

PUBLIC SCHOOL SYSTEM

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

Years Ended September 30, 2009 and 2008

**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, 2009

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PUBLIC SCHOOL SYSTEM

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

Years Ended September 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

The Board of Education
Commonwealth of the Northern Mariana Islands
Public School System

I have audited the accompanying financial statements of governmental activities and each major fund of the Commonwealth of the Northern Mariana Islands Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) government, as of September 30, 2009 and 2008, and for the years then ended, which collectively comprise PSS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

The management of PSS believes that the appropriation receivable from CNMI Government is collectible despite being over one-year overdue, and accordingly, has not considered the need to provide an allowance for uncollectible amount. Furthermore, the CNMI Government and the PSS have not reconciled the appropriation receivable account of PSS with the payable of the CNMI Government. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and fund balances and change the expenditures in the general fund. Had management and the Board provided for allowance for uncollectible appropriations, the assets and fund balances of the general fund would decrease by \$1,998,654 for the fiscal year 2009.

In my opinion, except for the effects of not providing an adequate allowance for uncollectible appropriation receivable from the CNMI Government as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of PSS as of September 30, 2009 and 2008, and the respective changes in financial position and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, I have also issued my report dated June 25, 2010 on my consideration of PSS' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 to 12 and page 40, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of PSS' management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise PSS' basic financial statements. The statistical data on pages 86 to 87 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of PSS' management. The statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Saipan, Commonwealth of the Northern Mariana Islands
June 25, 2010

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

Management's Discussion and Analysis
September 30, 2009

This section of the CNMI Public School System (PSS) financial report represents management's discussion and analysis (MD&A) of the financial performance of PSS for the year ended September 30, 2009. This information should be read in conjunction with the audited financial statements and related footnotes included in this report (pages 13 to 39).

Financial Highlights

PSS' enrollment of 11,693 students in fiscal year 2008 decreased to 10,939 students for fiscal year 2009.

PSS' net assets decreased by \$7.2 million in fiscal year 2009. This decrease was primarily due to the accrual for unfunded retirement contributions approximating \$8.1 million offset by the decrease in accrued and unpaid compensated absences.

As of the close of the fiscal year 2009, PSS' net assets totaled \$79,253,967. This includes capital assets, net of accumulated depreciation, of \$85,403,930, capital improvement projects in-progress of \$2,999,426 and a deficit of \$9,149,389. PSS' deficit increased by \$6,123,610, primarily due to accrual of unfunded retirement contributions.

Overview of the Financial Statements

GASB Statement No. 34 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.

MD&A and the district-wide statements are all new. The rest of the basic financial statements are changed – some in minor ways, some noticeably.

Management Discussion and Analysis (MD&A)

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

District-wide Statements

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2009

Statement of Net Assets

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

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

Statement of Activities

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

Fund Financial Statements

The second type of statement included in the basic financial statements is the Fund Financial Statement, which is presented for the school system's governmental funds.

Balance Sheet

Statement of Revenues, Expenditures, and Changes in Fund Balance

These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The Fund Financial Statements focus on the school system's most significant funds.

Reconciliation from District-wide to Fund Statements

Because a different basis of accounting is used in the district-wide statements, reconciliation from the governmental fund financial statements to the district-wide statements is required. The district-wide statements provide information about the school system as an economic unit, while the fund financial statements provide information on the financial resources of the school system's major funds.

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

Management's Discussion and Analysis
September 30, 2009

*Statement of Revenues, Expenditures, and Changes in Fund Balance-
Budget and Actual*

A budgetary comparison statement for the general fund is considered to be required supplementary information and is included in the basic financial statements. The new thing to look for on this statement is the addition of a column containing the original budget.

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

PSS' major funds are:

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

Capital Project Fund - Accounts for financial resources to be used for the acquisition or construction of all major governmental projects.

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.

CONDENSED COMPARATIVE DATA

Assets, Liabilities and Net Assets

PSS' net assets, on the district-wide basis, decreased by \$7,183,689 from previous year's \$86,437,656 to \$79,253,967 at close of fiscal year 2009.

Change in Net Assets			
	FY 2009	FY 2008	FY 2007
Net assets, beginning of year	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717
Revenues	64,720,505	65,546,352	71,643,530
Expenditures	72,999,334	70,260,117	67,898,067
Excess of revenue over expenditures	(8,278,829)	(4,713,765)	3,745,463
Change in accrued annual leave	1,095,140	1,506,241	-
Net assets, end of year	\$ 79,253,967	\$ 86,437,656	\$ 89,645,180

Net assets is an indicator of the fiscal health of the school system. Assets for governmental activities exceeded liabilities by \$79,253,967 and \$86,437,656 as of September 30, 2009 and 2008, respectively. The largest component of net assets is invested in capital assets amounting to \$85,403,930 and \$86,483,662 at September 30, 2009 and 2008, respectively.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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Net assets decreased by \$7,183,689 and \$3,207,524 in fiscal year 2009 and 2008, respectively. The decrease in net assets in 2009 and 2008 is primarily due to the accrual of unfunded retirement contribution.

Net Assets			
	Sept 30, 2009	Sept 30, 2008	Increase (Decrease)
Current assets	\$ 16,524,523	\$ 12,021,273	\$ 4,503,250
Noncurrent assets	88,403,356	89,463,435	(1,060,079)
Total assets	104,927,879	101,484,708	3,443,171
Current liabilities	10,371,919	6,765,355	3,606,564
Noncurrent liabilities	15,301,993	8,281,697	7,020,296
Total liabilities	25,673,912	15,047,052	10,626,860
Net Assets	\$ 79,253,967	\$ 86,437,656	\$ (7,183,689)
Investment in capital assets	\$ 85,403,930	\$ 86,483,662	\$ (1,079,732)
Restricted for capital improvement projects in progress	2,999,426	2,979,773	19,653
Unrestricted	(9,149,389)	(3,025,779)	(6,123,610)
Net Assets	\$ 79,253,967	\$ 86,437,656	\$ (7,183,689)

Net Assets			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Current assets	\$ 12,021,273	\$ 12,575,362	\$ (554,089)
Noncurrent assets	89,463,435	88,738,945	724,490
Total assets	101,484,708	101,314,307	170,401
Current liabilities	6,765,355	7,895,523	(1,130,168)
Noncurrent liabilities	8,281,697	3,773,604	4,508,093
Total liabilities	15,047,052	11,669,127	3,377,925
Net Assets	\$ 86,437,656	\$ 89,645,180	\$ (3,207,524)
Investment in capital assets	\$ 86,483,662	\$ 84,097,616	\$ 2,386,046
Restricted for capital improvement projects in progress	2,979,773	4,641,329	(1,661,556)
Unrestricted	(3,025,779)	906,235	(3,932,014)
Net Assets	\$ 86,437,656	\$ 89,645,180	\$ (3,207,524)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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Management's Discussion and Analysis
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Revenues

Total revenues for fiscal year 2009 is \$64,720,505, a 1% decrease from fiscal year 2008 while total revenues for fiscal year 2008 was \$65,546,352, a 9% decrease from fiscal year 2007.

Revenues			
	Sept 30, 2009	Sept 30, 2008	Increase (Decrease)
Program revenues			
Charges for services	\$ 1,368,328	\$ 1,335,432	\$ 32,896
Operating grants and contributions	28,706,673	27,688,584	1,018,089
	<u>30,075,001</u>	<u>29,024,016</u>	<u>1,050,985</u>
General revenues			
Unrestricted CNMI appropriations	34,601,764	35,847,444	(1,245,680)
Restricted for capital improvements	43,740	674,892	(631,152)
	<u>34,645,504</u>	<u>36,522,336</u>	<u>(1,876,832)</u>
	<u>\$ 64,720,505</u>	<u>\$ 65,546,352</u>	<u>\$ (825,847)</u>

Revenues			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Program revenues			
Charges for services	\$ 1,335,432	\$ 1,588,862	\$ (253,430)
Operating grants and contributions	27,688,584	28,511,455	(822,871)
	<u>29,024,016</u>	<u>30,100,317</u>	<u>(1,076,301)</u>
General revenues			
Unrestricted CNMI appropriations	35,847,444	36,721,414	(873,970)
Restricted for capital improvements	674,892	4,817,339	(4,142,447)
Miscellaneous, unrestricted	-	4,460	(4,460)
	<u>36,522,336</u>	<u>41,543,213</u>	<u>(5,020,877)</u>
	<u>\$ 65,546,352</u>	<u>\$ 71,643,530</u>	<u>\$ (6,097,178)</u>

Revenues are classified as either program or general.

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

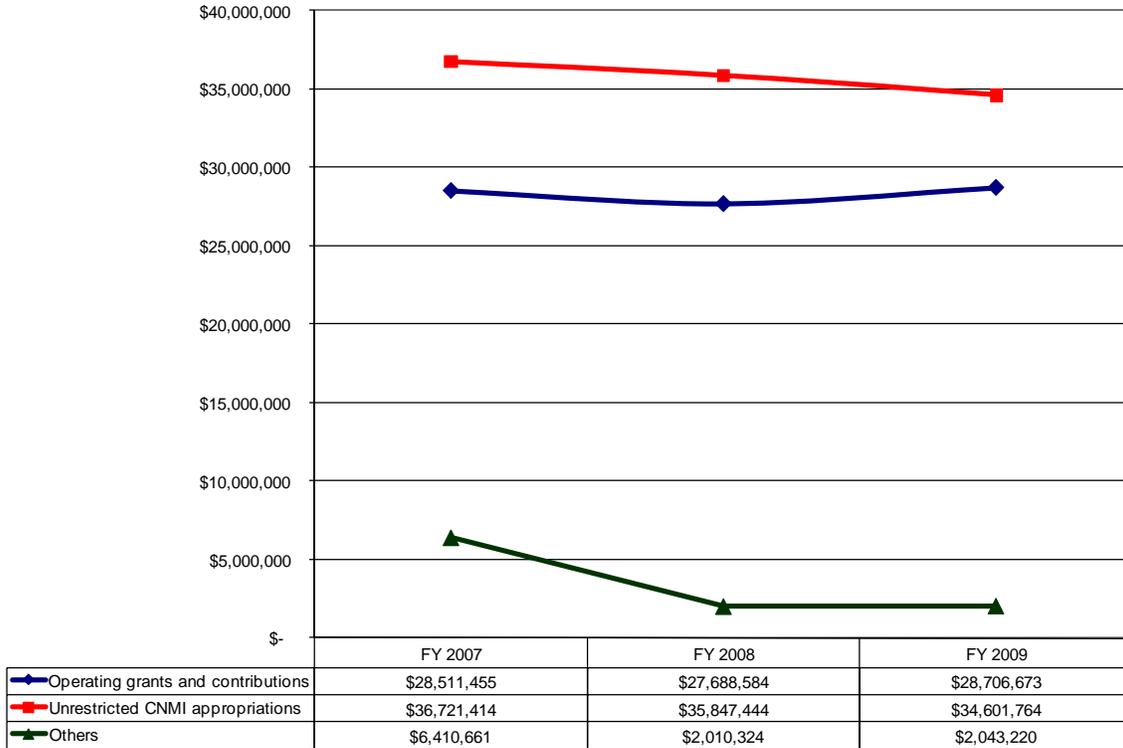
The *general revenue* classification includes appropriations, interest and other income not identifiable to specific activities.

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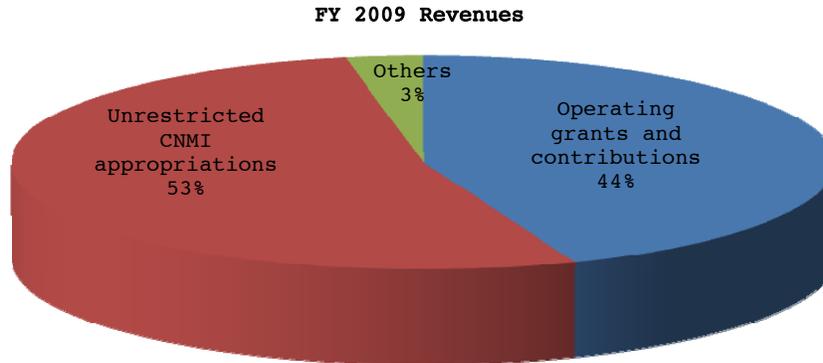
Management's Discussion and Analysis
September 30, 2009

Exhibit I



The chart above shows PSS revenues over the past three years.

Exhibit II



Unrestricted CNMI appropriations constitute 53% of fiscal year 2009 revenues and are the highest source of revenue for PSS.

Operating grants and contributions, which primarily consist of Federal grants, is the second highest source of PSS revenue.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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Expenses

Total district-wide expenses by function were as follows:

Expenses			
	Sept 30, 2009	Sept 30, 2008	Increase (Decrease)
Instruction:			
Regular	\$ 24,806,526	\$ 25,123,949	\$ (317,423)
Special education	8,373,763	7,623,170	750,593
Co-curricular	2,085,606	2,256,001	(170,395)
Student services	15,829,779	14,202,377	1,627,402
	<u>51,095,674</u>	<u>49,205,497</u>	<u>1,890,177</u>
Support services:			
General administration	1,557,821	1,894,890	(337,069)
School administration	3,382,787	4,215,690	(832,903)
Other support	3,373,563	4,197,538	(823,975)
Community	1,072,018	1,513,102	(441,084)
Individual programs	2,552,166	1,963,403	588,763
Unfunded retirement contribution - unallocated	8,115,436	6,014,334	2,101,102
Depreciation - unallocated	1,849,869	1,255,663	594,206
	<u>21,903,660</u>	<u>21,054,620</u>	<u>849,040</u>
Total governmental activities	\$ 72,999,334	\$ 70,260,117	\$ 2,739,217

Expenses			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Instruction:			
Regular	\$ 25,123,949	\$ 27,264,731	\$ (2,140,782)
Special education	7,623,170	7,736,239	(113,069)
Co-curricular	2,256,001	1,689,239	566,762
Student services	14,202,377	15,353,326	(1,150,949)
	<u>49,205,497</u>	<u>52,043,535</u>	<u>(2,838,038)</u>
Support services:			
General administration	1,894,890	2,824,659	(929,769)
School administration	4,215,690	6,063,156	(1,847,466)
Other support	4,197,538	2,591,846	1,605,692
Community	1,513,102	2,447,867	(934,765)
Individual programs	1,963,403	765,735	1,197,668
Unfunded retirement contribution - unallocated	6,014,334	-	6,014,334
Depreciation - unallocated	1,255,663	1,161,269	94,394
	<u>21,054,620</u>	<u>15,854,532</u>	<u>5,200,088</u>
Total governmental activities	\$ 70,260,117	\$ 67,898,067	\$ 2,362,050

Total expenses increased by \$2,739,217 or 4% and \$2,362,050 or 3% as compared to fiscal year 2008 and 2007, respectively. This is primarily due to an increase in retirement contributions from 24% to 36.7727%. The unfunded retirement contribution of \$8,115,436 and \$6,014,334 was accrued for the year ended September 30, 2009 and 2008, respectively.

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

Management's Discussion and Analysis
September 30, 2009

OVERALL FINANCIAL POSITION

The overall financial position of PSS as shown in the fund financial statements (balance sheets and statements of revenues, expenditures, and changes in fund balance) improved by \$2,365,926 or 45%. The increase was primarily due to increase in General Funds by \$2,706,266.

FUND ANALYSIS

	Fund Balance				
	General Fund	Capital Projects Fund	Federal Funds	Non-Major Fund	Total
Fund balance, 9/30/08	\$ 3,887,807	\$ (111,943)	\$ 1,414,449	\$ 65,605	\$ 5,255,918
Fund balance, 9/30/09	5,124,833	(150,589)	1,414,449	(236,089)	6,152,604
Increase (decrease) in fund balance	\$ 1,237,026	\$ (38,646)	\$ -	\$ (301,694)	\$ 896,686
Percentage change	32%	35%	0%	-460%	17%

Included in the general fund balance is the \$2 million appropriations receivable from the CNMI government for which collections are uncertain. If allowance for uncollectibility is recognized on these receivable PSS's general fund balance would be \$3.1 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
EXPENDITURES:					
Personnel	\$ 28,141,888	\$ -	\$ 28,141,888	\$ 28,031,119	\$ 110,769
Utilities	3,053,685	-	3,053,685	2,986,957	66,728
All other	3,061,595	-	3,061,595	2,105,670	955,925
Textbooks	344,596	-	344,596	240,992	103,604
Total expenditures	34,601,764	-	34,601,764	33,364,738	1,237,026
OPERATING TRANSFERS-IN	34,601,764	-	34,601,764	34,601,764	-
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ (1,237,026)	\$ 1,237,026

PSS general fund expenditures for fiscal year 2009 are within the appropriated budget. As of September 30, 2009, outstanding encumbrances under the general fund totaled \$1,639,524.

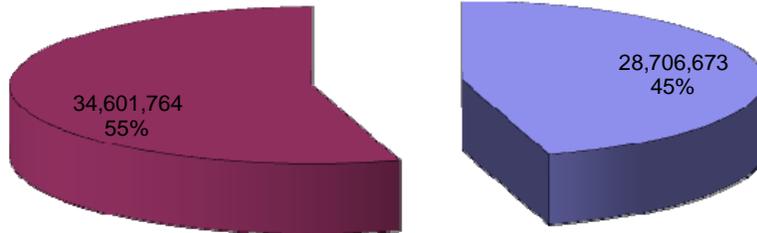
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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Exhibit III

PSS Budget for Fiscal Year 2009



Federal and Local Budget Review

<u>Year</u>	<u>Total Funding</u>	<u>Federal Funding</u>		<u>Local Funding</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1999	\$53,730,342	\$16,000,000	30%	\$37,730,342	70%
2000	\$53,280,342	\$17,000,000	32%	\$36,280,342	68%
2001	\$54,230,342	\$17,000,000	31%	\$37,230,342	69%
2002	\$55,230,342	\$18,000,000	33%	\$37,230,342	67%
2003	\$60,230,342	\$23,000,000	38%	\$37,230,342	62%
2004	\$60,730,342	\$23,500,000	39%	\$37,230,342	61%
2005	\$63,032,129	\$25,801,787	41%	\$37,230,342	59%
2006	\$66,582,346	\$29,372,418	44%	\$37,209,928	56%
2007	\$65,357,368	\$28,635,954	44%	\$36,721,414	56%
2008	\$65,381,534	\$29,534,090	45%	\$35,847,444	55%
2009	\$63,308,437	\$28,706,673	45%	\$34,601,764	55%

The contribution of local funding to the total funding has varied from 55% to 70% for the 10-year period from 1999 to 2009. Federal funding continues to increase over the past ten years while local funding significantly declined from \$38 million in 1999 to \$37 million in 2001 and has remained at that level until 2007. In fiscal year 2009, the local funding was further reduced to \$34.6 million.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2009 and 2008 was \$85,403,930 and \$86,483,662, respectively. Depreciation expense for the 2009 and 2008 was \$2,235,908 and \$2,143,525, respectively.

Capital Assets			
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007
Capital assets not depreciated			
Land	\$ 36,647,850	\$ 36,647,850	\$ 36,647,850
Capital assets, net of accumulated depreciation			
Building and improvements	46,560,036	47,917,721	45,993,141
Vehicle	1,991,489	1,587,487	1,065,767
Others	204,555	330,604	390,858
	<u>48,756,080</u>	<u>49,835,812</u>	<u>47,449,766</u>
	<u>\$ 85,403,930</u>	<u>\$ 86,483,662</u>	<u>\$ 84,097,616</u>

More detailed information on capital assets are on pages 32 to 34 in Note 3 of the basic financial statements.

Requests for Information

This report is intended to provide a summary of the financial condition of the Public School System of the Commonwealth of the Northern Mariana Islands. Questions or requests for additional information should be addressed to:

Mr. Tim Thornburgh
Federal Programs Officer
PO Box 501370
Saipan, MP 96950

or

Mr. Richard Waldo
Director of Finance
PO Box 501370
Saipan, MP 96950

<http://www.pss.cnmi.mp1>

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

Statements of Net Assets
September 30, 2009 and 2008

	2009	2008
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,184,881	\$ 1,034,944
Receivables from the CNMI Government	5,456,635	5,362,096
Receivables from Federal agencies	3,651,389	1,043,340
Other receivables	312,902	83,413
Advances, net	240,178	341,379
Due from other funds	5,678,538	4,156,101
Total current assets	16,524,523	12,021,273
Noncurrent assets:		
Capital improvement projects in progress	2,999,426	2,979,773
Capital assets, net	85,403,930	86,483,662
Total current assets	88,403,356	89,463,435
TOTAL ASSETS	\$ 104,927,879	\$ 101,484,708
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Current liabilities:		
Accrued payroll and others	\$ 1,954,227	\$ 2,179,744
Vouchers payable	577,010	428,359
Due to other funds	5,678,538	4,156,101
Deferred revenue	2,160,993	-
Other liabilities	1,151	1,151
Total current liabilities	10,371,919	6,765,355
Noncurrent liabilities:		
Unfunded retirement contribution	14,129,770	6,014,334
Compensated absences	1,172,223	2,267,363
Total noncurrent liabilities	15,301,993	8,281,697
Total liabilities	25,673,912	15,047,052
Net Assets:		
Restricted for:		
Investment in capital assets	85,403,930	86,483,662
Capital improvement projects in progress	2,999,426	2,979,773
Unrestricted	(9,149,389)	(3,025,779)
Total net assets	79,253,967	86,437,656
TOTAL LIABILITIES AND NET ASSETS	\$ 104,927,879	\$ 101,484,708

See accompanying notes to basic financial statements.

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

Statements of Activities
For the Years Ended September 30, 2009 and 2008

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	Total	
				<u>2009</u>	<u>2008</u>
Governmental activities:					
Instruction:					
Regular	\$ 24,806,526	\$ -	\$ 1,469,240	\$ (23,337,286)	\$ (25,123,949)
Special education	8,373,763	-	6,698,696	(1,675,067)	(1,248,281)
Co-curricular	2,085,606	-	1,141,607	(943,999)	(733,258)
Student services	<u>15,829,779</u>	<u>1,368,328</u>	<u>17,226,114</u>	<u>2,764,663</u>	<u>2,655,256</u>
Total instruction	<u>51,095,674</u>	<u>1,368,328</u>	<u>26,535,657</u>	<u>(23,191,689)</u>	<u>(24,450,232)</u>
Support services:					
General administration	1,557,821	-	-	(1,557,821)	(1,031,203)
School administration	3,382,787	-	94,419	(3,288,368)	(3,902,530)
Other support	3,373,563	-	65,300	(3,308,263)	(3,873,038)
Community	1,072,018	-	1,072,018	-	(106,300)
Individual programs	2,552,166	-	939,279	(1,612,887)	(602,801)
Unfunded retirement					
contribution - unallocated	8,115,436	-	-	(8,115,436)	(6,014,334)
Depreciation - unallocated	<u>1,849,869</u>	<u>-</u>	<u>-</u>	<u>(1,849,869)</u>	<u>(1,255,663)</u>
Total support services	<u>21,903,660</u>	<u>-</u>	<u>2,171,016</u>	<u>(19,732,644)</u>	<u>(16,785,869)</u>
Total governmental activities	<u>\$ 72,999,334</u>	<u>\$ 1,368,328</u>	<u>\$ 28,706,673</u>	<u>\$ (42,924,333)</u>	<u>\$ (41,236,101)</u>
				34,601,764	35,847,444
				<u>43,740</u>	<u>674,892</u>
			Subtotal, general revenues	<u>34,645,504</u>	<u>36,522,336</u>
			Changes in Net Assets	(8,278,829)	(4,713,765)
			Change in compensated absences	1,095,140	1,506,241
			Net assets - beginning	<u>86,437,656</u>	<u>89,645,180</u>
			Net assets - ending	<u>\$ 79,253,967</u>	<u>\$ 86,437,656</u>

See accompanying notes to basic financial statements.

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

Balance Sheets
Governmental Funds
September 30, 2009 and 2008

	General Fund	Capital Projects Fund	Federal Funds	Non-major Funds	Total Governmental Funds	
					2009	2008
<u>ASSETS</u>						
Current Assets:						
Cash and cash equivalents	\$ 1,184,881	\$ -	\$ -	\$ -	\$ 1,184,881	\$ 1,034,944
Receivables from CNMI	5,440,428	2,976	-	13,231	5,456,635	5,362,096
Receivables from Federal agencies	-	-	3,651,389	-	3,651,389	1,043,340
Other receivables	312,902	-	-	-	312,902	83,413
Advances, net	185,567	-	-	54,611	240,178	341,379
Due from other funds	<u>1,900,160</u>	<u>-</u>	<u>-</u>	<u>3,778,378</u>	<u>5,678,538</u>	<u>4,156,101</u>
TOTAL ASSETS	<u>\$ 9,023,938</u>	<u>\$ 2,976</u>	<u>\$ 3,651,389</u>	<u>\$ 3,846,220</u>	<u>\$ 16,524,523</u>	<u>\$ 12,021,273</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accrued payroll and others	\$ 1,499,739	\$ -	\$ -	\$ 454,488	\$ 1,954,227	\$ 2,179,744
Vouchers payable	576,635	-	-	375	577,010	428,359
Deferred revenue	-	-	-	2,160,993	2,160,993	-
Due to other funds	1,821,580	153,565	2,236,940	1,466,453	5,678,538	4,156,101
Other liabilities	<u>1,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,151</u>	<u>1,151</u>
Total liabilities	<u>3,899,105</u>	<u>153,565</u>	<u>2,236,940</u>	<u>4,082,309</u>	<u>10,371,919</u>	<u>6,765,355</u>
Fund Balances:						
Reserved for encumbrances	1,639,524	-	-	-	1,639,524	949,838
Unreserved	<u>3,485,309</u>	<u>(150,589)</u>	<u>1,414,449</u>	<u>(236,089)</u>	<u>4,513,080</u>	<u>4,306,080</u>
Total fund balances	<u>5,124,833</u>	<u>(150,589)</u>	<u>1,414,449</u>	<u>(236,089)</u>	<u>6,152,604</u>	<u>5,255,918</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,023,938</u>	<u>\$ 2,976</u>	<u>\$ 3,651,389</u>	<u>\$ 3,846,220</u>		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.						
Cost of capital assets				\$ 102,355,269		
Accumulated depreciation				<u>(16,951,339)</u>	85,403,930	86,483,662
Capital improvement projects					2,999,426	2,979,773
Accrual for unfunded retirement contribution					(14,129,770)	(6,014,334)
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds. Long-term liabilities at year-end pertains to:						
Compensated absences					<u>(1,172,223)</u>	<u>(2,267,363)</u>
Total net assets - governmental activities					<u>\$ 79,253,967</u>	<u>\$ 86,437,656</u>

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

For the Years Ended September 30, 2009 and 2008

	General	Capital	Federal	Non-Major	Total Governmental Funds	
	Fund	Projects Fund	Funds	Funds	2009	2008
REVENUES:						
Federal	\$ -	\$ -	\$ 28,706,673	\$ -	\$ 28,706,673	\$ 26,606,697
Local	-	43,740	-	815,222	858,962	1,756,779
Charges for services	-	-	-	553,106	553,106	1,335,432
TOTAL REVENUES	-	43,740	28,706,673	1,368,328	30,118,741	29,698,908
EXPENDITURES:						
Current operations:						
Instructional programs:						
Regular	23,266,381	-	1,469,240	-	24,735,621	25,053,044
Special	1,492,076	-	6,698,696	-	8,190,772	7,440,179
Co-curricular	943,999	-	1,141,607	-	2,085,606	2,256,001
Student services	-	-	16,075,871	-	16,075,871	13,946,595
Total instructional programs	25,702,456	-	25,385,414	-	51,087,870	48,695,819
Supporting services:						
General administration	132,839	-	-	1,390,072	1,522,911	1,859,979
School administration	3,217,013	-	94,419	-	3,311,432	4,144,336
Individual programs	1,340,918	-	939,279	-	2,280,197	1,691,434
Other	2,945,926	82,386	65,300	279,950	3,373,562	4,197,538
Total supporting services	7,636,696	82,386	1,098,998	1,670,022	10,488,102	11,893,287
Community services	-	-	1,072,018	-	1,072,018	1,513,102
Capital outlays:						
Equipment and vehicles	5,933	-	1,150,243	-	1,156,176	1,373,597
Construction in progress	19,653	-	-	-	19,653	1,494,468
Total capital outlays	25,586	-	1,150,243	-	1,175,829	2,868,065
TOTAL EXPENDITURES	33,364,738	82,386	28,706,673	1,670,022	63,823,819	64,970,273
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(33,364,738)	(38,646)	-	(301,694)	(33,705,078)	(35,271,365)
OTHER FINANCING SOURCES:						
Operating transfers-in	34,601,764	-	-	-	34,601,764	35,847,444
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	1,237,026	(38,646)	-	(301,694)	896,686	576,079
FUND BALANCE, beginning of year	3,887,807	(111,943)	1,414,449	65,605	5,255,918	4,679,839
FUND BALANCE, end of the year	\$ 5,124,833	\$ (150,589)	\$ 1,414,449	\$ (236,089)	\$ 6,152,604	\$ 5,255,918

See accompanying notes to basic financial statements.

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

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures
And Changes in Fund Balance with the District-wide Statement of Activities
For the Years Ended September 30, 2009 and 2008

	2009	2008
Total net changes in fund balances - governmental funds	\$ 896,686	\$ 576,079
Amounts reported for governmental activities in the statements of activities is different because of:		
Accrual for unfunded retirement contribution	(8,115,436)	(6,014,334)
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	\$ 1,175,829	
Depreciation expense	(2,235,908)	724,490
Changes in net assets of governmental activities	\$ (8,278,829)	\$ (4,713,765)

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Combining Balance Sheets - Non-major Funds
September 30, 2009 and 2008

<u>ASSETS</u>	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	<u>Total</u>	
				2009	2008
Receivables from CNMI	\$ (1,508)	\$ 14,739	\$ -	\$ 13,231	\$ 13,231
Receivables from Federal agencies	-	-	-	-	247,739
Advances, net	54,611	-	-	54,611	-
Due from other funds	<u>810,217</u>	<u>2,541,022</u>	<u>427,139</u>	<u>3,778,378</u>	<u>1,818,690</u>
	<u>\$ 863,320</u>	<u>\$ 2,555,761</u>	<u>\$ 427,139</u>	<u>\$ 3,846,220</u>	<u>\$ 2,079,660</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Vouchers payable	\$ -	\$ -	\$ 375	\$ 375	\$ -
Accrued payroll and others	-	-	454,488	454,488	-
Deferred revenue	-	2,160,993	-	2,160,993	-
Due to other funds	<u>820,639</u>	<u>535,190</u>	<u>110,624</u>	<u>1,466,453</u>	<u>2,014,055</u>
Total liabilities	820,639	2,696,183	565,487	4,082,309	2,014,055
Fund balance (deficit):					
Reserved for encumbrances	<u>42,681</u>	<u>(140,422)</u>	<u>(138,348)</u>	<u>(236,089)</u>	<u>65,605</u>
	<u>\$ 863,320</u>	<u>\$ 2,555,761</u>	<u>\$ 427,139</u>	<u>\$ 3,846,220</u>	<u>\$ 2,079,660</u>

See accompanying notes to basic financial statements.

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

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds
For the Years Ended September 30, 2009 and 2008

	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	Total Non-major funds	
				2009	2008
REVENUES:					
Other local	\$ -	\$ -	\$ 815,222	\$ 815,222	\$ 1,081,887
Charges for services	553,106	-	-	553,106	1,335,432
TOTAL REVENUES	<u>553,106</u>	<u>-</u>	<u>815,222</u>	<u>1,368,328</u>	<u>2,417,319</u>
EXPENDITURES:					
Supporting services:					
General administration	574,849	-	815,223	1,390,072	1,550,073
Other	279,950	-	-	279,950	279,950
TOTAL EXPENDITURES	<u>854,799</u>	<u>-</u>	<u>815,223</u>	<u>1,670,022</u>	<u>1,830,023</u>
EXCESS OF REVENUES OVER EXPENDITURES	(301,693)	-	(1)	(301,694)	587,296
FUND BALANCE (DEFICIT), beginning of year	<u>344,374</u>	<u>(140,422)</u>	<u>(138,347)</u>	<u>65,605</u>	<u>(521,691)</u>
FUND BALANCE (DEFICIT), end of year	<u>\$ 42,681</u>	<u>\$ (140,422)</u>	<u>\$ (138,348)</u>	<u>\$ (236,089)</u>	<u>\$ 65,605</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2009 and 2008

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

PSS, as the state educational agency for pre-school, elementary and secondary education programs in the CNMI, is under the direction of the 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 re-appropriation.

B. Basis of Presentation

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

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2009 and 2008

(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 on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. The fund financial statements provide information about the 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.

Capital Project Fund - Accounts for financial resources to be used for the acquisition or construction of all major governmental projects.

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, 2009 and 2008 follows:

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

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2009 and 2008

(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 Commissioner of Education 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.

The financial statements include certain prior-year summarized comparative information in total but not by plan. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2008, from which the summarized information was derived.

C. Measurement Focus and Basis of Accounting

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

District-wide Fund Financial Statements

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Government Fund Financial Statements

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI Legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the CNMI Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds.

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

1. Program managers and principals submit their budgets to the Commissioner of Education for review and compilation by the Management Committee every October 1.
2. By the fifth (5th) working day of November, the Commissioner of Education presents the budget to the Board of Education.
3. From November 15th to December 31st, revisions are made as appropriate and as approved by the BOE.
4. By the first working day of February, the budget is presented to the 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, 2009 and 2008

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

PSS pools money from several funds to facilitate disbursements and investments to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

2. Capital Assets

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

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

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

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2009 and 2008 were \$1,172,223 and \$2,267,363, respectively. No expenditure is reported for these amounts. 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, 2009 and 2008

(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.

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

5. Net Assets/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

Reserved for encumbrances – the portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.

Unreserved – the portion of total fund balance available for appropriation, which is uncommitted at year-end.

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(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, 2009 and 2008 pertains to unreimbursed advances between the general fund and the non-major 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

New Accounting Standards

In November 2006, the GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement is not effective until June 30, 2009. The implementation of this Statement did not have a material effect on the accompanying financial statements of the PSS.

In June 2007, the GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*". This Statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This Statement is not effective until June 30, 2010. PSS management has not determined its effect on the financial statements.

In November 2007, GASB issued Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*". This Statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting amounts in similar entities that exist to invest resources for the purpose of generating income. The provisions of this Statement are effective for periods beginning after June 15, 2008. The implementation of this Statement did not have a material effect on the accompanying financial statements of the PSS.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In March 2008, GASB issued Technical Bulletin No. 2008-1, "*Determining the Annual Required Contribution Adjustment for Postemployment Benefit*", which clarifies the requirements of GASB Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers*", and Statement No. 45, "*Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*", for calculating the annual required contribution (ARC) adjustment. The provisions of this Statement are effective for periods beginning after December 15, 2008. The management of PSS believes that implementation of this Statement does not materially affect the financial statements of PSS.

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". This Statement is intended to improve how State and Local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments in their financial statements. The provisions of this Statement are effective for periods beginning after June 15, 2009. The management of PSS believes that implementation of this Statement does not materially affect the financial statements of PSS.

In February 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". This Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this Statement are effective for periods beginning after June 15, 2010. Management believes that the implementation of this Statement will not have a material effect on the financial statements of PSS.

In March 2009, GASB issued Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". This Statement is to improve financial reporting by contributing to the GASB efforts to codify all generally accepted accounting principles (GAAP) for State and Local governments so that they derive from a single source. This Statement is effective upon issuance. The management of PSS believes that implementation of this Statement does not materially affect its financial statements.

In March 2009, GASB issued Statement No. 56, "*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*". This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for State and Local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations and subsequent events. This Statement is effective upon issuance. The management of PSS believes that implementation of this statement does not materially affect its financial statements.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In December 2009, the GASB issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", which provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors under Chapter 9 of the United States Bankruptcy Code. This Statement is effective beginning after June 15, 2010, with retroactive application for all periods presented during which the government was in bankruptcy.

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 assets – governmental activities as reported in the government-wide statement of net assets. The net adjustments for 2009 and 2008 consist of several elements as follows:

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

<u>Description</u>	<u>2009</u>	<u>2008</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:		
Total capital assets on district-wide statements in governmental activities column	\$102,355,269	\$101,199,093
Accumulated depreciation	<u>(16,951,339)</u>	<u>(14,715,431)</u>
Net capital assets	85,403,930	86,483,662
Capital improvement projects	2,999,426	2,979,773
Accrual for unfunded retirement contribution	(14,129,770)	(6,014,334)
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>(1,172,223)</u>	<u>(2,267,363)</u>
Total adjustment	<u>\$ 73,101,363</u>	<u>\$ 81,181,738</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 assets of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2009 and 2008 pertain to the following:

<u>Description</u>	<u>2009</u>	<u>2008</u>
Accrual for unfunded retirement contribution	\$(8,115,436)	\$(6,014,334)
Capital outlay expenditures recorded in the Statement of Activities.	1,175,829	2,868,065
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(2,235,908)</u>	<u>(2,143,575)</u>
Total adjustments	<u><u>\$(9,175,515)</u></u>	<u><u>\$(5,289,844)</u></u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

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

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

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

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

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

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(3) Detail Notes on all Funds, Continued

Cash and Cash Equivalents, continued

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2009 and 2008, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$1,184,881 and \$1,034,944, respectively. From these deposits, \$500,000 in each year is subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS requires collateralization of bank accounts, and therefore, 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.

Receivables at the government-wide level at September 30, 2009 and 2008 are as follows:

Accounts receivable - September 30, 2009

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
General fund	\$ 5,440,428	\$ -
Federal fund	-	-
Non-major fund	13,231	3,651,389
Other governmental activities	<u>2,976</u>	<u>-</u>
Total	<u>\$ 5,456,635</u>	<u>\$ 3,651,389</u>

Accounts receivable - September 30, 2008

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
General fund	\$ 5,281,845	\$ -
Federal fund	-	1,043,340
Non-major fund	13,231	-
Other governmental activities	<u>67,020</u>	<u>-</u>
Total	<u>\$ 5,362,096</u>	<u>\$ 1,043,340</u>

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(3) Detail Notes on all Funds, Continued

Travel Advances

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

Travel advances of \$115,900 and \$113,825 as of September 30, 2009 and 2008, respectively, included in the Statement of Net Assets as part of advances, are reported net of an allowance for doubtful accounts of \$272,277 in both years.

Capital Assets

Capital asset activity for the years ended September 30, 2009 and 2008 were as follows:

September 30, 2009

<u>Governmental Activities</u>	<u>2008</u>	<u>Increases</u>	<u>Retirement</u>	<u>2009</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ _____	\$ _____	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>_____</u>	<u>_____</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	57,343,300	-	-	57,343,300
Vehicles	5,460,158	1,105,219	-	6,565,377
Other	<u>1,747,785</u>	<u>50,957</u>	<u>_____</u>	<u>1,798,742</u>
Total capital assets being depreciated	<u>64,551,243</u>	<u>1,156,176</u>	<u>_____</u>	<u>65,707,419</u>
Less accumulated depreciation for:				
Buildings and improvements	9,425,579	1,357,685	-	10,783,264
Vehicles	3,872,671	701,217	-	4,573,888
Other	<u>1,417,181</u>	<u>177,006</u>	<u>_____</u>	<u>1,594,187</u>
Total accumulated depreciation	<u>14,715,431</u>	<u>2,235,908</u>	<u>_____</u>	<u>16,951,339</u>
Total capital assets being depreciated, net	<u>49,835,812</u>	<u>(1,079,732)</u>	<u>_____</u>	<u>48,756,080</u>
Governmental activity capital assets, net	<u>\$86,483,662</u>	<u>\$(1,079,732)</u>	<u>\$ _____</u>	<u>\$85,403,930</u>

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(3) Detail Notes on all Funds, Continued

Capital Assets, Continued

September 30, 2008

<u>Governmental Activities</u>	<u>2007</u>	<u>Increases</u>	<u>Retirement</u>	<u>2008</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	54,187,276	3,156,024	-	57,343,300
Vehicles	4,209,052	1,251,106	-	5,460,158
Other	<u>1,625,294</u>	<u>122,491</u>	<u>-</u>	<u>1,747,785</u>
Total capital assets being depreciated	<u>60,021,622</u>	<u>4,529,621</u>	<u>-</u>	<u>64,551,243</u>
Less accumulated depreciation for:				
Buildings and improvements	8,194,135	1,231,444	-	9,425,579
Vehicles	3,143,285	729,386	-	3,872,671
Other	<u>1,234,436</u>	<u>182,745</u>	<u>-</u>	<u>1,417,181</u>
Total accumulated depreciation	<u>12,571,856</u>	<u>2,143,575</u>	<u>-</u>	<u>14,715,431</u>
Total capital assets being depreciated, net	<u>47,449,766</u>	<u>2,386,046</u>	<u>-</u>	<u>49,835,812</u>
Governmental activity capital assets, net	<u>\$84,097,616</u>	<u>\$ 2,386,046</u>	<u>\$ -</u>	<u>\$86,483,662</u>

Capital Improvements Projects in Progress

Changes in construction in progress for the years ended September 30 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
At beginning of year	\$ 2,279,773	\$ 4,641,329
Additions	19,653	1,494,468
Transferred to fixed assets	<u>-</u>	<u>(3,156,024)</u>
At end of year	<u>\$ 2,999,426</u>	<u>\$ 2,979,773</u>

In fiscal year 2009, the CNMI Government transferred to PSS \$2,204,733, capital improvement funds, of this only \$43,740 were expended in fiscal year 2009, \$2,160,993 is recorded as a component of deferred revenues as of September 30, 2009.

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(3) Detail Notes on all Funds, Continued

Capital Assets, Continued

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

Retirement Plan – Defined Benefit Plan

PSS contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI. The NMIRF issues a stand-alone financial report, which may be downloaded from its website (<http://www.nmiretirement.com>). NMIRF provides retirement, security and other benefits to employees of the CNMI government and CNMI agencies, instrumentalities and public corporations, and to their spouses and dependents. Benefits are based on the average annual salary over the term of credited service. Generally, benefits vest after three years of credited service. Members are eligible for early retirement after 10 years of vesting service and are at least 52 years of age. Members, who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

Based on the actuarial valuation as of October 1, 2008 issued in May 2010, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 51.0578% of covered payroll and funding requirements for employees are 8.5% and 11.0% of covered payroll for Class I and Class II members, respectively.

The funding requirement is calculated as that percentage of total payroll, which is necessary to accumulate sufficient assets to pay benefits when due. NMIRF uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 1980. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

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(3) Detail Notes on all Funds, Continued

Retirement Plan – Defined Benefit Plan, Continued

NMIRF utilizes the actuarial cost method termed “entry age normal cost” with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets; (b) a 5% increase in employee salaries compounded annually until retirement; (c) expenses at 1.1% of total payroll; and (d) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

Pursuant to Public Law No. 14-98 PSS is exempted from any rate increase of its employer contribution to the Retirement Fund until November 21, 2010.

Required contributions and the percentage actually contributed for the current year and for the preceding three years are as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage of Required</u> <u>Contribution Contributed</u>
9/30/09	\$ 10,726,241	24%
9/30/08	\$ 9,772,684	38%
9/30/07	\$ 7,701,162	100%
9/30/06	\$ 8,113,912	100%

PSS recognized an unfunded retirement contribution of \$8,115,436 and \$6,014,334 for the years ended September 30, 2009 and 2008, respectively. Payable to retirement fund including interest amounted to \$14,129,770 and \$6,014,334 as of September 30, 2009 and 2008, respectively. This obligation will be funded through allotment from the CNMI Government as employees retire.

Retirement Fund – Defined Contribution

On June 16, 2006, the CNMI Governor signed Public Law No. 15-47, creating the Defined Contribution Plan, to create portable individual retirement accounts for all new public employees who are hired on or after January 1, 2007. This law also provides the conditions under which certain Class I members of the Retirement Fund may transfer from the existing defined benefit plan to the new defined contribution plan.

Under this retirement plan, employees contribute 10% of their qualified salaries and wages while employers contribute 4%.

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September 30, 2009 and 2008

(3) Detail Notes on all Funds, Continued

Retirement Fund – Defined Contribution, Continued

As of September 30, 2009 and 2008, the market value of the defined contribution plan of PSS employees are as follows:

September 30, 2009:

	<u>Participant Count</u>	<u>Average Balance</u>	<u>Total Balance</u>
Active participants with account balances	266	\$ 12,438	\$ 3,308,635
Terminated participants with remaining account balances	<u>—</u>	\$ —	<u>—</u>
	<u>266</u>		<u>\$ 3,308,635</u>

September 30, 2008:

	<u>Participant Count</u>	<u>Average Balance</u>	<u>Total Balance</u>
Active participants with account balances	266	\$ 6,358	\$ 1,691,236
Terminated participants with remaining account balances	<u>—</u>	\$ —	<u>—</u>
	<u>266</u>		<u>\$ 1,691,236</u>

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. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996. 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 or pension benefit withholdings.

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(3) Detail Notes on all Funds, Continued

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.

Transfer-in from CNMI Government

The CNMI Government appropriated \$34,601,764 and \$35,847,444 for PSS' operational use for the fiscal years ended September 30, 2009 and 2008, respectively. Receivables due from CNMI government under the general fund as of September 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Receivable, beginning	\$ 5,281,845	\$ 2,680,711
Appropriation	34,601,764	35,847,444
State Fiscal Stabilization Fund	(1,469,240)	-
Collections	<u>(32,973,941)</u>	<u>(33,246,310)</u>
Receivable, ending	<u>\$ 5,440,428</u>	<u>\$ 5,281,845</u>

Of the prior years' appropriations receivable balance as of September 30, 2009, \$1,998,654 may not be collectible.

Non-current Liabilities

Non-current liabilities presented in the Statement of Net Assets include accrual for compensated absences as follows:

	<u>2009</u>	<u>2008</u>
Beginning of year	\$ 2,267,363	\$ 3,773,604
Increase (decrease)	<u>(1,095,140)</u>	<u>(1,506,241)</u>
Ending balance	<u>\$ 1,172,223</u>	<u>\$ 2,267,363</u>
Due in one year	\$ 500,000	\$ 500,000
Due in more than one year	<u>672,223</u>	<u>1,767,363</u>
End of year	<u>\$ 1,172,223</u>	<u>\$ 2,267,363</u>

PSS uses local funds to liquidate its accrued compensated absences.

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(3) Detail Notes on all Funds, Continued

Operating Lease

PSS leases its office space from the NMIRF on a yearly basis. Rent expense was \$202,000 for the fiscal years ending September 30, 2009 and 2008, respectively.

(4) Contingencies

PSS administers significant financial assistance from the Federal Government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditure of resources for eligible purposes. Substantially, all grants are subject to either the Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal Government or their designees.

Disallowances and sanctions as a result of these audits may become liabilities of PSS and the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

(5) Commitments

In June 1997, CNMI House Joint Resolution No. 10-36 authorized PSS to issue general obligation bonds for a total value not to exceed \$15,685,000. These bonds are used to leverage an equal amount of Federal capital improvement project funds to finance school construction projects, and will be repaid by the CNMI Government through appropriation of liquid fuel taxes per Public Law No. 11-14. The liability relating to these bonds is recorded by the CNMI Government.

(6) Risk Management

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the years ended September 30, 2009 and 2008.

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

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(7) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. In fiscal year ending September 30, 2009, 53% and 44% of total revenues were received from local appropriation and federal grants, respectively; while in fiscal year ending September 30, 2008, 52% and 41% of total revenues were received from local appropriation and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

(8) Fair Value of Financial Instruments

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

(9) Subsequent Events

PSS has evaluated subsequent events from September 30, 2009 through June 25, 2010, the date of financial statements were available to be issued. PSS did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

SUPPLEMENTARY INFORMATION

BUDGETARY ANALYSIS

Year Ended September 30, 2009

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Required Supplementary Information
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2009

	General Fund				Variance Favorable (Unfavorable)
	Budget			Actual	
	Original	Revision	Final		
EXPENDITURES:					
Personnel	\$ 28,141,888	\$ -	\$ 28,141,888	\$ 28,031,119	\$ 110,769
Utilities	3,053,685	-	3,053,685	2,986,957	66,728
All other	3,061,595	-	3,061,595	2,105,670	955,925
Textbooks	<u>344,596</u>	<u>-</u>	<u>344,596</u>	<u>240,992</u>	<u>103,604</u>
 Total expenditures	 <u>34,601,764</u>	 <u>-</u>	 <u>34,601,764</u>	 <u>33,364,738</u>	 <u>1,237,026</u>
 OPERATING TRANSFERS-IN	 <u>34,601,764</u>	 <u>-</u>	 <u>34,601,764</u>	 <u>34,601,764</u>	 <u>-</u>
 Excess of revenues and other financing sources over expenditures and other financing uses	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (1,237,026)</u>	 <u>\$ 1,237,026</u>
 RECONCILIATION OF BUDGET TO GAAP BASIS					
Appropriation	\$ 34,601,764				
Encumbrances	<u>1,639,524</u>				
2009 Budget GAAP	32,962,240				
2009 Actual expenditures	<u>33,364,738</u>				
 Unfavorable variance	 <u>\$ (402,498)</u>				

The unfavorable variance pertains to expenditures from prior years encumbrances.

PUBLIC SCHOOL SYSTEM

SINGLE AUDIT REPORTS

Year Ended September 30, 2009

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

The Board of Education
Public School System

I have audited the financial statements of the Public School System (PSS), as of and for the year ended September 30, 2009 and have issued my report thereon dated June 25, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered PSS' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the PSS' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects PSS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of PSS' financial statements that is more than inconsequential will not be prevented or detected by the PSS' internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the PSS' internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. I consider finding nos. 09-04 through 09-06 and 09-09 as material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSS' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as finding nos. 09-01 through 09-10.

PSS' responses to the findings identified in my audit described in the accompanying Schedule of Findings and Questioned Costs are on pages 81 to 85. I did not audit PSS' responses and, accordingly, I express no opinion on them.

I also noted certain additional matters that I reported to management of PSS in a separate letter dated June 25, 2010.

This report is intended solely for the information and use of the management of PSS, the Board of Education, Federal awarding agencies, the cognizant audit and other Federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.


Saipan, Commonwealth of the Northern Mariana Islands
June 25, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Education
Public School System

Compliance

I have audited the compliance of the Public School System (PSS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The PSS' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the PSS' management. My responsibility is to express an opinion on PSS' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on PSS' compliance with those requirements.

As described in Finding Nos. 09-10, 09-11 and 09-12 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with the requirements regarding eligibility and allowed cost and cost principles, respectively, to its Special Education Grant (CFDA No. 84.027). As described in Finding No. 09-10, PSS did not comply with the requirement regarding allowed cost and cost principles to its Consolidated Grant to Insular Areas (CFDA No. 84.922). Also, as described in Finding No. 09-13 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with the requirements regarding special provisions to its Headstart Grant (CFDA No. 93.600). Compliance with such requirements is necessary, in my opinion, for PSS to comply with the requirements applicable to this program.

In my opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control over Compliance

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

My consideration of internal control over compliance was for the limited purpose described above in the preceding paragraph and would not necessarily identify all deficiencies in PSS' internal control that might be significant deficiencies or material weaknesses as described below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and others that I consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 09-06 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, I consider Finding No. 09-06 to be a material weakness.

PSS' response to the findings identified in my audit described in the accompanying Schedule of Findings and Questioned Costs are on pages 81 to 85. I did not audit PSS' responses and, accordingly, I express no opinion on them.

Schedule of Expenditures of Federal Awards

I have audited the accompanying financial statements of governmental activities, each major fund, and the aggregating fund information of the PSS, as of and for the year ended September 30, 2009, and have issued my report thereon dated June 25, 2010. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. This schedule is the responsibility of the PSS' management. The accompanying Schedule of Expenditures of Federal Awards (pages 46 through 48) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except as described in the aforementioned report, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of PSS, the Board of Education, Federal awarding agencies, pass-through entities, and the cognizant audit and other Federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is also a matter of public record.


Saipan, Commonwealth of the Northern Mariana Islands
June 25, 2010

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

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2009

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/08</u>	<u>Adjustments</u>	<u>Revenues FY 2009</u>	<u>Expenditures FY 2009</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/09</u>
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Consolidated Grant to Insular Areas	84.922A	\$ 251,121	\$ (26,537)	\$ 10,700,994	\$ (10,700,994)	\$ 224,584
State Fiscal Stabilization Fund	84.394	-	1,464,014	1,458,037	(1,458,037)	1,464,014
Fund for the Improvement of Education/ Christa McAuliffe Grant	84.215	(3,848)	-	-	-	(3,848)
Freely Associated States_Education Grant	84.256	16,723	131,592	1,024,308	(1,024,308)	148,315
Literacy through School Libraries	84.364	1,187	2,821	30,725	(30,725)	4,008
Special Education_Grants to States	84.027	168,393	179,456	4,320,175	(4,320,175)	347,849
Special Education_Grants to States - ARRA	84.027	-	5,226	6,612	(6,612)	5,226
Special Education - State Personnel Development	84.323	3,123	(3,123)	77,163	(77,163)	-
Special Education - State Personnel Development - ARRA	84.323	-	-	495	(495)	-
Special Education-Grants for Infants and Families	84.181	6,932	33,328	556,137	(556,137)	40,260
Common Core	84.000	(63,441)	22,074	22,074	(22,074)	(41,367)
Byrd Honors Scholarships	84.185	-	(1,500)	64,500	(64,500)	(1,500)
Total U.S. Department of Education		<u>380,190</u>	<u>1,807,351</u>	<u>18,261,220</u>	<u>(18,261,220)</u>	<u>2,187,541</u>
<u>U.S. Department of Agriculture</u>						
<u>Direct Programs</u>						
National School Lunch Program	10.555	<u>13,461</u>	<u>266,422</u>	<u>6,525,120</u>	<u>(6,525,120)</u>	<u>279,883</u>
Total U.S. Department of Agriculture		<u>13,461</u>	<u>266,422</u>	<u>6,525,120</u>	<u>(6,525,120)</u>	<u>279,883</u>
Balance carried-forward		<u>\$ 393,651</u>	<u>\$ 2,073,773</u>	<u>\$ 24,786,340</u>	<u>\$ (24,786,340)</u>	<u>\$ 2,467,424</u>

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

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

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2009

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/08</u>	<u>Adjustments</u>	<u>Revenues FY 2009</u>	<u>Expenditures FY 2009</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/09</u>
<u>U.S. Department of Health and Human Services</u>						
<u>Direct Programs</u>						
Balance brought-forward		\$ 393,651	\$ 2,073,773	\$ 24,786,340	\$ (24,786,340)	\$ 2,467,424
HeadStart	93.600	110,271	60,121	2,301,358	(2,301,358)	170,392
HeadStart - ARRA	93.600	-	-	4,096	(4,096)	-
Child Care and Development Block Grant	93.575	(6,125)	-	-	-	(6,125)
Aids-HIV	93.938	149	3,227	113,343	(113,343)	3,376
Total U. S. Department of Health and Human Services		104,295	63,348	2,418,797	(2,418,797)	167,643
<u>U.S. Department of Transportation</u>						
<u>Direct Programs</u>						
Federal Transit Bus	20.509	-	616,494	939,279	(939,279)	616,494
Total U.S. Department of Transportation		-	616,494	939,279	(939,279)	616,494
<u>Other Direct Programs</u>						
Americorps	94.006	6,814	7,754	402,538	(402,538)	14,568
Hazzard Mitigation	FEMA	-	-	65,300	(65,300)	-
Total other Agencies		6,814	7,754	467,838	(467,838)	14,568
<u>Department of Interior</u>						
<u>Pass Through the CNMI Government</u>						
Compact Impact Grant - School Renovation	15.875	290,841	94,419	94,419	(94,419)	385,260
Total U.S. Department of Interior		290,841	94,419	94,419	(94,419)	385,260
Total Federal Grants Fund		\$ 795,601	\$ 2,855,788	\$ 28,706,673	\$ (28,706,673)	\$ 3,651,389

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, 2009

(1) Scope of Review

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

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

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Education for fiscal year 2008. The approved rates are as follows:

Unrestricted indirect cost rate	13.29%
Restricted rate	4.30%

The unrestricted indirect cost rate is applicable to all programs except the Department of Education programs and is based on total direct salaries and wages, including fringe benefits.

The restricted rate is applicable to Department of Education programs only 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.

c. American Recovery and Reinvestment Act of 2009

In February 2009, the U.S. Federal Government enacted the American Recovery and Reinvestment Act (ARRA) of 2009. During fiscal year 2009, PSS received three (3) ARRA federal awards as noted on pages 46 to 47 and expended \$1,468,745 as of September 30, 2009. These were tested as major programs.

**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, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Qualified for the
General Fund

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

Qualified for

- 84.922 Consolidated Grant to Insular Areas
- 84.027 Special Education Grants to States
- 93.600 Head Start Program

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

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>
84.922A	Consolidated Grant to Insular Areas	\$ 10,700,994
10.555	National School Lunch Program	6,525,120
84.027	Special Education Grants to States	4,320,175
93.600	Head Start Program	2,301,358
84.394	State Fiscal Stabilization Fund - ARRA	1,458,037
84.256	Freely Associated States Education Grant Program	1,024,308
20.509	Federal Transit Bus	939,279
84.027	Special Education Grants to States – ARRA	6,612
93.600	Head Start Program – ARRA	4,096
84.323	Special Education – State Personnel Development	<u>495</u>
	Total Federal Expenditures-Major Programs	<u>\$ 27,280,474</u>
	Percentage of total awards tested	<u>95%</u>

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

\$ 861,200

3% of the total awards expended

Auditee qualified as low-risk auditee

_____yes X no

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-01, Travel Authorization

Criteria:

Pursuant to PSS Regulation 3430, section C (8), within CNMI travel requests shall be submitted to the Commissioner no later than 5 working days prior to the travel date. Travel requests for outside of the CNMI shall be submitted to the Commissioner or the Chairperson of the Board of Education, as appropriate, no later than 10 working days prior to commencement of travel, except for extenuating circumstances.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

The following were noted:

- a. Nineteen (19) or 76% of twenty-five (25) of travelers tested submitted travel authorizations (TA) after the prescribed period, or
- b. Ninety-four (94) or 23% of the 415 TA's submitted by the selected travelers were after the prescribed period.

Cause:

PSS did not adhere to its established policies and procedures on travel authorization and travel authorizations were not properly filed. PSS does not have internal control monitoring procedures in place to ensure that all TA's are submitted in accordance with its existing travel policies.

Effect:

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-01, Travel Authorization, Continued

Recommendation:

PSS should implement internal control monitoring procedures to ensure timely submission of all travel authorizations.

With the large volume of travel authorizations processed, PSS should explore the option of electronic filing and approval of travel authorizations. This option may also reduce the lead time it takes for the TA's to get from the requester to the Travel Section of PSS Accounting and reduce the paperwork for filing at the Travel Section.

Prior Year Status:

The above condition was cited as a finding in the Single Audits for fiscal years 2005 through 2008.

**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, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-02, Travel Authorization Supporting Documents

Criteria:

Pursuant to PSS Regulation 3420, section C (7), the following information must be attached to the TA prior to being submitted to the Chairperson of the Board and to the Commissioner as appropriate:

- a. Justification memorandum for the travel
- b. Document of invitation and/or agenda
- c. Specific purpose
- d. Itinerary (schedule or departure, arrival and destinations)
- e. Estimated Cost

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistically sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

- a. Eight (8) or 32% of twenty-five (25) of travelers tested did not comply with the requirements of PSS Regulation 3420, section C (7). Deficiencies noted are summarized as follows:

Traveller No./ Employee No.	Travel Authorization	Remarks
2208	59493	Documentation of invitation or agenda not on file
	62755	Documentation of invitation or agenda not on file
2515	58922	Justification memorandum for travel is not signed
2746	63748	Travel Authorization and supporting documents not on file
2817	58458	Travel Authorization and supporting documents not on file
	59318	Travel Authorization and supporting documents not on file
	63302	Travel Authorization and supporting documents not on file
	63631	Travel Authorization and supporting documents not on file
	64578	Travel Authorization and supporting documents not on file
12716	62685	No documentation of meeting invitation or confirmation of meeting
8452	58325	Travel Authorization and supporting documents not on file
	58623	Travel Authorization and supporting documents not on file
2858	60974	No documentation of meeting invitation or confirmation of meeting
8685	PV 155784	Repatriation expense of \$10,338 based on quotation was disbursed using travel authorization.

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, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-02, Travel Authorization Supporting Documents, Continued

Cause:

PSS did not adhere to its established internal control policies and procedures for travel authorization.

Effect:

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

Recommendation:

PSS should strictly enforce its travel policies and procedures and establish internal control monitoring procedures to ensure that all travels made using PSS local and federal funds are both necessary and reasonable.

**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, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation

Criteria:

Pursuant to PSS Regulation 3420, section G (1), travelers must file a travel voucher with supporting documentation within fifteen (15) working days upon completion of travel. Travelers who fail to meet this deadline will forfeit the remaining ten percent of the cost of travel. Travelers who fail to submit travel vouchers and supporting documentation will be subject to payroll deduction of the entire amount of the advance.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Conditions:

- a. Twelve (12) or 48% of twenty five (25) of travelers tested did not submit the travel voucher/liquidation within the prescribed period. These deficiencies are summarized as follows:

<u>Traveller No./ Employee No.</u>	<u>Travel Authorization</u>	<u>Last day of Travel</u>	<u>Date Submitted</u>	<u>No. of Workdays Late</u>
2238	57427	10/24/08	11/20/08	5
	58309	12/29/08	02/03/09	12
2405	58265	12/15/08	04/15/09	73
	59525	03/04/09	04/15/09	16
	59642	03/05/09	04/15/09	15
	59979	03/21/09	04/15/09	3
	60025	03/27/09	06/24/09	49
	60793	05/10/09	06/18/09	14
	60884	05/01/09	06/18/09	20
	62360	07/01/09	07/28/09	5
2515	58659	01/30/09	03/10/09	13
	58922	02/06/09	03/10/09	8

**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, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation, Continued

Conditions:

<u>Traveller No./ Employee No.</u>	<u>Travel Authorization</u>	<u>Last day of Travel</u>	<u>Date Submitted</u>	<u>No. of Workdays Late</u>
2606	57785	11/23/08	12/15/08	1
	60124	02/02/09	04/03/09	30
	61980	05/05/09	06/11/09	13
2746	58321	01/12/09	02/10/09	7
	60955	05/05/09	06/20/09	19
	60959	05/03/09	06/20/09	20
	60121	04/02/09	06/20/09	42
	60120	03/31/09	06/20/09	44
2817	58006	12/17/08	02/09/09	24
	58397	01/08/09	02/04/09	5
	58458	01/16/09	02/09/09	2
	59697	03/13/09	05/13/09	29
8685	57522	11/20/08	12/15/08	3
12716	59275	02/28/09	04/01/09	8
9981	58329	12/31/08	02/25/09	26
	59983	03/20/09	07/21/09	73
	61547	05/30/09	07/21/09	22
	61724-1	06/19/09	07/21/09	8
10186	61163	05/09/09	07/10/09	30
	62269	07/06/09	08/04/09	7
5263	58661	01/29/09	02/20/09	2
8452	57700	11/26/08	12/17/08	1
	58325	01/12/09	02/04/09	3
	58623	02/17/09	03/11/09	2

b. Two (2) or 8% of twenty five (25) of travelers tested received travel advances for travel that were subsequently cancelled. The travelers did not return the entire travel advance received; instead they signed allotment authorization for fixed semi-monthly installments.

Cause:

PSS did not adhere to its established policies and procedures for monitoring and liquidating travel advances in a timely manner.

Effect:

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation, Continued

Recommendation:

PSS should strictly adhere to its travel liquidation policies and procedures. A report should be prepared and provided to the Commissioner for corrective action.

Prior Year Status:

The above condition was cited as a finding in the Single Audit of fiscal years 2005 through 2008.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-04, Use of Preauthorized Trip Report

Criteria:

Pursuant to PSS Regulation 3420, Section G (3), travelers using per diem rate should submit an approved detailed trip report explaining the purpose of the travel, the event or meeting attended (if appropriate) and the benefit to the traveler and PSS. All trip reports must be submitted to the traveler's supervisor for approval before submission to the Fiscal office. The sufficiency of the trip report shall be determined by the traveler's supervisor, who shall approve the report and return to traveler for submission to the Fiscal office if the report is sufficient. If insufficient and not approved, the supervisor shall return the trip report to the traveler and request more information from the traveler for resubmission to the supervisor.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

Trip report was not on file for the following travel authorizations:

<u>Traveller No./</u> <u>Employee No.</u>	<u>Travel</u> <u>Authorization</u>	<u>Destination</u>
2469	58037	Washington DC
	58322	Washington DC
2606	60772	Honolulu HI
	60961	Guam
2858	62447	Guam

Furthermore, most of the trip reports examined did not provide a detailed description of what was obtained during the trip and how these could help improve PSS.

Cause:

The Commissioner authorized the use of preauthorized trip report to be submitted with the travel authorization before the actual travel, in lieu of submitting a trip report together with the Travel Voucher after the travel.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-04, Use of Preauthorized Trip Report, Continued

Effect:

PSS is not in compliance with its travel policies and procedures. Furthermore, without a complete trip report, PSS may not have a tool to measure the effectiveness or to conduct a performance audit of the travel.

Recommendation:

PSS should strictly implement the use of trip report to summarize the results of all off-island travels. A preauthorized trip report may be utilized for inter-island travels; however, the policies and procedure for the use of preauthorized trip reports should be approved by the PSS Board of Education.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-05, Use of Organization Credit Card

Criteria:

Pursuant to PSS' policies and procedures, all disbursements shall be through issuance of checks. PSS' credit card may only be used for on-line purchases or other purchases as approved following PSS procurement policies and procedures.

Context:

Test of travel advances and liquidation.

Condition:

Four (4) of the 25 or 16% of travelers selected for testing of travel advances used PSS credit card on several trips to pay for accommodations and registrations.

Although some have promptly returned the cash advance upon return from the trip, some travelers did not inform the fiscal and budget officer about the use of credit card. The uses of the credit card were only noted by the fiscal and budget officer upon preparation of the reconciliation of the credit card account.

Cause:

There is a weakness in internal control over the monitoring and review of travel advances and the use of credit cards which could result in fraud, misuse and abuse.

Effect:

Unrecorded or unauthorized disbursements could be incurred and not be detected in a timely manner. Furthermore, abuse and misuse of funds could be perpetrated if employees other than the treasurer have access to the organization's credit card.

Recommendation:

PSS should review its policies and procedures over the use of its credit card and should implement more stringent internal control monitoring procedures to ensure that assets susceptible to fraud and misuse are safeguarded.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-06, Compliance with Appropriations Budget

Criteria:

Pursuant to Public Law 16-32 or the 2009 Appropriations Act, Section 604 (c), all government salaries, except for classroom teachers are frozen as of the first pay period following the effective date of the Appropriation Act, which is March 11, 2009.

Also, pursuant to Public Law 16-32 Section 720 (d)(2), no parts of the funds appropriated for PSS operations shall be used to pay for any expenses, including but not limited to travel or reimbursement, of the Board of Education, board members or staff.

Context:

Review of Minutes of Board Meetings and compliance with laws.

Conditions:

- a. The PSS Board of Education, adopted certain salary adjustments during its August 27, 2009 Board Meeting, as follows:
 - Commissioner's salary to increase from \$70,000 per annum to \$80,000 per annum retroactively to the date of hiring, August 20, 2008.
 - Legal Counsel's salary from \$55,000 to \$70,000, effective retroactively to October 30, 2008.
 - Increase Board Secretary's salary by 20%, effective retroactively to October 30, 2008.
- b. PSS made renovations to the office of the Board of Education amounting to \$9,590 and purchased controlled assets. These expenditures were funded by PSS Operations Appropriations.

Cause:

- a. The Board of Education increased the salary of the Commissioner and the Legal Counsel to the legal limit set by the CNMI Law, notwithstanding the restriction on salary increases on PL 16-32.

Furthermore, for the salary increase of the Legal Counsel and the Board of Education's Secretary, PSS believes that the increase does not violate the provision of PL 16-32 because the Board had already approved the increase during its October 30, 2008 meeting.

- b. PSS believes that the renovations and the equipment purchased for the office of the Board of Education were for the common use and benefit of PSS Operations, and therefore allowable.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-06, Compliance with Appropriations Budget, Continued

Effect:

It appears that PSS may be in violation of PL 16-32.

Recommendation:

PSS should evaluate the legality of its actions taken to increase salaries, office renovations and equipment purchases to ensure compliance with Sections 604 (c) and 720 (d)(2) of Public Law 16-32 or the 2009 Appropriations Act.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-07, Employment Contracts

Criteria:

PSS Regulation for Employment of Non-Certified Personnel §1404 and PSS Regulation for Employment of Certified Personnel §1304, states that in no event shall any applicant commence working without the Human Resource Office (HRO) first having a fully-executed employment contract.

PSS Regulation for Employment of Non-Certified Personnel §1601 and PSS Regulation for Employment of Certified Personnel §1501, states that the decision whether to extend and offer for further employment is wholly within the discretion of the Public School System. No tenure of any nature, expressed or implied, is granted to any employee.

Context:

Non-statistically selected 60 contracts from the listing of new and renewed contracts for fiscal year ending September 30, 2009.

Conditions:

- a. For 14 of the 60 or 23% of employment contracts selected for testing of controls over recruitment and hiring, the effective date of contracts were before the contract was fully executed.

<u>Employee Number</u>	<u>Effective Date</u>	<u>Date Contract was Signed</u>	<u>No Workdays Late</u>	<u>Rate</u>	<u>Amount</u>
9458	10/14/2008	10/28/2008	11	\$14.893	\$ 1,310.58
12659	10/15/2008	11/1/2008	13	5.636	586.14
12591	11/15/2008	12/29/2008	31	12.331	3,058.09
12826	2/10/2009	2/17/2009	6	14.542	698.02
12963	3/16/2009	3/31/2009	12	7.262	697.15
12960	3/16/2009	3/30/2009	11	14.893	1,310.58
12549	8/31/2009	9/17/2009	14	14.893	1,668.02
13297	8/31/2009	9/9/2009	8	14.893	953.15
13319	9/8/2009	9/25/2009	14	100/day	1,400.00
5526	9/8/2009	9/21/2009	10	100/day	1,000.00
13332	9/8/2009	9/24/2009	13	9.292	966.37
2771	9/8/2009	11/5/2009	43	13.419	4,616.14
8693	9/8/2009	9/24/2009	13	100/day	1,300.00
9302	9/14/2009	9/18/2009	5	6.062	500.00

\$ 20,064.24

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-07, Employment Contracts, Continued

Conditions, Continued:

b. Employment contract of Employee No. 9013 was not on-file for SY 2008-2009. Subsequent year's contract was on-file.

Cause:

Due to the need for the School Year to open on-time, certain principals, as authorized by the Commissioner, allowed teachers to report for work before the contract was signed and properly executed.

Effect:

PSS is not in compliance with its policies and procedures. Furthermore, any payments made before the contract is signed may be un-allowed costs because employment contracts are not effective until signed by all contracting parties.

Recommendation:

PSS should strengthen existing policies and procedures for monitoring of all employment contracts and ensure that all contracts are properly signed and executed before its effective date.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-08, Medical Examination at the Start of Contract for New Employees

Criteria:

PSS Regulation for Employment of Non-Certified Personnel §2103 and PSS Regulation for Employment of Certified Personnel §3103, requires employees to undergo physical examination at a health care provider acceptable to the HRO prior to the commencement of the contract term.

Context:

Non-statistically selected 60 contracts from the listing of new and renewed contracts for fiscal year ending September 30, 2009.

Condition:

51 of the 60 or 85% of the contracts selected were for new employees. Of the 51 new employee contracts tested, 27 or 53% did not have the physical examination record on-file for independent review and inspection.

Cause:

There is a lack of monitoring controls to ensure that all requirements for hiring are completed and on-file prior to the effective date of employment contract.

Effect:

PSS is not in compliance with its Human Resources policies and procedures. Furthermore, health and safety of students and personnel may be compromised and at risk.

Recommendation:

PSS should strengthen its Human Resources policies and procedures to ensure that all requirements for hiring are completed and on-file prior to the effective date of employment contract. Furthermore, document retention and filing should be improved to facilitate ease of file retrieval.

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SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 09-09, Sole Sources Contracts

Criteria:

Pursuant to Education Department General Administrative Regulations § 80.36 Procurement (d)(4)(f)(f) Contract cost and price, grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

Context:

Based on auditor's judgment, selected 9 individually significant contracts and non-statistically selected 25 contracts for examination of compliance with PSS procurement regulations.

Condition:

No Cost and Price Analysis documentation for the contract award of the following sole-sourced contract:

<u>Contract Number</u>	<u>Purpose</u>	<u>Amount</u>
58991	Honorarium for Training	\$ 9,000
58167	Financial Management Consultant	60,000
61879	To procure software for 9 schools	204,176
52262	Training and Technical Assistance	89,541

Cause:

PSS did not adhere to Education Department General Administrative Regulations § 80.36 for sole source procurements.

Effect:

PSS procurement policies and procedures are not in compliance with the U.S. Department Education procurement regulations for grantees. Over pricing of sole source procurements may occur and not be detected in a timely manner.

Recommendation:

The Procurement policies and procedures of PSS should be revised to incorporate federal procurement regulations.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowed Cost and Cost Principles – Special Education and Consolidated Grants

Finding No. 09-10

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027		
84.922		\$ 293,717

Criteria:

All accounting entries should be properly supported and approved.

Context:

Audit of accounting journal entries.

Condition:

PSS provided a post trial balance adjusting journal entry to reclassify federal expenditure of \$204,176 to local funds and vice versa. The adjustment was made only after the auditor presented Finding 09-09. Board approval was not obtained. The reclassification involved the transferring of personnel cost of highly qualified teacher from local funds to federal funds and a transferring of the following federally funded expenditures to local funds:

<u>Contract Number</u>	<u>Purpose</u>	<u>Amount</u>	<u>CFDA</u>
61879	To procure software for 9 schools	\$ 204,176	84.922
52262	Training and Technical Assistance	89,541	84.027

Cause:

PSS did not obtain Board approval.

Effect:

The adjustment was not properly authorized. Therefore, a questioned costs exists totaling \$293,717.

Recommendation:

PSS should ensure that all adjusting journal entries are properly supported by corroborating evidential documentation and are properly approved prior to posting in the general ledger.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility – Special Education

Finding No. 09-11

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria:</u></p> <p>Pursuant to CNMI Special Education Guidelines, Summary of Eligibility should be prepared every three years of all children eligible under the Special Education Grant.</p> <p><u>Context:</u></p> <p>Based on risk assessment, non-statistically selected 60 student's folders for examination.</p> <p><u>Condition:</u></p> <p>For four or 7% of 60 student folders tested, the last eligibility summary was conducted more than 3 years after last evaluation/reevaluation.</p> <p><u>Cause:</u></p> <p>There is a lack of monitoring internal controls, especially for children moving from one school to another.</p> <p><u>Effect:</u></p> <p>PSS is not in compliance with its policies and procedures on eligibility of children with special needs. Furthermore, if the eligibility summary is conducted late, the children's special needs may not be addressed in a timely manner.</p> <p><u>Recommendation:</u></p> <p>PSS should ensure that monitoring controls are in place to timely update the special needs of students. Coordination should be made by the schools for children with special needs who transfer or move from one school to another.</p>	\$ -

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowed Cost and Cost Principles – Special Education

Finding No. 09-12

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria:</u></p> <p>Pursuant to PSS Procurement policies, purchases should not be artificially divided to preclude proper procurement policies and procedures.</p> <p><u>Condition:</u></p> <p>The following small purchase orders appear to be artificially divided:</p>	\$ -

<u>Date</u>	<u>Check No.</u>	<u>Particulars</u>	<u>PO Number</u>	<u>PO Date</u>	<u>Vendor Inv. No.</u>	<u>Invoice Date</u>	<u>Amount</u>
09/03/09	109476	Calendar book Blue background	63214	08/19/09	9924	08/17/09	\$ 1,606.25
		Calendar book Black background	63128	08/12/09	9904	08/17/09	1,606.25
							<u>\$ 3,212.50</u>
10/20/08	99358	SPED professional development 9/5/9	51147	09/23/08	0908-08	09/05/08	\$ 2,844.00
		SPED professional development 9/4/9	57146	09/23/08	0908-07	09/04/08	2,628.00
							<u>\$ 5,472.00</u>

Cause:

The Procurement Officer based the purchases on the requisition prepared by the requesting department and overlooked that the nature of the services is the same.

Effect:

PSS is not in compliance with its procurement policies and procedures.

Recommendation:

PSS should adhere to its established policies and procedures and should strengthen internal control monitoring procedures over its procurement activities to prevent and detect potential circumvention of such policies and procedures.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Earmarking - Enrollment of Children with Disabilities – Head Start

Finding No. 09-13

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u></p> <p>Pursuant to ACF-PI-HS-09-04, under the Head Start program, at least 10% of actual enrollment must serve children with disabilities.</p> <p>The Head Start Act requires Human Health Services to provide Head Start agencies, in appropriate circumstances, with waivers of this 10 percent enrollment requirement.</p> <p><u>Context:</u></p> <p>Non-statistically selected 3 months and obtained the Monthly Director's Report for these months.</p> <p>From the Monthly Director's Report, obtained the enrollment information and compared requirements of the Head Start Act.</p> <p><u>Condition:</u></p> <p>The Head Start Program does not meet the required enrollment level and did not obtain the required waiver.</p>	\$ -

	Total Enrollment	Children with Disabilities	Disability determined prior to Program year
Oct-08	462	39	4
		8%	1%
Apr-09	462	33	1
		7%	0%
Sep-09	462	40	1
		9%	0%

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Earmarking - Enrollment of Children with Disabilities – Head Start, Continued

Finding No. 09-13, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Cause:</u></p> <p>PSS asserts that it has exerted efforts to recruit children with disability but enrollment levels of children with disability remains low since the CNMI has improved its health and awareness programs for pregnant women and children, thereby reducing the number of children with disability in the CNMI.</p> <p><u>Effect:</u></p> <p>PSS is not in compliance with the program requirement of the Head Start Act.</p> <p><u>Recommendation:</u></p> <p>PSS should obtain a waiver from the grantor pursuant to ACF-PI-HS-09-04.</p>	<p>\$ -</p>
Total Questioned Costs		<p><u>\$ 293,717</u></p>

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Summary Schedule of Unresolved Prior Year Audit Findings
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SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2008 Audit Findings

Finding No. 08-01

Condition:

I noted the following:

- a. Eight (8) or 18% of forty five (45) travel authorization (TA) requested were not provided for testing.

- b. Of the thirty-seven (37) TA's examined, 1 or 3% was not submitted within the prescribed period.

The justification for the late TA was that the notification of invitation from PSS Curriculum and Instruction was received late. However, when we examined the invitation it was sent out 15 days before the travel date, which provides for sufficient time to complete the TA within the 5 working days allowance.

Corrective Action:

Public School System is in the process of upgrading the JDE Systems to include the electronic signature, filing and approval of all documents which will expedite processing and approval of Travel Authorizations. This upgrade is expected to be finalized between September through December 2009.

Status:

Unresolved. Similar condition was cited during my 2009 Single Audit as Finding No. 09-01. Also the corrective action plan was not implemented.

Finding No. 08-02

Conditions:

For six (6) or 16% of the thirty-seven (37) travel authorizations examined, travel advances were issued to travelers with unliquidated travel advances.

Auditee Response and Corrective Action Plan:

For fiscal year 2009, the Fiscal and Budget officer developed a form whereby the Commissioner of Education can authorize and approve travel advances for employees with outstanding travel advances when the situation warrants. This form will document the extenuating circumstances for the unliquidated travel advances.

Status:

Unresolved. Although the issuance of travel advance were supported by an authorization from the Commissioner, the documentations do not include the narrative of the extenuating circumstances for the unliquidated travel advances.

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Summary Schedule of Unresolved Prior Year Audit Findings
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SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2008 Audit Findings, Continued

Finding No. 08-03

Condition:

I noted the following:

- a. For thirteen (13) or 29% of forty five (45) of travel authorizations tested the travel advance liquidations are either not yet liquidated or were not on file.
- b. Six (6) out of the thirty-two (32) travel advance liquidations examined submitted their travel voucher after the 15 working days allowance.

Auditee Response and Corrective Action Plan:

PSS should designate an employee to monitor travel advances to ensure that such are liquidated in accordance with PSS Regulation 3420, section G (1). A report should be prepared and provided to the Commissioner for corrective action.

Status:

Unresolved. Similar condition was cited during my 2009 Single Audit as Finding No. 09-03.

Finding No. 08-04

Condition:

The independent verification of current free and reduced price eligibility of households was not conducted for the fiscal year ending September 30, 2008.

Auditee Response and Corrective Action Plan:

Management will ensure that the PSS Federal Monitor performs this annual verification of random sample of applications for free and reduced price school meals on or before December 15th of each year.

Status:

Resolved.

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Summary Schedule of Unresolved Prior Year Audit Findings
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SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2007 Audit Findings

Finding No. 07-01

Condition:

As of September 30, 2007, outstanding travel advances are as follows:

	Balance as of September 30, 2007	No. of Traveler
Old Accounts	\$ 290,216	439
Employees	\$ 54,723	108
Non-Employees	36,497	120
Students	4,666	42
	95,886	270
Total	\$ 386,102	709

- The \$290,216 old accounts were for travels before PSS implemented its updated travel policies.

	Balance at 9/30/07	Current		Over 30 days	
		Amount	No. of Traveler	Amount	No. of Traveler
Employees	\$ 54,723	\$ 21,248	59	\$ 33,475	49
Non-Employees	36,497	2,248	14	34,249	106
Students	4,666	1,345	7	3,321	35
	\$ 95,886	\$ 24,841	80	\$ 71,045	190

- Of the \$95,886 (270 travelers) only \$24,841 (80 travelers or 30% of total travelers) are current.
- 190 travelers or 70% of total travelers with aggregate travel advance balance of \$71,045 or 74% have unliquidated travel advances.

Corrective Action:

PSS management and the Board are reviewing its current travel policy. Office of Fiscal and Budget, Travel Section is regularly preparing statement of accounts for travelers with outstanding travel advances and are requiring signed allotment authorization. For non-PSS employees, the Coordinators are held liable for unliquidated travel advances.

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Summary Schedule of Unresolved Prior Year Audit Findings
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SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2007 Audit Finding, Continued

Finding No. 07-01, Continued

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding Nos. 09-03 and 08-03, respectively.

2006 Audit Findings

Finding No. 06-02

Conditions:

- c. Two (2) or 10% of the twenty (20) travel authorization tested were not submitted within the prescribed period.
- d. For three (3) or 15% of the twenty (20) travel authorization tested, documents such as justification memorandum for the travel; documents of invitation and or agenda; specific purpose; itinerary; and estimated cost were not attached to Travel Authorization.

Corrective Action:

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

Supporting documents for the 3 travel authorization noted above were obtained.

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding Nos. 09-01 and 08-01, respectively.

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

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2009

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2006 Audit Finding, Continued

Finding No. 06-03

Condition:

Seven or 35% of the twenty (20) travel authorizations, travel advances were issued to travelers with unliquidated travel advances.

Corrective Action:

PSS through the Fiscal and Budget office, travel section are actively pursuing collections of unliquidated travel advances.

Status:

Unresolved. Similar condition was cited during my 2008 Single Audit as Finding No. 08-02.

Finding No. 06-04

Condition:

- a. For six (6) or 30% of twenty (20), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. Four (4) out of the fifteen (15) who submitted do not have complete supporting documents.

Corrective Action:

PSS through the Fiscal and Budget office, travel section are actively pursuing collections of unliquidated travel advances.

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding No. 09-03 and 08-03, respectively.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2009

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2005 Audit Findings

Finding No. 05-03

Condition:

- a. Three (3) or 15% of the twenty (20) travel authorization tested were not dated.
- b. Five (5) or 20% of the twenty (20) travel authorization tested were not submitted within the prescribed period.

Corrective Action:

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding Nos. 09-01 and 08-01, respectively.

Finding No. 05-4

Condition:

Twelve or 60% of the twenty (20) travel authorizations, travel advance were issued to travelers with unliquidated travel advance.

Corrective Action:

PSS Fiscal and Budget Office is implementing effective FY 2007 stringent collection efforts on all outstanding travel advances and does not issue new travel advance to any traveler with outstanding travel unless an allotment authorization is signed or an approval is obtained from the Commissioner or the Chairman of the Board of Education, as applicable.

Status:

Unresolved. Similar condition was cited during my 2008 Single Audit as Finding No. 08-02.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2009

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2005 Audit Findings, Continued

Finding No. 05-05

Condition:

- c. For ten (10) or 50% of twenty (20), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- d. 2 out of the 10 who submitted do not have complete supporting documents and 1 submitted after 15 working days upon completion of the travel.

Corrective Action:

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding Nos. 09-03 and 08-03, respectively.

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

Summary Schedule of Unresolved Prior Year Audit Findings
Year Ended September 30, 2009

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2004 Audit Findings

Finding No. 04-06

Condition:

PSS does not adequately monitor adherence to its travel policies based on the following:

- a. 5 out of 16, or 31.25% travel requests examined were not submitted within the stated period prior to the commencement of the travel.
- b. 1 out of 16 travelers traveled without an approved travel authorization. We noted that an approval was subsequently made for the reimbursement of the trip. This incident indicated a violation of the local and federal regulations as the cost was allocated under the federal account.
- c. In relation to the finding cited on Item b above, since the travel did not have a prior authorization, the documents examined did not have a justification memorandum for the travel, document of invitation or agenda, specific purpose, itinerary and estimated cost.
- d. 11 out of 16, or 68.75% travel vouchers were not submitted within the ten working days period upon completion of travel.
- e. 1 out of 16 travelers was paid with a per diem of two days in the amount of \$354. The two days were initially applied as annual leave based on the original justification memorandum submitted; however, an amended letter was subsequently prepared, with an approval of the two days leave as part of the trip.

Corrective Action:

PSS has made tremendous efforts to inform employees of the travel policies. PSS will strictly enforce its established policies and procedures. PSS approved several administrative changes in the travel policy to ensure compliance with the applicable state laws and federal regulations.

Status:

Unresolved. Similar condition was cited during my 2009 and 2008 Single Audit as Finding Nos. 09-01 to 09-03 and 08-01 to 08-03, respectively.

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

Summary Schedule of Unresolved Questioned Costs
Year Ended September 30, 2009

V. SUMMARY OF UNRESOLVED QUESTIONED COSTS

Unresolved questioned costs for the year ended September 30, 2009 amounts to \$293,717.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



Lucia L. Blanco-Maranto
Chairperson

Marylou S. Ada
Vice-Chairperson

D. Tanya King
Secretary/Treasurer

Members
Herman T. Guerrero
Galvan S. Deleon Guerrero

Non Public School Rep.
Francine R. Babanta
Student Representative

Teacher Representative

Commissioner of Education
Rita A. Sablan, Ed.D.
coe.ras@pss.cnmi.mp

June 29, 2010

J SCOTT MAGLIARI & COMPANY
PMB 297 BOX 10000
Saipan, MP 96950

Dear Mr. Magliari:

We are transmitting herewith our responses to the audit findings and recommendations per your audit report for FY 2009.

We hope that the attached plan of corrective action responses is sufficient to address the audit findings and recommendations.

Sincerely,

Richard Waldo
Director of Finance

cc: BOE
COE
ADCA
file

Plan of Corrective Action:

Finding No. 09-01

PSS Management will ensure travelers adhere to the travel policies in place. In addition, travel policies will be reviewed and revised by management to ensure they meet the needs of the organization.

Finding No. 09-02

As part of the Travel Authorization process, PSS will ensure that all required documents are provided before being presented to the Chairperson of the Board and to the Commissioner of Education as appropriate.

Finding No. 09-03

PSS Management will send out a memo reminding all PSS employees to submit travel vouchers within the specified time in accordance with the PSS travel policy. In addition, travelers will be reminded that travel advances should be returned for any cancelled trips.

Finding No. 09-04

PSS Management will ensure all approved travel will include a trip report to summarize the results of an off-island travel. In addition, travel policies will be revised to allow for the use of preauthorized trip reports. Travel policies will be provided to the Board of Education for review and approval.

Finding No. 09-05

PSS Management will develop Credit Card Policies and Procedures to ensure duplicate payments are not being made. In addition, policy and procedures will include the requirements to return all cash advances promptly.

Finding No. 09-06

1. The Board of Education determines the effective date for transactions involving its own employees. The October Board meeting is the effective date for the salary increases of its three employees: the Commissioner of Education, Legal Counsel, and the Board secretary.
2. To reiterate, the Board of Education facilities are for the use of PSS employees and parents of students. The Board also allows community partners such as NMC to use the facility for distance education.

Finding No. 09-07

1. Contract effective date is to be inserted onto contract only after contract is fully processed and all authorization signatures are obtained.
2. All school principals and program managers will be reminded via memo that employees are to work only after the contract is fully processed and all authorization signatures are obtained.

Finding No. 09-08

Human Resources adhered to policy of obtaining the required medical examination records for new employees. However, due to recent transfer of HRO files and documents to Lower Base for archival records storage, the medical examination records could not be located.

As a safeguard, Human Resources will scan all necessary documents using the newly acquired Laser fiche digital records management system.

Finding No. 09-09

PSS procurement policies and procedures do not require a cost analysis for sole source contracts. The specifics on the four contracts are as follows:

- Contract # 58991 - The \$9,000 honoraria for Dr. Elizabeth Reilly, a provider of training for our SPED program is below the \$10,000 price threshold for a contract.
- Contract # 58167 - \$60,000 for Edward S. Tenorio for one year of financial management services was 50% locally funded and 50% funded from unrestricted rate indirect costs and meets the PSS procurement requirements.. His contract amount, from a price analysis perspective, is 20% cheaper than the cost of the contract of our last Director of Finance;
- Contract # 61879 – The \$204,176 is the third phase of a three phase contract that aligns all schools on the same student data system. The PSS used price comparison in the selection of Rediker over Winschool, PowerSchool and Grade-Quick Pro back in 2006 when PSS decided rather than using four student data software systems to select one.
- Contract # 52262 – Guam CEDDERS is the University of Guam based technical assistance and regional training center for special education programs in Guam, CNMI and the FAS school districts. Further, government to government contracts are exempt from the PSS procurement regulations. This annual training was put out to bid for three (3) consecutive years, 2006-2008 with only one bidder responding which was Guam CEDDERS. When the CNMI Special Education program requested to bid it for the fourth year, they were advised to use sole source as there is only one qualified and interested provider in our region.

To ensure that these are not repeat findings, we will use competitive bidding procedures, for future student data software contracts, for any management contracts and for SPED trainings that exceed the \$10,000 threshold.

Finding No. 09-10

The Rediker reclassification only affects two federal and the one local account in an equal amount. The CEDDERS contract affects one local and one federal account in an equal amount. In both instances the end result is a wash as the federal accounts pay for personnel transferred from the local account and the local account pays for contracts transferred from the federal account.

Finding No. 09-11

The IEP process is current for 94% of our 952 Special Education students. The percentage has been reduced year by year by the PSS Federal Monitoring system.

Plan of Corrective Action:

Finding No. 09-12

- In house training for support staff, particularly new staff, on the procurement process.
- Attach all price quotations from vendors to Purchase Requisitions demonstrating receipt of price quotations and selection of lowest price or other justification as necessary.

Finding No. 09-12.1

PSS Headstart achieved a 9% rate on its goal of enrolling 10% disabled students. Due to a higher priority being placed on attracting disabled students, PSS Headstart will meet the 10% goal in school year 2010-2011.

SUPPLEMENTARY INFORMATION

STATISTICAL SECTION

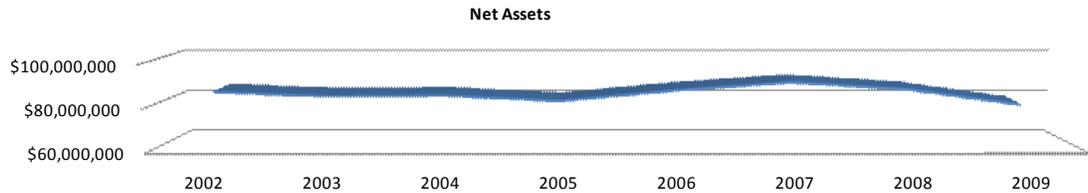
Year Ended September 30, 2009

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

Statistical Section
Last Eight School Years

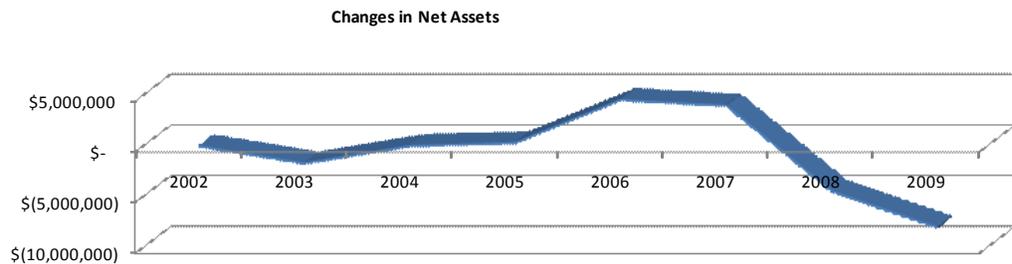
I. NET ASSETS

	2009	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets	\$ 85,403,930	\$ 86,483,662	\$ 84,097,616	\$ 82,813,078	\$ 79,066,700	\$ 80,139,357	\$ 79,687,750	\$ 74,998,775
Invested in improvement projects in progress	2,999,426	2,979,773	4,641,329	3,540,460	3,156,692	1,907,967	1,888,369	8,511,378
Unrestricted	(9,149,389)	(3,025,779)	906,235	(453,821)	(1,167,231)	1,455,306	1,596,239	1,606,555
	\$ 79,253,967	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717	\$ 81,056,161	\$ 83,502,630	\$ 83,172,358	\$ 85,116,708



II. CHANGES IN NET ASSETS

	2009	2008	2007	2006	2005	2004	2003	2002
Program revenues								
Grants and contributions	\$ 28,706,673	\$ 27,688,584	\$ 28,511,455	\$ 28,340,642	\$ 34,635,642	\$ 23,539,319	\$ 23,492,622	\$ 16,848,756
Charges for service	1,368,328	1,335,432	1,588,862	563,917	140,100	142,745	116,152	60,685
Total program revenues	30,075,001	29,024,016	30,100,317	28,904,559	34,775,742	23,682,064	23,608,774	16,909,441
Expenses	(72,999,334)	(70,260,117)	(67,898,067)	(65,523,166)	(73,338,189)	(61,261,826)	(63,372,920)	(54,920,411)
General revenues								
Unrestricted CNMI appropriations	34,601,764	35,847,444	36,721,414	37,209,928	37,404,908	37,209,928	37,794,725	36,830,342
Capital improvement, CNMI	43,740	674,892	4,817,339	3,623,424	1,234,174	-	-	-
Miscellaneous, unrestricted	-	-	4,460	100,091	-	140,316	25,071	943,255
Total general revenues	34,645,504	36,522,336	41,543,213	40,933,443	38,639,082	37,350,244	37,819,796	37,773,597
Changes in net assets	(8,278,829)	(4,713,765)	3,745,463	4,314,836	76,635	(229,518)	(1,944,350)	(237,373)
Current year restatement	1,095,140	1,506,241	-	528,720	(2,523,104)	559,790	-	-
Net assets - beginning	86,437,656	89,645,180	85,899,717	81,056,161	83,502,630	83,172,358	85,116,708	85,354,081
Net assets - ending	\$ 79,253,967	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717	\$ 81,056,161	\$ 83,502,630	\$ 83,172,358	\$ 85,116,708



¹ Beginning in fiscal year ending September 30, 2002, PSS implemented the reporting requirements of GASB Statement No. 35. Since the prior years financial information has not been restated only the past eight fiscal years information are presented.

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

Statistical Section
Last Eight School Years

III. REVENUES BY SOURCE

<i>in thousands</i>	2009		2008		2007		2006	
Unrestricted CNMI appropriations	\$ 34,602	53.5%	\$ 35,847	54.7%	\$ 36,721	51.3%	\$ 37,210	53.3%
Grants and contributions	28,707	44.4%	27,689	42.2%	28,512	39.8%	28,341	40.6%
Capital improvement, CNMI	44	0.0%	675	1.1%	4,817	6.7%	3,623	5.2%
Charges for service	1,368	2.1%	1,335	2.0%	1,589	2.2%	564	0.8%
Miscellaneous, unrestricted	-	0.0%	-	0.0%	4	0.0%	100	0.1%
	\$ 64,721	100.0%	\$ 65,546	100.0%	\$ 71,643	100.0%	\$ 69,838	100.0%

<i>in thousands</i>	2005		2004		2003		2002	
Unrestricted CNMI appropriations	\$ 37,405	51.0%	\$ 37,210	61.0%	\$ 37,795	61.5%	\$ 36,830	67.4%
Grants and contributions	34,636	47.2%	23,539	38.6%	23,493	38.2%	16,849	30.8%
Capital improvement, CNMI	1,234	1.7%	-	0.0%	-	0.0%	-	0.0%
Charges for service	140	0.1%	143	0.2%	116	0.2%	61	0.1%
Miscellaneous, unrestricted	-	0.0%	140	0.2%	25	0.1%	943	1.7%
	\$ 73,415	100.0%	\$ 61,032	100.0%	\$ 61,429	100.0%	\$ 54,683	100.0%

IV. EXPENSES BY FUNCTION

<i>in thousands</i>	2009		2008		2007		2006	
Instruction:								
Regular	\$ 24,807	33.9%	\$ 25,124	35.7%	\$ 27,265	40.3%	\$ 28,147	43.1%
Special education	8,374	11.5%	7,623	10.8%	7,736	11.4%	9,100	13.9%
Co-curricular	2,086	2.9%	2,256	3.2%	1,689	2.5%	1,319	2.0%
Student services	15,830	21.7%	14,202	20.2%	15,353	22.7%	16,183	24.8%
Support services:								
General administration	1,558	2.1%	1,895	2.7%	2,825	4.2%	2,278	3.5%
School administration	3,383	4.6%	4,216	6.0%	6,063	8.9%	3,948	6.0%
Other support	3,374	4.6%	4,198	6.0%	2,592	3.8%	95	0.1%
Community	1,072	1.5%	1,513	2.2%	2,448	3.6%	2,151	3.3%
Individual programs	2,552	3.5%	1,963	2.8%	766	1.1%	1,380	2.0%
Unfunded retirement	8,115	11.1%	6,014	8.6%	-	0.0%	-	0.0%
Depreciation - unallocated	1,850	2.6%	1,256	1.8%	1,161	1.5%	922	1.3%
	\$ 73,001	100.0%	\$ 70,260	100.0%	\$ 67,898	100.0%	\$ 65,523	100.0%

<i>in thousands</i>	2005		2004		2003		2002	
Instruction:								
Regular	\$ 28,694	39.2%	\$ 27,948	45.7%	\$ 28,492	45.0%	\$ 27,089	49.4%
Special education	10,203	13.9%	9,498	15.5%	8,623	13.6%	7,088	12.9%
Co-curricular	1,482	2.0%	1,071	1.7%	98	0.2%	725	1.3%
Student services	20,513	28.0%	10,414	17.1%	13,509	21.2%	8,529	15.5%
Support services:								
General administration	3,035	4.1%	2,786	4.5%	1,656	2.6%	2,105	3.8%
School administration	4,789	6.5%	4,676	7.6%	4,606	7.3%	3,980	7.2%
Other support	179	0.2%	184	0.3%	1,043	1.6%	1,520	2.8%
Community	2,633	3.6%	2,477	4.0%	2,630	4.2%	1,843	3.4%
Individual programs	780	1.1%	869	1.4%	686	1.1%	900	1.6%
Unfunded retirement	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Depreciation - unallocated	1,030	1.4%	1,339	2.2%	2,030	3.2%	1,142	2.1%
	\$ 73,338	100.0%	\$ 61,262	100.0%	\$ 63,373	100.0%	\$ 54,921	100.0%