampled where accessibility to the discrepancy notices were not readily available, these travelers are non-PSS travelers such as private school students, for example. Obtaining updated contact information for these types of travelers has proven difficult as they are not PSS employees. This remains a challenge in terms of sending out discrepancy notices. However, for employees, this is not an issue.

Finally, the audit report states that late travel liquidations "may" be subject to tax pursuant to the IRS. However, from PSS' perspective this is not necessary, as PSS recovers funds advanced to non-compliant travelers through payroll deduction, which is what is required by PSS travel regulations. PSS travel regulations provide remedies for collecting advanced travel funds. Moreover, travel compliance has significantly improved upon the consistent implementation of payroll deductions and such. This is evidenced by comparing audits prior to FY 2014 in terms of travel compliance.

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-003, Fixed assets**

Criteria:

Pursuant to PSS Regulation for Inventory Requirements § 60-20-815, require a physical count of all equipment items at least once each year. Further, the regulations state that all fixed assets purchased with federal funds shall be identified as such on the property itself, and the property if purchased for an agency shall be so identified. The fixed assets ledger shall include proper identification as to federal or local status.

Conditions:

We noted the following on the fixed assets:

1. There is no documentation that a complete physical inventory of property and equipment was performed for the fiscal year.
2. Records maintained have missing information or did not include some of the required information, such as source of the property, who holds title, and percentage of federal participation in the cost of the property, and use and condition of the property.

Cause:

The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

Effect:

The effect of the above condition is noncompliance with the applicable regulations.

Recommendation:

We recommend that PSS take reasonable steps to comply with applicable regulations.

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-003, Fixed assets, Continued**

Auditee Response:

PSS actually did initiate the inventory process for CY 2015 in April/May 2015 (emails substantiating this are available) with the goal of completing the process before the calendar year ended. However, the network outage in July and the destruction of Typhoon Soudelor changed everything. PSS, and the entire island of Saipan, went into recovery, assessment, and rebuilding mode. Classrooms were destroyed and equipment was destroyed as well. PSS acknowledges that it did not complete the process but PSS can substantiate that efforts were made to complete the process. Multiple schools submitted their inventory reports for CY 2015. However, due to the disasters and the loss of PSS' Inventory Control Manager the process was not completed.

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-004, Human Resources**

Criteria:

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

Conditions:

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

- A. For 5 or 6% of 90 personnel records selected to testing, there were no employee signature or acknowledgment on notice of personnel action.

<u>Department</u>	<u>Employee Number</u>
Head Start	2121
Food and Nutrition Program	2258
Food and Nutrition Program	2322
Office of Instructional Services	3061
Oleai Elementary School	5800

- B. For 1 or 1% of 90 personnel selected to testing, the employment contract has no signature.

<u>Department</u>	<u>Employee Number</u>
Food and Nutrition Program	2258

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-004, Human Resources, Continued**

Conditions, Continued:

- C. For 3 or 3% of 90 employment files selected to testing, the employment contract has expired.

<u>Department</u>	<u>Employee Number</u>
Office of Instructional Services	3061
Tinian High School	5517
Dandan Middle School	9094

- D. For 5 or 6% of 90 personnel records selected to testing, there were no current medical certificates.

<u>Department</u>	<u>Employee Number</u>
Office of Curriculum	2716
Oleai Elementary School	5800
Marianas High School	11170
Office of Accountability	14614
Food and Nutrition Program	15755

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Schedule of Findings and Questioned Costs  
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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-004, Human Resources, Continued**

Cause:

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

Effect:

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

Recommendations:

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

All employment contracts and personnel action forms should be timely signed by the employee, filed and maintained. Employment contracts should be updated in a timely manner.

Auditee Response:

Condition A - No Employee Signature on NOPA (for 2015-004 and 006)

HRO will ensure that employees sign the acknowledgement line of the NOPA at the same time they sign the contract. HRO Administrative Assistant will review each NOPA to ensure that the acknowledgment line has been signed before filing away the document. (All files without a signed Notice of Personnel Action noted in this finding have been corrected and each NOPA is signed.)

Condition B – No Employee Signature on Contract (for 2015-004 and 006)

HRO will monitor all processed contracts to ensure that employees and their supervisors are notified of the requirement for signature of contract. No contract without employee signature will be considered valid and it will not be filed or inputted into the JDE system. Unsigned contracts will remain in the file cart labeled "Pending Employee Signature" and will not be filed until signatures are secured. Administrative Assistant will review each completed contract to ensure that all signature lines are complete before filing away the document. (The record without a signed contract noted in this finding has been corrected; HRO has acquired the employee's signature.)

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 2015-004, Human Resources, Continued**

Auditee Response, continued:

Condition C - Expired Contracts (for 2015-004 and 006)

HRO will download the JDE personnel data report on a monthly basis. HRO will filter the JDE personnel data report to monitor the "next review date" (expiration date). HRO will send email reminders to employees and their supervisors on documents required for contract renewal. HRO will process contract renewals upon receipt of all required documents. HRO will provide monthly data report updates to supervisors and report on the timeline of submission for required documents necessary to process contract renewals. HRO will provide supervisors with the Monthly Contract Renewals Summary Report to ensure they are reminded of which employees have yet to submit required documents. (The records without a valid contract noted in this finding have all been renewed.)

Condition D – Expired Medical Certificates (for 2015-004 and 006)

HRO will notify the applicant selected for hire of the requirement for medical certificate submission. This notification will be sent via email with the Letter of Intent to Offer Employment. HRO will monitor the submission of medical certificates to ensure that it is submitted at the point of contract review and signature. No contract without the required medical certificate will be considered valid and it will not be filed. These contracts will remain in the file cart labeled "Pending Medical Certificate" until the document is received. HRO Administrative Assistant will review each completed contract to ensure that the medical certificate has been received for that contract before filing. (The files with missing current medical certificates noted in this finding are in the process of being updated.)

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-005 Internal Control over Compliance – Liquidation of Travel Advances**

Grantor:	Department of Education Department of Agriculture
Program Name:	Consolidated Grant Territories and Freely Associated States Education Grant Special Education Grants to States National School Lunch Program
CFDA No.:	84.403 84.256 84.027 10.555

Criteria:

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

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

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

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-005 Internal Control over Compliance – Liquidation of Travel Advances,  
Continued**

Conditions:

We selected 90 travel authorizations for testing and noted the following conditions:

- A. 2 or 2% of the travel authorizations selected were unliquidated as of September 30, 2015.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>
125796	Consolidated (CFDA 84.403A)	6/23/2015
126110	Consolidated (CFDA 84.403A)	7/20/2015

- B. 7 or 8% of the travel authorizations selected, the statement of discrepancy that meets the requirement of Public School Systems Rules and Regulation are not readily accessible.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>
126110	Consolidated (CFDA 84.403A)	7/20/2015
125840	Consolidated (CFDA 84.403A)	6/30/2015
125796	Consolidated (CFDA 84.403A)	6/23/2015
124020	Consolidated (CFDA 84.403A)	2/24/2015
122162	NSLP (CFDA 10.555)	10/24/2014
124227	T&FASEG (CFDA 84.256A)	3/30/2015
124340	SPED (CFDA 84.027)	3/30/2015

Cause:

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

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-005 Internal Control over Compliance – Liquidation of Travel Advances,  
Continued**

Effect:

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

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

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

Recommendations:

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

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Year Ended September 30, 2015

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-005 Internal Control over Compliance – Liquidation of Travel Advances,  
Continued**

Auditee Response:

PSS is cited for 2% of the sample size in terms of travels liquidated by the end of fiscal year 2015. In this case 2% of the sampled travels were not liquidated by September 30, 2015. 2% seems non-substantive from PSS’ perspective but PSS does acknowledge the untimely liquidation of these two non-PSS employee travelers. These two travelers are students from two separate private schools. Despite communications, they liquidated late. Given that they are not PSS employees, PSS travel is unable to payroll deduct these travelers. The only remedy is to collect on their obligation by offsetting their next PSS travel, which is allowed by regulation.

As for the 8% of travels sampled where accessibility to the discrepancy notices were not readily available, these travelers are non-PSS travelers such as private school students, for example. Obtaining updated contact information for these types of travelers has proven difficult as they are not PSS employees. This remains a challenge in terms of sending out discrepancy notices. However, for employees, this is not an issue.

Finally, the audit report states that late travel liquidations “may” be subject to tax pursuant to the IRS. However, from PSS’ perspective this is not necessary, as PSS recovers funds advanced to non-compliant travelers through payroll deduction, which is what is required by PSS travel regulations. PSS travel regulations provide remedies for collecting advanced travel funds. Moreover, travel compliance has significantly improved upon the consistent implementation of payroll deductions and such. This is evidenced by comparing audits prior to FY 2014 in terms of travel compliance.

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Year Ended September 30, 2015

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-006 Internal Control over Compliance – Human Resources**

Grantor: Department of Education  
Department of Agriculture  
Department of Health & Human Services  
Program Name: Consolidated Grant  
Special Education Grants to States  
National School Lunch Program  
Head Start  
CFDA No.: 84.403  
84.027  
10.555  
93.600

Criteria:

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

Conditions:

We selected 90 personnel records for testing. Of the 90 items, 50 were funded by federal grants. Of the 50 items, 5 were under CFDA 10.555, 15 were under CFDA 84.027, 17 were under CFDA 84.403, 8 items were under CFDA 93.600, and 5 items were under non-major federal program.

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

- A. 3 items or 6% has no employee signature or acknowledgment on notice of personnel action.

<u>CFDA No.</u>	<u>Department</u>	<u>Employee Number</u>
93.600	Head Start	2121
10.555	Food and Nutrition Program	2322
84.403	Office of Instructional Services	3061

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-006 Internal Control over Compliance – Human Resources, Continued**

B. 1 or 2% of the employment contract has no signature.

<u>CFDA No.</u>	<u>Department</u>	<u>Employee Number</u>
10.555	Food and Nutrition Program	2258

C. 2 or 4% of the employment contract has expired.

<u>CFDA No.</u>	<u>Department</u>	<u>Employee Number</u>
84.403	Consolidated Grant	3061
84.403	Consolidated Grant	5517

D. 3 or 6% has no current medical certificates.

<u>CFDA No.</u>	<u>Department</u>	<u>Employee Number</u>
84.403	Consolidated Grant	2716
84.403	Consolidated Grant	11170
10.555	Food and Nutrition Program	15755

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Year Ended September 30, 2015

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-006 Internal Control over Compliance – Human Resources, Continued**

Cause:

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

Effect:

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

Recommendations:

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

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

Employment contracts should be updated in a timely manner.

Auditee Response:

Refer to auditee response in Finding 2015-004.

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-007 Head Start Eligibility – Health Certificate**

Criteria:

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

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

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

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-007 Head Start Eligibility – Health Certificate, Continued**

Condition:

3 or 3% of 90 students selected for testing do not have the updated health certification on file.

<u>Center</u>	<u>Date of Birth</u>	<u>Last certification on File</u>
Joaquina M. Rabauliman Center - JMR/A-PM	9/3/2010	9/3/2014
Joaquina M. Rabauliman Center - JMR/B-AM	9/28/2010	None on file
Joaquina M. Rabauliman Center - JMR/B-AM	10/19/2010	10/19/2014

Cause:

The responsibility to obtain proof that the child has received vision and hearing tests and all of the immunizations required by the Department of Public Health lies with the parents. PSS Head Start informs the parents of children with expiring health certification to obtain an updated certification to comply with the CNMI laws. However, most parents are not able to obtain the “Blue Card” (Health Certification) because of the fee. PSS Head Start considers the students in compliance with the health certifications for as long as they are current with their immunizations. Since no immunization is required for age 5, most of the returning Head Start students fail to obtain the Blue Card.

Effect:

The Head Start program is not in compliance with regulations.

Recommendation:

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

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-007 Head Start Eligibility – Health Certificate, Continued**

Auditee Response:

At the time of enrollment, the Eligibility/Recruitment/Selection/Enrollment/Attendance (ERSEA) staff will ensure that the Physical Examination Form, the Immunization Form, the Dental Health Form, and the Health Certificates for children are complete and are kept up-to-date. With supervision by the Family & Community Partnership Manager, the Family Partnership Advocates (FPA) will thoroughly review and scan the application forms to verify if the applications, along with the required documents are complete as they are received. Each child enrolled in Head Start, including returning children must complete an annual examination and submit a valid School Health Certificate.

The Health, Nutrition & Mental Health Manager, the Data Specialist and the FPAs will input information from the health forms into ChildPlus as soon as applications are submitted.

The FPAs will conduct a Family/Child File Inventory regularly and will take note of updates using the inventory log sheets each time new health information is received from the parents/families. The Family/Child File Inventory will be completed and tracked on a daily basis to inform parents if forms/health requirements are nearing their expiration dates.

The Health, Nutrition & Mental Health Manager with assistance of the Data Specialist will enter updated information on ChildPlus. They will monitor and track all children's School Health Certificates and other required health documents to ensure that all children are up-to-date on a schedule of well child care that meets the requirements of the NMI's Early and Periodic Screening, Diagnostic, and Treatment Program of the Medicaid Agency.

For children whose files are nearing their expirations dates, most specifically the School Health Certificate or other health required documents, the following steps will be taken:

Teaching staff and FPAs will notify parents/families when required health documents are about to be expired. After two attempts of contacting and reaching parents/families and reminding them to submit the required documents within two weeks from the time of notification, the Health, Nutrition & Mental Health Manager will be notified of the attempts/efforts made

The Health, Nutrition & Mental Health Manager will send out an official letter as a reminder to parents/families to submit their child's updated School Health Certificates, Physical Exam form, Dental Exam form, and the Immunization Records within three days from the date of the letter.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding 2015-007 Head Start Eligibility – Health Certificate, Continued**

Auditee Response, Continued:

If updated School Health Certificates, Physical Exam form, Dental Exam form, and the Immunization Records are not submitted as required in the reminder letter, the Commonwealth Health Care Corporation (CHCC)-Immunization will be notified and will take action based on their requirements. See CNMI Public Law Regulation 6-10 1163.

The FPA will conduct home visits to discuss with parents/families regarding the matter and to provide assistance in obtaining the required documents. The Head Start Program will provide support to parents by assisting them in scheduling appointments with the health care providers upon parent's request. The Head Start Program will also ensure that the child has ongoing medical insurance.



# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

STATE BOARD OF EDUCATION  
PUBLIC SCHOOL SYSTEM  
P.O. BOX 501370  
SAIPAN, MP 96950



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coe.ras@cnmipss.org

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

### A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2014-001	Use of Restricted Cash	Resolved.
2014-002	Travel advances	Not Corrected. Similar condition noted in Finding No. 2015-001.
2014-003	Travel Advances Liquidation	Not Corrected. Similar condition noted in Finding Nos. 2015-002, 2015-005.
2014-004	Human Resources	Not Corrected. Similar condition noted in Finding Nos. 2015-004, 2015-006.
2014-005	Procurement	Resolved.
2014-006	Procurement	Resolved.
2014-007	Liquidation of Travel Advances	Not Corrected. Similar condition noted in Finding No. 2015-005.
2014-008	Human Resources	Not Corrected. Similar condition noted in Finding No. 2015-004.
13-01	Use of Restricted Cash	Resolved.

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Schedule of Prior Year Audit Findings  
Year Ended September 30, 2015

**B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b>Reference No.</b>	<b>Findings</b>	<b>Status</b>
13-03	Travel Advances	Not Corrected. Similar condition noted in Finding Nos. 2014-002, 2014-003, 2015-001, and 2015-002
13-04	Human Resources and Payroll	Not Corrected. Similar condition noted in Finding Nos. 2014-004 and 2015-004.
13-09	Travel	Resolved.
12-03	Use of Restricted Cash	Resolved.
12-07	Travel Advances	Not Corrected. Similar condition noted in Finding Nos. 2014-002. and 2015-001.
12-08	Human Resources and Payroll condition noted in	Not Corrected. Similar Finding Nos. 2014-004 and 2015-004.
13-05	Allowed Costs/Cost Principles - Compensation Compliance with Human Resources Policies and Procedures.	Unresolved. Similar condition noted in Finding Nos. 2014-008 and 2015-006.
13-08	Change Orders	Resolved.
12-16	Allowable Costs/Cost Principles Travel	Unresolved. Similar condition noted in Finding Nos. 2014-007 and 2015-005.

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Summary of Unresolved Questioned Costs  
Year Ended September 30, 2015

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2015:

Questioned costs as previously reported	\$ 76,584
Questioned costs resolved during the year ended September 30, 2014	76,584
Questioned costs of fiscal year 2015 Single Audit	<u>          -</u>
Unresolved questioned costs at September 30, 2015	<u><u>          -</u></u>