Reports on Compliance and Internal Control

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

Year ended September 30, 2023
with Report of Independent Auditors

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

Reports on Compliance and Internal Control

Year ended September 30, 2023

Contents

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS) as of and for the year ended September 30, 2023, and the related notes to the financial statements, (collectively referred to as the " basic financial statements"), and have issued our report thereon dated June 25, 2026.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 items 2023-004 and 2023-012.

PSS' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on PSS' response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. PSS' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Ernst + Young

June 25, 2026

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report of Independent Auditors on Compliance for Each Major Federal Program

Adverse and Qualified Opinions

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS') compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Assistance Listing Number (ALN) 10.555 National School Lunch Program (NSLP), ALN 84.027 Special Education Cluster - Grants to States (IDEA, Part B), ALN 84.403 Consolidated Grants to the Outlying Areas, ALN 84.425 COVID-19 Education Stabilization Fund, and ALN 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance, for the year ended September 30, 2023. PSS' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Summary of Opinions

ALN	Name of Federal Program or Cluster	Type of Opinion
10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)	Qualified
84.027	Special Education Cluster - Grants to States (IDEA, Part B)	Adverse
84.403	Consolidated Grants to the Outlying Areas	Qualified
84.425A/ 84.425X	Covid-19 Education Stabilization Fund	Qualified
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Qualified

Adverse Opinion on ALN 84.027 Special Education Cluster - Grants to States (IDEA, Part B)

In our opinion, because of the significance of the matters discussed in the Basis for Adverse and Qualified Opinions section of our report, PSS did not comply in all material respects, with the compliance requirements referred above that could have a direct and material effect on ALN 84.027 Special Education Cluster - Grants to States (IDEA, Part B) for the year ended September 30, 2023.

Qualified Opinion on Four Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Adverse and Qualified Opinions section of our report, PSS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the following major federal programs for the year ended September 30, 2023:

ALN	Name of Federal Program or Cluster
10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)
84.403	Consolidated Grants to the Outlying Areas
84.425A/84.425X	Covid-19 Education Stabilization Fund
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance

Basis for Adverse and Qualified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PSS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and qualified opinions on compliance for each major federal program. Our audit does not provide a legal determination of PSS' compliance with the compliance requirements referred to above.

Matters Giving Rise to Adverse Opinion on ALN 84.027 Special Education Cluster - Grants to States (IDEA, Part B)

As described in Findings 2023-007 through 2023-009 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with the requirements regarding the following:

Finding #	**ALN**	**Program or Cluster Name**	**Compliance Requirement**
2023-007	84.027	Special Education Cluster - Grants to States (IDEA, Part B)	Equipment and Real Property Management
2023-008	84.027	Special Education Cluster- Grants to States (IDEA, Part B)	Matching, Level of Effort, Earmarking
2023-009	84.027	Special Education Cluster- Grants to States (IDEA, Part B)	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for PSS to comply with the requirements applicable to those programs.

Matters Giving Rise to Qualified Opinion on Four Major Federal Programs

As described in Findings 2023-004, 2023-005, 2023-011, 2023-012, 2023-2014 through 2023-017, 2023-019 and 2023-020 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with the requirements regarding the following:

Finding #	ALN	Program or Cluster Name	Compliance Requirement
2023-004	10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)	Procurement and Suspension and Debarment
2023-005	10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)	Reporting
2023-011	84.403	Consolidated Grants to the Outlying Areas	Equipment and Real Property Management
2023-012	84.403	Consolidated Grants to the Outlying Areas	Procurement and Suspension and Debarment
2023-014	84.425A/ 84.425X	Education Stabilization Fund	Equipment and Real Property Management
2023-015	84.425A/ 84.425X	Education Stabilization Fund	Matching, Level of Effort, Earmarking
2023-016	84.425A/ 84.425X	Education Stabilization Fund	Special Tests and Provisions - Wage Rate Requirement
2023-017	84.425A/ 84.425X	Education Stabilization Fund	Special Tests and Provisions - Private School Participation
2023-019	93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Procurement and Suspension and Debarment
2023-020	93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Special Tests and Provisions - Key Level Management

Compliance with such requirements is necessary, in our opinion, for PSS to comply with the requirements applicable to those programs.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PSS' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PSS' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PSS' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PSS' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of PSS' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs. Our opinion on the major federal program is not modified with respect to this matter.

Finding #	**ALN**	**Program or Cluster Name**	**Compliance Requirement**
2023-003	10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)	Allowable Costs/Costs Principles
2023-006	84.027	Special Education Cluster - Grants to States (IDEA, Part B)	Activities Allowed or Unallowed and Allowable Costs/Costs Principles
2023-010	84.403	Consolidated Grants to the Outlying Areas	Allowable Costs/Costs Principles
2023-013	84.425A/ 84.425X	Special Education Cluster - Grants to States (IDEA, Part B)	Allowable Costs/Costs Principles
2023-018	93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Allowable Costs/Costs Principles

Government Auditing Standards requires the auditor to perform limited procedures on PSS' response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. PSS' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-004, 2023-005, 2023-007 through 2023-009, 2023-011, 2023-012, 2023-014 through 2023-017, 2023-019 and 2023-020 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-003, 2023-006, 2023-010, 2023-013 and 2023-018 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on PSS' response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. PSS' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of PSS as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We have issued our report thereon dated June 25, 2026, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young

June 25, 2026

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number		Total Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Program	10.555	$	17,995,769
Total Child Nutrition Cluster			17,995,769
Food Distribution Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		306,484
Total Food Distribution Cluster			306,484
Child Nutrition Discretionary Grants Limited Availability	10.579		73,477
Community Facilities Loans and Grants Cluster:			
Community Facilities Loans and Grants	10.766		1,092,598
Total Community Facilities Loans and Grants Cluster			1,092,598
Total U.S. Department of Agriculture			19,468,329
U.S. Department of Defense			
Army JROTC EFT District	12.U01		298,397
U.S. Department of Interior			
Economic, Social, and Political Development of the Territories	15.875		9
U.S. Department of Education			
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		4,396,298
COVID-19 Special Education - Grants to States (IDEA, Part B)	84.027X		477,042
Total Special Education Cluster (IDEA)			4,873,340
Special Education - Grants for Infants and Families	84.181		628,205
School Safely National Activities	84.184		80,580
Innovative Approaches to Literacy; Promise Neighborhoods; Full-Service Community Schools; and Congressionally Directed Spending for Elementary and Secondary Education Community Projects	84.215K		426,512
Comprehensive Literacy Development	84.371		96,484
Statewide Longitudinal Data Systems	84.372		1,301,047
Consolidated Grants to the Outlying Areas	84.403		16,532,777
COVID-19 Education Stabilization Fund:			
COVID-19 Education Stabilization Fund–State Educational Agency (Outlying Areas) (ESF-SEA)	84.425A		6,369,605
American Rescue Plan–State Education Agency (Outlying Areas) (ARP-OA-SEA)	84.425X		53,692,293
Total COVID-19 Education Stabilization Fund			60,061,898
Elementary and Secondary Education Hurricane Relief – Immediate Aid to Restart School Operations	84.938A		-
Sutdent Support and Academic Enrichment Program – Stronger Connections Grant	84.424F		11,351
Total U.S. Department of Education			84,012,195

See accompanying notes to 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, continued

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Total Federal Expenditures
U.S. Department of Health and Human Services		
Sexual Risk Avoidance Education	93.060	318,776
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	290,881
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1,647,754
Head Start Cluster:		
Head Start Disaster Recovery From Hurricanes Harvey, Irma, and Mar	93.356	2,021,645
Head Start	93.600	4,010,470
COVID-19 Head Start	93.600	116,353
Total Head Start Cluster		6,148,468
Promote the Survival and Continuing Vitality of Native American Languages	93.587	17,924
Native American Programs	93.612	117,573
Mental Health Disaster Assistance and Emergency Mental Health	93.982	18,258
Total U.S. Department of Health and Human Services		8,559,634
Corporation for National and Community Service		
AmeriCorps State and National	94.006	307,229
TOTAL EXPENDITURES OF FEDERAL AWARDS		**$ 112,645,793**

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

1. Scope of Audit

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 Single Audit. The U.S. Department of the Interior's Office of the Inspector General has been designated as PSS' cognizant agency for the Single Audit.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards (the Schedule) is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

Indirect Cost Allocation

PSS did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. PSS negotiated an indirect cost plan with the U.S. Department of Education for fiscal year 2023. The provisional restricted indirect cost rate is 3.80%.

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

Loan

As of September 30, 2023 PSS has $981,711 outstanding loan balance with continuing compliance requirements due to the United States Department of Agriculture Rural Development Bank. The program name is the Community Facilities Loans and Grants under ALN 10.766. The beginning balance of the loan is $1,092,598 as presented on 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 Findings and Questioned Costs

Year ended September 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified?	X	**Yes**	_____	**No**
Significant deficiency(ies) identified?	X	**Yes**	_____	**None reported**
Noncompliance material to financial statements noted?	X	**Yes**	_____	**No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	X	**Yes**	_____	**No**
Significant deficiency(ies) identified?	X	**Yes**	_____	**None reported**

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

ALN 10.555 Child Nutrition Cluster - National School Lunch Program (NSLP)	Qualified
ALN 84.027 Special Education Cluster - Grants to States (IDEA, Part B)	Adverse
ALN 84.403 Consolidated Grants to the Outlying Areas	Qualified
ALN 84.425 Covid-19 Education Stabilization Fund	Qualified
ALN 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	**Yes**	_____	**No**

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results

Identification of major federal programs:

Assistance Listings Number	Name of Federal Program or Cluster
10.555	Child Nutrition Cluster - National School Lunch Program (NSLP)
84.027	Special Education Cluster - Grants to States (IDEA, Part B)
84.403	Consolidated Grants to the Outlying Areas
	Education Stabilization Fund (ESF):
84.425A	COVID-19 Education Stabilization Fund–State Educational Agency (Outlying Areas) (ESF-SEA)
84.425X	American Rescue Plan–State Education Agency (Outlying Areas) (ARP-OA-SEA)
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? _____ **Yes** __X__ **No**

Section II - Financial Statement Findings

Reference Number	**Finding**
2023-001	General Ledger and Financial Statement Close Process
2023-002	Schedule of Expenditures of Federal Awards

Section III – Federal Awards Findings and Questioned Costs

Reference Number	**ALN**	**Finding**	**Questioned Costs**
2023-003	10.555	Allowable Costs/Cost Principles	$ -0-
2023-004	10.555	Procurement and Suspension and Debarment	725,425
2023-005	10.555	Reporting	-0-
2023-006	84.027	Activities Allowed/Unallowed, Allowable Costs/Cost Principles	5,130
2023-007	84.027	Equipment and Real Property Management	---***

Section III – Federal Awards Findings and Questioned Costs

Reference Number	ALN	Finding	Questioned Costs
2023-008	84.027	Matching, Level of Effort, and Earmarking	345,823
2023-009	84.027	Procurement and Suspension and Debarment	102,862
2023-010	84.403	Allowable Costs/Cost Principles	-0-
2023-011	84.403	Equipment and Real Property Management	---***
2023-012	84.403	Procurement and Suspension and Debarment	1,019,874
2023-013	84.425A/ 84.425X	Allowable Costs/Cost Principles	-0-
2023-014	84.425A/ 84.425X	Equipment and Real Property Management	---***
2023-015	84.425A/ 84.425X	Matching, Level of Effort and Earmarking	---***
2023-016	84.425A/ 84.425X	Special Tests and Provisions - Wage Rate Requirement	---***
2023-017	84.425A/ 84.425X	Special Tests and Provisions - Private School Participation	---***
2023-018	93.243	Allowable Costs/Cost Principles	-0-
2023-019	93.243	Procurement and Suspension and Debarment	307,881
2023-020	93.243	Special Tests and Provisions - Key Level Management	---***
		Total	$2,506,995

*** Questioned costs are undeterminable. See related findings for more information.

Finding No. 2023-001

Area: General Ledger and Financial Statement Close Process

Criteria:

Accounting principles generally accepted in the United States of America (U.S. GAAP) requires that appropriate cut off procedures be performed to ensure that transactions and events are recorded in the proper accounting period. In addition, U.S. GAAP requires all assets and liabilities existing as of fiscal yearend be accurately recorded and reported in the statement of net position.

Condition:

Capital assets, liabilities, revenues and expenses are materially understated. As a result, significant audit adjustments were proposed to correct these misstatements.

Cause:

PSS did not consistently perform or effectively implement a combination of the following: (1) timely and accurate reconciliations, (2) proper cut-off procedures, (3) effective communications among departments, and (4) sufficient supervision and review over significant classes of transactions.

Effect or potential effect:

Material errors in the financial statement close process may not be identified or corrected on a timely manner, increasing the risk that materially misstated financial statements are prepared and issued.

Identification as a Repeat Finding: Finding No. 2022-001

Recommendation:

PSS management should strengthen internal controls over financial reporting process to ensure all transactions are accurately recorded in the proper accounting period. This should include improved reconciliations, enhanced interdepartmental communication, and increased supervisory review during the financial statement close process.

Finding No. 2023-001, continued

Area: General Ledger and Financial Statement Close Process

Views of Auditee and Corrective Action Plan:

PSS concurs with the audit finding and recommendation. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-002

Area: Schedule of Expenditures of Federal Awards

Criteria:

In accordance with 2 CFR 200.510, the auditee must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR §200.510. At a minimum, the schedule must:

1. List individual Federal programs by Federal agency using the applicable Assistance Listing number(s).

2. Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is unavailable.

In addition, in accordance with 2 CFR 200.502(b)(2), the value of Federal awards expended under loan programs must include the balance of loans from previous years at the beginning of the audit period for which Federal Government imposes continuing compliance requirements.

Lastly, non-Federal entities are required to separately identify COVID-19 expenditures on the SEFA and SF-SAC (Data Collection Form) that is submitted to the Federal Audit Clearinghouse.

Condition:

1. PSS did not provide a reconciliation of the variance between the SEFA and the financial statements for the year ended September 30, 2023.

Total FY2023 Federal Expenditures per SEFA	Total FY2023 Federal Expenditures per Financial Statements	Unreconciled Difference
$112,645,793	$109,508,462	$3,137,331

2. PSS incorrectly reported the ending loan balance with the United States Department of Agriculture Rural Development Bank under ALN 10.766, amounting to $981,711. However, because the loan is subject to continuing compliance requirements, the correct amount to be presented in the SEFA is the beginning balance of $1,092,598. This resulted in an understatement of $110,887 in the SEFA.

Finding No. 2023-002, continued

Area: Schedule of Expenditures of Federal Awards

Condition, continued:

3. Test of accuracy of the SEFA schedule noted the following:

    a. Inconsistencies in presentation such as grantor agencies and program titles;
    b. Incorrect Assistance Listing Numbers (ALN);
    c. Incorrect segregation of COVID-19 and non COVID-19 expenditures for ALN 93.600; and
    d. Not including the earmark grants expenditures for ALN 84.215K, as part of the FY2023 total expenditures under the U.S. Department of Education.

Cause:

1. PSS was not able to substantiate completeness and accuracy of the federal expenditures reported on the SEFA schedule due to lack of documentation over the reconciliation between the SEFA schedule and the financial statements; and

2. PSS did not effectively perform controls over the preparation of the SEFA, which resulted in a revised SEFA schedule resubmitted for the audit.

Effect or potential effect:

PSS is in noncompliance with federal SEFA requirements and there are potential misstatements of federal expenditures which may affect major program determinations.

Identification as a Repeat Finding: Finding No. 2022-002

Recommendation:

1. PSS should improve controls to ensure the SEFA schedule is prepared accurately and completely. In addition, personnel responsible for the preparation of the SEFA schedule should further undergo training and utilize the applicable Compliance Supplement and information from SAM.gov for guidance.

2. PSS should improve controls over the reconciliation between the SEFA schedule and the financial statements for completeness and accuracy.

Finding No. 2023-002, continued

Area: Schedule of Expenditures of Federal Awards

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-003

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174 and 237NMNM3N1174
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition:

Based on walkthrough procedures performed over the disbursement process of program funds, PSS lacks documented evidence of review and approval controls over check and ACH payments to ensure that payment amounts agree with approved invoice amounts. Specifically, the process did not include documented review or approval demonstrating that checks and ACH disbursements were verified against supporting invoices prior to payment. As a result, controls designed to ensure the accuracy and validity of disbursements are not adequately documented or evidenced.

Cause:

PSS lacks adequate documentation evidencing its monitoring and review procedures over disbursements of program funds, including review and approval controls to ensure that checks and ACH payments agree with approved invoice amounts.

Effect or potential effect:

PSS is in noncompliance with 2 CFR Section 200.303 related to internal control requirements. No questioned costs are identified as testing did not disclose noncompliance with allowable costs/cost principles compliance requirements.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No. 2023-003, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174 and 237NMNM3N1174
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Recommendation:

PSS should implement and enforce adequate documentations over its monitoring control procedures in place over disbursements of program funds.

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-004

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$725,425

Criteria:

In accordance with 2 CFR Section 200.317, when conducting procurement transactions under a Federal award, a State must follow the same policies and procedures it uses for procurements with non-Federal funds. PSS Procurement Rules and Regulations requires the following:

1. § 60-40-205 Competitive Sealed Bidding:

   - Public Notice - Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice shall be on the Public School website over a continuous period of four weeks shall be deemed to be adequate notice; and

   - Bid Acceptance and Bid Evaluation - Bids shall be unconditionally accepted without alteration or correction, except as authorized in the chapter. Bids shall be evaluated based on the requirements set forth in the invitation for bids, which may include criteria as necessary to reasonably permit a determination as to the acceptability of the bid for the particular purpose intended.

2. § 60-40-225 Competitive Sealed Proposals:

   - Condition for Use - When the Commissioner of Education determines in writing upon the advise of the legal counsel that the use of a competitive sealed bidding is either not practical or not advantageous to the Public School System, a contract may be entered into by competitive sealed proposals;

   - Public Notice - Adequate public notice of the request for proposals shall be given in the same manner as provided for in competitive sealed bids; and

   - Award - Award shall be made to the responsible offeror whose proposal is determined in writing to be most advantageous to the Public School System taking into consideration price and the evaluation factors set forth in the request for proposals. The award cannot be made less than five business days after the issuance of a notice of intent to award pursuant to subsection (g). No other factors or criteria shall be used in the evaluation and the contract file shall contain the basis on which the award is made.

Finding No. 2023-004, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$725,425

Criteria, continued:

3. § 60-40-560 Authority to Debar or Suspend

   - After reasonable notice to the person involved and reasonable opportunity for the person to be heard under the Administrative Procedure Act [1 CMC §§ 9101, et seq.], the Commissioner of Education after consultation with the Public School System legal counsel, shall have authority to debar a person for cause from consideration for award of contracts; and

   - The debarment shall not be for a period of more than three years. The Commissioner of Education, after consultation with Public School System legal counsel, shall have authority to suspend a person from consideration for award of contracts if there is probable cause for debarment. The suspension shall not be for a period exceeding three months.

4. In accordance with 2 CFR §180.220 and §180.300, entities that enter into a covered transaction with another person at the next lower tier for a contract amount that is expected to equal or exceed $25,000, entities must verify that the person with whom they intend to do business is not excluded or disqualified by:

   (a) Checking SAM.gov Exclusions; or
   (b) Collecting a certification from that person; or
   (c) Adding a clause or condition to the covered transaction with that person.

Condition:

1. Of twenty-one expenditures tested, aggregating $711,947 of a total population of $17,350,718 in nonpayroll expenditures subject to procurement, the following were noted:

   a. For one (or 5%), the selected vendor for contract number 00182076-OC was the third lowest bidder, for which documentation of the selection justification, was not provided.

Finding No. 2023-004, continued

Federal Agency: U.S. Department of Agriculture
AL Program: 10.555 National School Lunch Program (NSLP)
Federal Award No.: 217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area: Procurement and Suspension and Debarment
Questioned Costs: $725,425

Condition:

Contract Number	Contract Date	Contract Amount	FY2023 Expenditures and Questioned Costs
00182076-OC	12/19/22	$153,028	$153,028

b. For one (or 5%), for contract number 00182076-OC only two public announcements of the invitation for bids were provided. No questioned costs are presented as the amount is questioned at Condition 1a.

Contract Number	Contract Date	Contract Amount	FY2023 Expenditures and Questioned Costs
00182076-OC	12/19/22	$153,028	$153,028

2. PSS does not verify whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300, prior to entering into a covered transaction for an amount equal to or exceeds $25,000 with award funds.

Contract Number	Contract Date	FY2023 Expenditures and Questioned Costs
00184494-OC	03/10/23	$239,622
00182076-OC	12/19/22	153,028
00188864-OC	07/03/23	296,190
00189154-OC	07/17/23	36,585
		725,425
Less amounts questioned at Condition 1a for contract number 00182076-OC		(153,028)
		$572,397

Finding No. 2023-004, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$725,425

Cause:

1. Inadequate documentation and inadequate systematic filing of relevant documentation supporting program costs; and

2. Lack of monitoring control procedures to ensure verification as to whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300 are performed, prior to entering into a covered transaction.

Effect or potential effect:

PSS is in noncompliance with applicable procurement and suspension and debarment regulations and questioned costs of $725,425 result for Conditions 1a and 2.

Condition	Questioned Costs
1a	$153,028
2	572,397
	$725,425

Identification as Repeat Finding: Finding No. 2022-012

Recommendation:

1. Establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval; and

2. Establish and implement effective monitoring controls over the verification of excluded or disqualified persons or vendors pursuant to 2 CFR §180.220 and §180.300, prior to PSS entering into a covered transaction.

Finding No. 2023-004, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$725,425

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-005

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Reporting
Questioned Costs:	$-0-

Criteria:

In accordance with 7 CFR Section 210.8, to be entitled to reimbursement under this part, each school food authority shall submit to the State agency, a Claim for Reimbursement that must include data in sufficient detail to justify the reimbursement claimed and to enable the State agency to provide the Report of School Program Operations required under § 210.5(d). Such data must include, at a minimum, the number of free, reduced price, and paid lunches and after school snacks served to eligible children. The claim must be signed by a school food authority official. In addition, School food authorities shall maintain on file, each Claim for Reimbursement and all data used in the claims review process, by school. Records shall be retained as specified in § 210.23(c) of this part. School food authorities shall make this information available to the Department and the State agency upon request.

In accordance with the applicable reporting requirements, an SF-425 report is required to be accompanied by supporting accounting records to verify the accuracy of the reported amounts.

Condition:

1. Of five SF-425 reports that were due for submission during FY2023, the underlying accounting records supporting all five (or 100%) SF-425 reports, were not provided.

Quarter Ended 09/30/22
Quarter Ended 12/31/22
Quarter Ended 03/31/23
Quarter Ended 06/30/23
Final report for the period 10/01/20 to 09/30/21 and 10/01/21 to 09/30/22

Finding No. 2023-005, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Reporting
Questioned Costs:	$-0-

Condition:

2. Of four quarterly program reports that were due for submission during FY2023, the underlying accounting records supporting all four (or 100%) quarterly program reports, were not provided.

Quarter Ended
09/30/22
12/31/22
03/31/23
06/30/23

Cause:

1. PSS lacks monitoring control procedures to ensure data included in the SF-425 and quarterly program reports are supported with underlying accounting records.

2. Inadequate documentation and inadequate systematic filing of relevant documentation supporting the SF-425 and quarterly program reports.

Effect or potential effect:

PSS is in noncompliance with the applicable reporting compliance requirements.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

1. PSS should implement and enforce monitoring controls over compliance with applicable reporting requirements; and

2. Establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval.

Finding No. 2023-005, continued

Federal Agency:	U.S. Department of Agriculture
AL Program:	10.555 National School Lunch Program (NSLP)
Federal Award No.:	217NMNM3N1174, 227NMNM3N1174, 237NMNM3N1174
Area:	Reporting
Questioned Costs:	$-0-

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-006

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A200106, H027A210106, H027X210106, H027A22106, H027A230106
Area:	Activities Allowed/Unallowed, Allowable Costs/Cost Principles
Questioned Costs:	$5,130

Criteria:

1. Per CFR §200.403(a), costs must be necessary and reasonable for the performance of the Federal award.

2. In accordance with 2 CFR §200.403, costs must be adequately documented in order to be allowable under federal programs.

Condition:

1. Of ten nonpayroll expenditures tested, aggregating $184,105 of a total population of $1,241,478, one (or 10%), transaction pertains to an off-island travel from Rota to Saipan to attend PSS' education day celebration event. There was no documentation provided to justify that such an event is necessary and reasonable for the performance of the federal award, for which the corresponding directly associated travel costs are also questioned.

General Ledger Date	Business Unit	Document Number	Invoice Number	Per Diem	Car Rental	Airplane Ticket	Questioned Costs
11/15/22	2283SE2SPE	339127	ROP-CH-968	$500	$180	$1,800	$2,480

2. Of thirty payroll expenditures tested, aggregating $75,035 of a total population of $3,488,866, the following were noted:

   a. For one (or 3%), the differential pay rate for the nine hours paid to an employee was not provided, for which the corresponding directly associated payroll costs are also questioned.

Pay Period Ended	Employee Number	Gross Pay Per Payroll Register	Gross Pay Excluding the 9 Differential Hours	Variance	Fringe Benefits	Questioned Costs
01/28/23	19372	$974	$958	$16	$1	$17

Finding No. 2023-006, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A200106, H027A210106, H027X210106, H027A22106, H027A230106
Area:	Activities Allowed/Unallowed, Allowable Costs/Cost Principles
Questioned Costs:	$5,130

Condition, continued:

b. For one (or 3%), the gross pay comprised of the employee's payroll cost and annual leave pay out; however, the approved timesheet for the hours worked was not provided, for which the corresponding directly associated costs are also questioned.

Pay Period Ended	Employee Number	Gross Pay Per Payroll Register	Less Annual Leave Pay Out	Unsupported Payroll Costs	Fringe Benefits	Questioned Costs
08/12/23	2557	$6,870	$4,424	$2,446	$187	$2,633

Cause:

1. PSS lacks monitoring control procedures to ensure program costs are supported; and

2. Inadequate documentation and inadequate systematic filing of relevant documentation supporting program costs.

Effect or potential effect:

PSS is in noncompliance with the applicable allowable costs/cost principles compliance requirements and questioned costs of $5,130 result as the projected questioned costs exceed the $25,000 threshold.

Condition	Questioned Costs
1	$2,480
2a	17
2b	2,633
	$5,130

Finding No. 2023-006, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A200106, H027A210106, H027X210106, H027A22106, H027A230106
Area:	Activities Allowed/Unallowed, Allowable Costs/Cost Principles
Questioned Costs:	$5,130

Identification as Repeat Finding: Finding No. 2022-003

Recommendation:

1. PSS should implement and enforce monitoring controls over compliance with applicable allowable costs/cost principles; and

2. Establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval.

Views of Auditee and Corrective Action Plan:

PSS concurs with the audit findings and the associated questioned costs. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-007

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A210106, H027A220106, H027A230106
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR 200.313(b), a state must use, manage, and dispose of equipment acquired under a federal award in accordance with state laws and regulations.

In accordance with 2 CFR 200.313(d)(1), property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property.

Further, in accordance with 2 CFR 200.313 (3), a control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property.

Additionally, 2 CFR 200.313(d)(4) requires that adequate maintenance procedures must be developed to keep the property in good condition.

PSS Policy Subpart C Inventory Management Policy section 60-20-815 (a)(1) states that PSS shall require a physical count of all stock supply and equipment items at least once each year.

Lastly, according to PSS Policy Subpart C Inventory Management Policy section 60-20-815 (c)(5), during inventory counts, all custodians must be matched with the appropriate records of assigned fixed assets maintained at the Central Office.

Condition:

1. The capital assets listing maintained by PSS is incomplete and does not include all information for equipment and real property required under 2 CFR 200.313(d)(1), such as the federal participation percentage and the condition of the asset.

Finding No. 2023-007, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A210106, H027A220106, H027A230106
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Condition, continued:

2. PSS lacks standardized and consistently implemented internal controls over safeguarding and maintenance of equipment across schools and offices. For four (or 80%) of the five locations selected for testing, no maintenance procedures and safeguarding measures for equipment are documented.

   Federal Asset Location

   Special Education
   Koblerville Elementary School
   Facility and Development Management
   Sinanpolo Elementary School

3. For one (or 13%) of eight capital assets selected for testing, PSS did not provide approved count sheets signed nor submitted the assigned custodian to support that a physical count was performed in FY2023.

Federal Asset No.	Description	Net Book Value
PS-038575-US	2017 TACOMA TRUCK/ACCS CAB 4X2 W/ALUM TO	---

Cause:

1. PSS policies and procedures over capital assets management have not been fully updated to align with federal requirements under 2 CFR § 200.313 (d) (1), resulting in incomplete capital asset records.

2. PSS does not have a centralized and standardized system for safeguarding and maintaining equipment across all schools and offices for each type of equipment.

3. PSS' document retention and record-keeping practices did not operate effectively to ensure that required inventory documentation, such as approved custodian count sheets, is properly maintained, stored and easily retrievable.

Finding No. 2023-007, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A210106, H027A220106, H027A230106
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Effect or potential effect:

PSS is in noncompliance with applicable Equipment and Real Property Management requirements. Incomplete asset records, inconsistent safeguarding and maintenance practices, and insufficient inventory documentation increase the risk of loss, misuse, theft, or deterioration of federally funded property. Questioned costs are undetermined as we are unable to quantify the extent of noncompliance.

Identification as Repeat Finding: Finding No. 2022-008

Recommendation:

1. PSS should update the structure and contents of their current capital asset listing to ensure all information required by 2 CFR 200.313(d)(1) is fully captured, maintained, and kept current for all equipment and real property acquired with federal funds.

2. PSS should revise and strengthen policies and procedures related to capital asset management to ensure alignment with federal requirements, including recordkeeping, inventory, safeguarding, and maintenance.

3. PSS should establish and implement centralized or standardized safeguarding and maintenance controls which should serve as minimum required procedures for all schools and offices regardless of equipment type.

4. Lastly, PSS should strengthen physical inventory procedures by requiring annual inventories to be properly documented, reviewed, approved, and retained, including ensuring all custodians submit signed inventory count sheets in accordance with its policy.

Finding No. 2023-007, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A210106, H027A220106, H027A230106
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-008

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A220106, H027A230106, H027X210106
Area:	Matching, Level of Effort, and Earmarking
Questioned Costs:	$345,823

Criteria:

In accordance with IDEA §612(a)(18) as part of the IDEA Part B Application, states may meet the maintenance of State financial support (MFS), on either a total or per capita basis. Additionally, 34 CFR §300.163(a) says a State must not reduce the amount of State financial support for special education and related services for children with disabilities or otherwise made available because of the excess costs of educating those children, below the amount of support for the preceding fiscal year.

Condition:

1. Based on the comparison of State expenditures recorded under Business Unit (BU) 111133 against the amount indicated on the Part B Application for MFS, we noted that PSS failed to maintain the required level of State financial support for special education and related services in FY2023. In addition, PSS included open encumbrances as part of its calculation for maintenance of effort. However, PSS was unable to substantiate these encumbrances or provide adequate documentation to support the inclusion of these encumbrances. As a result, questioned costs were determined based on the actual expenditures incurred in FY2023.

State Financial Support Indicated on Part B Application for FY2022	FY2023 Actual Expenditures Per BU 111133	Amount Underspent in FY2023 and Questioned Costs
$1,795,919	$1,450,096	$345,823

2. Per our walkthrough procedures over internal control, evidence of review and approval by the Director of Finance over the local expenditures recorded under business unit 111133 was not provided.

Finding No. 2023-008, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Federal Award No.:	H027A220106, H027A230106, H027X210106
Area:	Matching, Level of Effort, and Earmarking
Questioned Costs:	$345,823

Cause:

PSS failed to adhere to the maintenance of effort requirements under IDEA §612(a)(18), 34 CFR §300.163 and applicable grant award requirements. Additionally, PSS lacks proper monitoring, review and approval controls over State expenditures recorded under business unit 111133 to ensure compliance with maintenance of effort requirements.

Effect or potential effect:

PSS is in noncompliance with applicable maintenance of effort regulations and questioned costs of $345,823 result.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

1. PSS should ensure compliance with maintenance of effort requirements in accordance with applicable federal regulations and grant award terms.

2. PSS should establish and implement policies and procedures for monitoring, reviewing and reconciling State expenditures to accurately compare prior year and current year levels of State financial support for special education and related services.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-009

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Criteria:

In accordance with 2 CFR Section 200.317, when conducting procurement transactions under a Federal award, a State must follow the same policies and procedures it uses for procurements with non-Federal funds. PSS Procurement Rules and Regulations states the following:

1. § 60-40-210 Small Purchases

- Purchases not exceeding $500 may be made without securing bids or price quotations if the Chief of Procurement and Supply considers the price reasonable. Such determination shall be made in writing and shall indicate:

  1) the reason why price quotations were not sought;
  2) the utility of the purchase; and
  3) an explanation of why the price is reasonable under the circumstances.

- Bidding is not required but is encouraged for procurement under $10,000. Price quotations from at least three vendors must be obtained and the selection based on competitive price and quality for procurement valued at under $10,000. Any price quotations obtained must be written, documented, and submitted to the Chief for approval. However, if it is an emergency and three price quotations are not practicable, the purchase shall function as an emergency procurement and follow § 60-40-220.

2. § 60-40-230 Competitive Selection Procedures for Professional Services:

- Procurement Method – The services of accountants shall be procured as provided in this section except when authorized as a small purchase, emergency procurement, sole-source procurement or non-employment services contracts such as special education related services.

Finding No. 2023-009, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Criteria, continued:

- Policy – It is the policy to publicly announce all requirements for professional services and negotiate contracts on the basis of demonstrated competence and qualifications at a fair and reasonable price. The Chief Procurement Officer shall maintain files of current statements of qualifications of professional firms. Persons engaged in providing professional services may submit statements of qualifications and expressions of interests providing such types of services. Persons may amend these statements at any time by filing a new statement.

- Public Announcement and Form of Request for Proposals – Adequate notice of the need for such services shall be given by the official with expenditure authority through a request for proposals. The request for proposals shall describe the services required, list the type of information and data required of each offeror and state the relative importance of particular qualifications.

- Award – Award shall be made to the offeror determined in writing by the official with expenditure authority to be the best qualified based on the evaluation factors set forth in the request for proposals, and negotiation of compensation determined to be fair and reasonable. If compensation cannot be agreed upon with the best qualified offeror then negotiations will be formally terminated with the selected offeror. If proposals were submitted by one or more other offerors determined to be qualified, negotiations may be conducted with such other offeror or offerors, in the order of their respective qualification ranking, and the contract may be awarded to the offeror then ranked as best qualified if the amount of compensation is determined to be fair and reasonable.

Finding No. 2023-009, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Criteria, continued:

3. § 60-40-560 Authority to Debar or Suspend

    - After reasonable notice to the person involved and reasonable opportunity for the person to be heard under the Administrative Procedure Act [1 CMC §§ 9101, et seq.], the Commissioner of Education after consultation with the Public School System legal counsel, shall have authority to debar a person for cause from consideration for award of contracts; and

    - The debarment shall not be for a period of more than three years. The Commissioner of Education, after consultation with Public School System legal counsel, shall have authority to suspend a person from consideration for award of contracts if there is probable cause for debarment. The suspension shall not be for a period exceeding three months.

4. In accordance with 2 CFR §180.220 and §180.300, entities that enter into a covered transaction with another person at the next lower tier for a contract amount that is expected to equal or exceed $25,000, entities must verify that the person with whom they intend to do business is not excluded or disqualified by:

    a. Checking SAM.gov Exclusions; or
    b. Collecting a certification from that person; or
    c. Adding a clause or condition to the covered transaction with that person.

Condition:

Of twelve expenditures tested, aggregating $114,356 of a total population of $1,156,858 in nonpayroll expenditures subject to procurement, the following were noted:

1. For two (or 17%), transactions were procured under the $10,000 small purchases threshold; however, only one quotation was obtained.

Finding No. 2023-009, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Condition, continued:

Condition 1, continued

Purchase Order Date	Purchase Order Number	Purchase Order Amount	FY2023 Expenditures and Questioned Costs
04/10/23	00185867-OA	$3,032	$3,032
12/09/22	00181905-OF	$ 894	893
			$3,925

2. For two (or 17%), contracts were procured through a competitive sealed proposal for professional services; however, the evaluation for and proposal submitted by the offeror was not provided for contract 00180716-OC. For contract 00190611-OC, the request for proposals outlining scope of work and proposal submitted by the offeror was not provided.

Contract Date	Contract Number	Contract Amount	FY2023 Expenditures and Questioned Costs
10/19/22	00180716-OC	$96,000	$96,000
08/25/23	00190611-OC	$36,750	2,937
			$98,937

Finding No. 2023-009, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Condition, continued:

3. PSS does not verify whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300, prior to entering into a covered transaction for an amount equal to or exceeds $25,000 with award funds. No questioned costs are presented as the amount is questioned at Condition 2.

Contract Number	Contract Amount	FY2023 Expenditures
00180716-OC	$96,000	$96,000

Cause:

1. Inadequate documentation and inadequate systematic filing of relevant documentation supporting program costs.

2. Lack of monitoring control procedures to ensure verification as to whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300 are performed, prior to entering into a covered transaction.

Effect or potential effect:

PSS is in noncompliance with applicable procurement and suspension and debarment compliance requirements and questioned costs of $102,862 result for Conditions 1 and 2.

Condition	Questioned Costs
1	$ 3,925
2	98,937
	$102,862

Finding No. 2023-009, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Award Number:	H027A210106, H027A220106, H027A230106, H027X210106
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Identification as Repeat Finding: Finding No. 2022-013

Recommendation:

1. Establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval.

2. Establish and implement effective monitoring controls to ensure that all procurement regulations are complied with, including over the verification of excluded or disqualified persons or vendors pursuant to 2 CFR §180.220 and §180.300, prior to the PSS entering into a covered transaction.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-010

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A210001, S403A220001, S403A230001
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition:

Based on walkthrough procedures performed over the disbursement of program funds, PSS lacks documented evidence of review and approval controls over check and ACH payments to ensure that payment amounts agree with approved invoice amounts. Specifically, the process did not include documented review or approval demonstrating that checks and ACH disbursements were verified against supporting invoices prior to payment. As a result, controls designed to ensure accuracy and validity of disbursements are not adequately documented or evidenced.

Cause:

PSS lacks adequate documentation evidencing its monitoring and review procedures over disbursements of program funds, including review and approval controls to ensure that checks and ACH payments agree with approved invoice amounts.

Effect or potential effect:

PSS is in noncompliance with 2 CFR Section 200.303 related to internal control requirements. No questioned costs are identified as testing did not disclose noncompliance with allowable costs/cost principles compliance requirements.

Identification as Repeat Finding: Finding No. 2022-004

Finding No. 2023-010, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A210001, S403A220001, S403A230001
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Recommendation:

PSS should implement, document and consistently enforce appropriate review and approval controls over disbursements of program funds

Views of Auditee and Corrective Action Plan:
PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-011

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR 200.313(b), a state must use, manage, and dispose of equipment acquired under a federal award in accordance with state laws and regulations.

In accordance with 2 CFR 200.313(d)(1), property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property.

Further, in accordance with 2 CFR 200.313 (3), a control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property.

Additionally, 2 CFR 200.313(d)(4) requires that adequate maintenance procedures must be developed to keep the property in good condition.

The PSS Policy Subpart C Inventory Management Policy section 60-20-815 (a)(1) states that PSS shall require a physical count of all stock supply and equipment items at least once each year.

Lastly, according to PSS Policy Subpart C Inventory Management Policy section 60-20-815 (c)(5), during inventory counts, all custodians must be matched with the appropriate records of assigned fixed assets maintained at the Central Office.

Condition

1. The capital assets listing maintained by PSS is incomplete and does not include all information for equipment and real property required under 2 CFR 200.313(d)(1), such as the federal participation percentage and the condition of the asset.

Finding No. 2023-011, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Condition, continued:

2. PSS lacks standardized and consistently implemented internal controls over safeguarding and maintenance of equipment across schools and offices. For all seventeen (or 100%) locations selected for testing, no maintenance procedures and safeguarding measures for equipment are documented.

   Federal Asset Location

   State Infrastructure Tech
   Garapan Elementary School
   Hopwood Middle School
   Marianas High School
   Saipan Southern High School
   San Vicente Elementary School
   Kagman Elementary School
   Oleai Elementary School
   Kagman High School
   Koblerville Elementary School
   Federal Program Office
   Tanapag Middle School
   Tinian Elementary School
   Accountability/Research/Exam
   Mount Carmel School
   Saipan Community School
   William S Reyes Elem Sch

3. For one (or 10%) of ten capital assets selected for testing, PSS did not provide approved count sheets signed and submitted by the assigned custodian to support that a physical counts was performed in FY2023.

Federal Asset No.	Description	Net Book Value
PS-057391-US	CANON EOS C2008 CAMERA W/ACC-ESORY KIT	$5,337

Finding No. 2023-011, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Cause:

1. PSS policies and procedures over capital assets management have not been fully updated to align with federal requirements under 2 CFR § 200.313 (d) (1), resulting in incomplete capital asset records.

2. PSS does not have a centralized and standardized system for safeguarding and maintaining equipment across all schools and offices for each type of equipment.

3. PSS' document retention and record-keeping practices did not operate effectively to ensure that required inventory documentation, such as approved custodian count sheets, is properly maintained, stored and are easily retrievable.

Effect or potential effect:

PSS is in noncompliance with applicable Equipment and Real Property Management requirements. Incomplete asset records, inconsistent safeguarding and maintenance practices, and insufficient inventory documentation increase the risk of loss, misuse, theft, or deterioration of federally funded property. Questioned costs are undetermined as we are unable to quantify the extent of noncompliance.

Identification as Repeat Finding: Finding No. 2022-009

Recommendation:

1. PSS should update the structure and contents of their current capital asset listing to ensure all information required by 2 CFR 200.313(d)(1) is fully captured, maintained, and kept current for all equipment and real property acquired with federal funds.

2. PSS should revise and strengthen policies and procedures related to capital asset management to ensure alignment with federal requirements, including recordkeeping, inventory, safeguarding, and maintenance.

Finding No. 2023-011, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Recommendation, continued:

3. PSS should establish and implement centralized or standardized safeguarding and maintenance controls which should serve as minimum required procedures for all schools and offices regardless of equipment type.

4. Lastly, PSS should strengthen physical inventory procedures by requiring annual inventories to be properly documented, reviewed, approved, and retained, including ensuring all custodians submit signed inventory count sheets in accordance with its policy.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding and recommendations. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-012

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$1,019,874

Criteria:

In accordance with 2 CFR Section 200.317, when conducting procurement transactions under a Federal award, a State must follow the same policies and procedures it uses for procurements with non-Federal funds. PSS Procurement Rules and Regulations states the following:

1. § 60-40-205 Competitive Sealed Bidding:

    - Public Notice - Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice shall be on the Public School website over a continuous period of four weeks shall be deemed to be adequate notice; and

    - Bid Acceptance and Bid Evaluation - Bids shall be unconditionally accepted without alteration or correction, except as authorized in the chapter. Bids shall be evaluated based on the requirements set forth in the invitation for bids, which may include criteria as necessary to reasonably permit a determination as to the acceptability of the bid for the particular purpose intended.

2. § 60-40-560 Authority to Debar or Suspend

    - After reasonable notice to the person involved and reasonable opportunity for the person to be heard under the Administrative Procedure Act [1 CMC §§ 9101, et seq.], the Commissioner of Education after consultation with the Public School System legal counsel, shall have authority to debar a person for cause from consideration for award of contracts; and

    - The debarment shall not be for a period of more than three years. The Commissioner of Education, after consultation with Public School System legal counsel, shall have authority to suspend a person from consideration for award of contracts if there is probable cause for debarment. The suspension shall not be for a period exceeding three months.

Finding No. 2023-012, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$1,019,874

Criteria, continued:

3. In accordance with 2 CFR §180.220 and §180.300, entities that enter into a covered transaction with another person at the next lower tier for a contract amount that is expected to equal or exceed $25,000, entities must verify that the person with whom they intend to do business is not excluded or disqualified by:

   a. Checking SAM.gov Exclusions; or
   b. Collecting a certification from that person; or
   c. Adding a clause or condition to the covered transaction with that person.

Condition:

1. Of twenty-five expenditures tested, aggregating $846,783 of a total population of $8,192,986 in nonpayroll expenditures subject to procurement, the following were noted:

   a. For five (or 20%), bid evaluation forms for the unsuccessful bidders for the following contracts procured through invitation for bid, were not provided. For contract number 00181592-OC, none of the bid evaluation forms were provided, including the bid opening summary sheet.

Contract Date	Contract Number	Contract Amount	FY2023 Expenditures and Questioned Costs
11/07/22	00180717-OC	$153,000	$153,000
11/29/22	00181592-OC	81,792	81,792
03/21/23	00185015-OC	103,828	103,828
03/21/23	00185017-OC	56,790	56,790
05/18/23	00187538-OC	24,801	24,801
			$420,211

Finding No. 2023-012, continued

Federal Agency: U.S. Department of Education
AL Program: 84.403 Consolidated Grants to the Outlying Areas
Award Number: S403A220001
Area: Procurement and Suspension and Debarment
Questioned Costs: $1,019,874

Condition:

b. For two (or 8%), public announcements of the invitation for bids were not provided. No questioned costs are presented as the amounts are questioned at Condition 1a.

Contract Date	Contract Number	Contract Amount	FY2023 Expenditures
03/21/23	00185015-OC	$103,828	$103,828
03/21/23	00185017-OC	$ 56,790	56,790
			$160,618

2. PSS does not verify whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300, prior to entering into a covered transaction for an amount equal to or exceeds $25,000 with award funds.

Contract/Purchase Order Number	Contract Date / Purchase Order Date	FY2023 Expenditures and Questioned Costs
00180717-OC	11/07/22	$153,000
00188543-OC	07/13/23	120,264
00185015-OC	03/21/23	103,828
00178622-OC	10/17/22	103,537
00180671-OC	11/10/22	90,000
00181592-OC	11/29/22	81,792
00185809-OC	04/20/23	80,000
00189152-OC	07/14/23	80,000
00185017-OC	03/21/23	56,790
00185510-OC	03/16/23	35,432
00189793-OA	07/31/23	31,571
00187673-OC	06/06/23	30,800

Finding No. 2023-012, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Award Number:	S403A220001
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$1,019,874

Condition, continued:

Contract/Purchase Order Number	Contract Date / Purchase Order Date	FY2023 Expenditures and Questioned Costs
00188999-OA	07/06/23	28,059
		995,073
Less amounts questioned at Condition 1a for contract numbers 00180717-OC, 00181592-OC, 00185015-OC, 00185017-OC		(395,410)
		$599,663

Cause:

1. Inadequate documentation and inadequate systematic filing of relevant documentation supporting program costs; and

2. Lack of monitoring control procedures to ensure verification as to whether a person or a vendor is not excluded or disqualified pursuant to 2 CFR §180.220 and §180.300 are performed, prior to entering into a covered transaction.

Effect or potential effect:

PSS is in noncompliance with applicable procurement and suspension and debarment regulations and questioned costs of $1,019,874 result for Conditions 1a and 3.

Condition	Questioned Costs
1a	$ 420,211
3	599,663
	$1,019,874

Finding No. 2023-012, continued

Federal Agency:	U.S. Department of Education
AL Program:	84.403 Consolidated Grants to the Outlying Areas
Federal Award No.:	S403A220001
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$1,019,874

Identification as Repeat Finding: Finding No. 2022-014

Recommendation:

1. Establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval; and

2. Establish and implement effective monitoring controls over the verification of excluded or disqualified persons or vendors pursuant to 2 CFR §180.220 and §180.300, prior to PSS entering into a covered transaction.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-013

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A200001, S425A210001, S425X210001
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition:

Based on walkthrough procedures performed over the disbursement process of program funds, PSS lacks documented evidence of review and approval controls over check and ACH payments to ensure that payment amounts agree with approved invoice amounts. Specifically, the process did not include documented review or approval demonstrating that checks and ACH disbursements were verified against supporting invoices prior to payment. As a result, controls designed to ensure the accuracy and validity of disbursements are not adequately documented or evidenced.

Cause:

PSS lacks adequate documentation evidencing its monitoring and review procedures over disbursements of program funds, including review and approval controls to ensure that checks and ACH payments agree with approved invoice amounts.

Effect or potential effect:

PSS is in noncompliance with 2 CFR Section 200.303 related to internal control requirements. No questioned costs are identified as testing did not disclose noncompliance with allowable costs/cost principles compliance requirements.

Identification as Repeat Finding: Finding No. 2022-005

Finding No. 2023-013, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A200001, S425A210001, S425X210001
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Recommendation:

PSS should implement compensating, redundant, or adjacent control activities, including documented supervisory reviews and approval checklists, to ensure compliance with federal requirements.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-014

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR 200.313(b), a state must use, manage, and dispose of equipment acquired under a federal award in accordance with state laws and regulations.

In accordance with 2 CFR 200.313(d)(1), property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property.

Further, in accordance with 2 CFR 200.313 (3), a control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property.

Lastly, 2 CFR 200.313(d)(4) requires that adequate maintenance procedures must be developed to keep the property in good condition.

Condition:

1. The capital assets listing maintained by PSS is incomplete and does not include all information for equipment and real property required under 2 CFR 200.313(d)(1), such as the federal participation percentage and the condition of the asset. No questioned costs are presented as we are not able to quantify the extent of noncompliance.

2. PSS lacks standardized and consistently implemented internal controls over safeguarding and maintenance of equipment across schools and offices. For twenty-six (or 96%) of the twenty-seven locations selected for testing, no maintenance procedures and safeguarding measures for equipment were documented.

Finding No. 2023-014, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Condition, continued:

Federal Asset Location

Office of Pupil Trans - Tinian
Office of Pupil Trans - Rota
Marianas High School
Hopwood Middle School
Kagman High School
Tinian Middle SR High School
Sinanpolo Elementary School
Dr. Rita Inos Jr/Sr High School
Kagman Elementary School
Garapan Elementary School
Tanapag Middle School
Francisco M Sablan Middle School
Saipan Southern High School
San Vicente Elementary School
Koblerville Elementary School
ChaCha Oceanview Middle School
Dan Dan Middle School
Gregorio T Camacho Elem School
Da'Ok Academy
Tinian Elementary School
Student Support Services
Accountability/Research/Exam
Office of Curriculum/Instruct
William S Reyes Elem School
Oleai Elementary School
Commissioner of Education

Cause:

1. PSS policies and procedures over capital assets management have not been fully updated to align with federal requirements under 2 CFR § 200.313 (d) (1), resulting in incomplete capital asset records.

Finding No. 2023-014, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Cause, continued:

2. PSS does not have a centralized and standardized system for safeguarding and maintaining equipment across all schools and offices for each type of equipment.

Effect or potential effect:

PSS is in noncompliance with applicable Equipment and Real Property Management requirements. Incomplete asset records and inconsistent safeguarding and maintenance practices increase the risk of loss, misuse, theft, or deterioration of federally funded property. Questioned costs are undetermined as we are unable to quantify the extent of noncompliance.

Identification as Repeat Finding: Finding No. 2022-010

Recommendation:

1. PSS should update the structure and contents of their current capital asset listing to ensure all information required by 2 CFR 200.313(d)(1) is fully captured, maintained, and kept current for all equipment and real property acquired with federal funds.

2. PSS should revise and strengthen policies and procedures related to capital asset management to ensure alignment with federal requirements, including recordkeeping, inventory, safeguarding, and maintenance.

3. PSS should establish and implement centralized or standardized safeguarding and maintenance controls which should serve as minimum required procedures for all schools and offices regardless of equipment type.

Finding No. 2023-014, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-015

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Matching, Level of Effort, Earmarking
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

In accordance with the terms and conditions in the Grant Agreement, the State Educational Agencies (SEA) will use (a) not less than twenty percent of its ARP-OA SEA allocation to carry out, directly or through subgrants or contracts, activities to address the academic impact of lost instructional time by supporting the implementation of evidence-based interventions; (b) a portion of their ARP-OA SEA allocation to carry out, directly or through subgrants to Local Educational Agencies (LEAs) or through contracts, the implementation of evidence-based summer enrichment programs; (c) and a portion of their ARP-OA SEA allocation to carry out, directly or through subgrants to LEAs or through contracts, the implementation of evidence-based comprehensive afterschool programs.

Condition:

PSS did not maintain or provide adequate supporting documentation to demonstrate compliance with the ARP-OA earmarking requirements. Specifically, PSS did not provide budgetary documentation evidencing that the required portions of ARP-OA funds were allocated and expended for allowable evidence-based interventions, summer enrichment programs and comprehensive afterschool programs. Questioned costs are undetermined as we are unable to quantify the extent of noncompliance.

Cause:

PSS does not have an effective internal control over financial documentation related to earmarked ARP-OA funds. PSS lacks established procedures to ensure that budget allocations and supporting record related to earmarking requirements are properly prepared, retained and readily available for audit and compliance reporting purposes.

Finding No. 2023-015, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Matching, Level of Effort, Earmarking
Questioned Costs:	Undeterminable

Effect or potential effect:

PSS is in noncompliance with the earmarking requirements for the ARP-OA program. Questioned costs are undeterminable as we are unable to quantify the extent of noncompliance.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

PSS should strengthen internal controls over ARP-OA earmarking compliance by establishing and implementing formal procedures to ensure that:

1. Required earmarking allocations are clearly identified in budgets; and
2. Supporting documentation is retained, organized, and readily available for audit and compliance review purposes.

Views of Auditee and Corrective Action Plan:

PSS does not agree with the finding. PSS has allocated and expended more than 20% on evidence-based interventions to address learning loss. Specifically, projects listed under the ARP expense report are mapped directly to learning loss categories (e.g. expenses for summer school, extended learning opportunities, high dosage tutors, etc.).

Refer to PSS' Corrective Action Plan for additional information.

Auditor Response:

The supporting documentation provided, including the ARPA-OA budget that was resubmitted, did not clearly identify the required earmarking allocations and related expenditures for evidence-based interventions, summer enrichment programs and comprehensive afterschool programs. Recalculation or verification of compliance with the earmarking requirements of the ARP-OA program could not be performed. The finding remains.

Finding No. 2023-016

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Wage Rate Requirement
Questioned Costs:	Undeterminable

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Under 29 CFR 5.5(a), contracts exceeding $2,000 for construction, alteration, or repair of public buildings or public works financed in whole or in part with federal funds must include the required Davis-Bacon labor standards clauses, including the incorporation by reference of all applicable rulings and interpretations (29 CFR parts 1, 3, and 5).

Additionally, pursuant to 29 CFR 5.5(a)(3)(ii)(A), contractors or subcontractors must submit weekly, for each week in which any Davis Bacon Act (DBA)- or Related Acts-covered work is performed, certified payrolls to the appropriate Federal agency, if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the certified payrolls to the applicant, sponsor, owner, or other entity, as the case may be, that maintains such records, for transmission to the agency.

Condition:

1. For eight (or 100%) of eight construction contracts selected for testing, the required clauses, as identified in 29 CFR 5.5(a)(1) and 29 CFR 5.5(a)(8), were not inserted or referenced in the contract or purchase order. No questioned costs are presented as we are unable to quantify the extend of the noncompliance.

Type	PO/Contract Reference
OP	00179157
OP	00181782
OL	00188459
OP	00189177
OP	00189200
OP	00189921
OP	00190628
OP	00190885

Finding No. 2023-016, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Wage Rate Requirement
Questioned Costs:	Undeterminable

Condition, continued:

2. For eight (or 100%) of eight construction expenditures selected for testing, PSS did not provide the certified payrolls from contractors or subcontractors for work subject to Davis-Bacon Act requirements. No questioned costs are presented as we are unable to quantify the noncompliance.

Invoice Date	Invoice Reference
1/4/2023	MHS-12-22-003
11/30/2022	45265
6/30/2022	11494
9/8/2023	0050
8/4/2023	189200-001
10/12/2023	088103
9/28/2023	0102
10/23/2023	1234

Cause:

PSS did not establish and effectively implement internal control procedures to address or prevent noncompliance of the applicable wage rate requirements.

Effect or potential effect:

PSS is in noncompliance with applicable wage rate requirements. Questioned costs are undetermined as we are unable to quantify the extent of noncompliance.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No. 2023-016, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Wage Rate Requirement
Questioned Costs:	Undeterminable

Recommendation:

PSS should establish and implement effective internal controls to ensure compliance with federal wage rate requirements. At a minimum, PSS should:

1. Ensure all applicable contracts and purchase orders include or reference the required Davis-Bacon labor standards clauses;

2. Require contractors and subcontractors to submit certified payrolls for all Davis-Bacon–covered work; and

3. Implement procedures to review, approve, and retain certified payrolls and supporting documentation.

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-017

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Private School Participation
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

In accordance with 34 CFR 299.7(a)(1), in order to have a timely and meaningful consultation, an agency, consortium, or entity must:

(i) Consult with appropriate private school officials during the design and development of the agency, consortium, or entity's program for eligible private school children and their teachers and other educational personnel; and

(ii) Consult before the agency, consortium, or entity makes any decision that affects the opportunities of eligible private school children and their teachers and other educational personnel to participate in the applicable program.

Additionally, in accordance with 34 CFR 299.7(2), such consultation must continue throughout the implementation and assessment of equitable services.

Lastly, based on 34 CFR 299.9 (a)(1), expenditures of funds made by an agency, consortium, or entity under a program listed in 34 CFR 299.6 (b) for services for eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the amount of funds expended for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of those children and their teachers and other educational personnel.

Condition:

1. PSS did not provide adequate documentation to verify that there were timely and meaningful consultations with appropriate private school officials during the design and development of federally funded programs and prior to making decisions involving private school participation regarding the size and scope of the equitable services that will be provided to eligible private school children and their teachers, and other educational personnel, the amount of funds available for those services, and how that amount is determined.

Finding No. 2023-017, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Private School Participation
Questioned Costs:	Undeterminable

Condition:

2. The amount allocated to eligible private schools is not equal to the amount of funds expended for participating public schools in FY2023 on a per-pupil basis. Since no adequate documentation was provided for the calculation of the amount of funds for eligible private schools as cited at Condition 1, no questioned costs are presented as we are unable to quantify the extent of the noncompliance.

	Allocation of FY2023 Expenditures	Number of FY2023 Students	FY2023 Spending per Student
Public Schools	$58,399,249	9,113	$6,408
Private Schools	1,662,649	1,159	$1,435
	$60,061,898		

Cause:

1. PSS does not perform timely consultations and follow-ups with the eligible private school officials in accordance with provisions of 34 CFR 299.7.

2. PSS does not have controls established to properly monitor the need for consultations, follow-up or corrective actions to ensure that the plans established are being met.

3. PSS does not have procedures in place to properly calculate and monitor that the per pupil amount for both private and public schools are equal.

Effect or potential effect:

PSS is in noncompliance with the applicable special test and provision requirements of the participation of private school children. No questioned costs are presented as we are unable to quantify the extent of noncompliance.

Finding No. 2023-017, continued

Federal Agency:	U.S. Department of Education
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Federal Award No.:	S425A210001 and S425X210001
Area:	Special Tests and Provisions - Private School Participation
Questioned Costs:	Undeterminable

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

1. PSS should adhere to the provisions of 34 CFR 299.7 and ensure that timely consultations with the eligible private schools are conducted. Additionally, PSS should establish controls and procedures to ensure that the results of the consultations are properly monitored and implemented.

2. PSS should establish monitoring procedures to ensure that costs budgeted or allocated to private and public schools will remain equal on a per pupil basis.

Views of Auditee and Corrective Action Plan:

PSS does not agree with the finding. PSS asserts that timely and meaningful consultations were conducted with private school officials prior to making decisions regarding the size, scope, and funding of equitable services for FY2023. Calculations for the equitable share under the Education Stabilization Funds were performed in accordance with federal regulations, ensuring that per-pupil allocations for eligible private school students and teachers were equitable relative to public school expenditures.

PSS maintains that consultation timelines, meeting records, and allocation formulas were maintained. While PSS is continuously refining its administrative workflows, the existing documentation and controls were sufficient to satisfy the requirements of 34 CFR § 299.7.

Refer to PSS' Corrective Action Plan for additional information.

Auditor Response:

The supporting documentation provided, including the minutes of meetings with private schools, did not demonstrate the required timely and meaningful consultation with appropriate private school personnel during the design and development of federally funded programs and prior to making decisions involving private school participation regarding the size and scope. The finding remains.

Finding No. 2023-018

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Federal Award No.:	1H79SM083644-01, 5H79SM083644-02, 5H79SM083644-03, 5H79SM083644-04 6H79SM086344-01M001,6H79SM086344-01M002, 6H79SM086344-01M003
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Criteria:

In accordance with 2 CFR Section 200.303, non-federal entities receiving federal awards must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition:

Based on walkthrough procedures performed over the disbursement process of program funds, PSS lacks documented evidence of review and approval controls over check and ACH payments to ensure that payment amounts agree with approved invoice amounts. Specifically, the process did not include documented review or approval demonstrating that checks and ACH disbursements were verified against supporting invoices prior to payment. As a result, controls designed to ensure the accuracy and validity of disbursements are not adequately documented or evidenced.

Cause:

PSS lacks adequate documentation evidencing its monitoring and review procedures over disbursements of program funds, including review and approval controls to ensure that checks and ACH payments agree with approved invoice amounts.

Effect or potential effect:

PSS is in noncompliance with 2 CFR Section 200.303 related to internal control requirements. No questioned costs are identified as testing did not disclose noncompliance with allowable costs/cost principles compliance requirements.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No. 2023-018, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Federal Award No.:	1H79SM083644-01, 5H79SM083644-02, 5H79SM083644-03, 5H79SM083644-04 6H79SM086344-01M001,6H79SM086344-01M002, 6H79SM086344-01M003
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Recommendation:

PSS should implement, document and consistently enforce appropriate review and approval controls over disbursements of program funds.

Views of Auditee and Corrective Action Plan:

PSS concurs with the finding. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-019

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Criteria:

In accordance with 2 CFR Section 200.317, when conducting procurement transactions under a Federal award, a State must follow the same policies and procedures it uses for procurements with non-Federal funds. PSS Procurement Rules and Regulations states the following:

1. § 60-40-205 Competitive Sealed Bidding:

   - Public Notice - Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice shall be on the Public School website over a continuous period of four weeks shall be deemed to be adequate notice; and

   - Bid Acceptance and Bid Evaluation - Bids shall be unconditionally accepted without alteration or correction, except as authorized in the chapter. Bids shall be evaluated based on the requirements set forth in the invitation for bids, which may include criteria as necessary to reasonably permit a determination as to the acceptability of the bid for the particular purpose intended.

2. 60-40-225 Competitive Sealed Proposals:

   - Condition for Use - When the Commissioner of Education determines in writing upon the advise of the legal counsel that the use of a competitive sealed bidding is either not practical or not advantageous to the Public School System, a contract may be entered into by competitive sealed proposals;

3. § 60-40-560 Authority to Debar or Suspend

   - After reasonable notice to the person involved and reasonable opportunity for the person to be heard under the Administrative Procedure Act [1 CMC §§ 9101, et seq.], the Commissioner of Education after consultation with the Public School System legal counsel, shall have authority to debar a person for cause from consideration for award of contracts; and

Finding No. 2023-019, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Criteria, continued:

4. In accordance with 2 CFR §180.220 and §180.300, entities that enter into a covered transaction with another person at the next lower tier for a contract amount that is expected to equal or exceed $25,000, entities must verify that the person with whom they intend to do business is not excluded or disqualified by:

   a. Checking SAM.gov Exclusions; or
   b. Collecting a certification from that person; or
   c. Adding a clause or condition to the covered transaction with that person.

Condition:

1. Of twelve procurement transactions tested, aggregating $217,154 of a total population of $546,111 of nonpayroll expenditures subject to procurement, the following were noted:

   a. For one (or 8%), PSS did not provide bid or proposal evaluations for all responsive bidders.

Contract No.	Contract Date	Amount and Questioned Costs
183013-OC	1/17/2023	$19,808

   b. For one (or 8%), CNMI PSS did not provide evidence of the Chief Procurement Officer's determination in writing for a shorter period of bidding time for the related contract.

Contract No.	Contract Date	Amount and Questioned Costs
191320-OC	9/20/2023	$115,000

Finding No. 2023-019, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

<u>Condition, continued</u>

c. For one (or 8%), PSS did not provide written summaries of the bid opening and proposals submitted. No questioned costs are presented as they were cited at Condition 1a.

Contract No.	Contract Date
183013-OC	2/26/2023

d. For one (or 8%), PSS did not provide documentation evidencing the public announcement of the Request for Proposal. No questioned costs are presented as they were cited at Condition 1a.

Contract No.	Contract Date
183013-OC	2/26/2023

e. For one (or 8%), the contract was procured through a competitive sealed proposal; however, the written determination by the Commissioner of Education upon the advice of legal counsel that a competitive sealed bidding is either not practical or not advantageous, was not provided. No questioned costs are presented as the amount is questioned at Condition 1a.

Contract No.	Contract Date
183013-OC	2/26/2023

Finding No. 2023-019, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Condition, continued

2. PSS does not verify whether a person or a vendor is excluded or disqualified pursuant to the requirements of 2 CFR 180.300 prior to entering into the following covered transactions that exceeded the $25,000 threshold.

Contract Number	Contract Date	FY2023 Expenditures and Questioned Costs
00191320-OC	9/28/2023	$115,000
00180715-OC	11/10/2022	110,000
00180714-OC	11/9/2022	63,073
		288,073
Less amount questioned at Condition 1b for contract 191320-OC		(115,000)
Total		$173,073

Cause:

PSS did not consistently comply with its Procurement Regulations and applicable federal requirements due to inadequate internal controls and enforcement mechanisms. Further, PSS's existing Suspension and Debarment procedures require action only upon approval of the Commissioner of Education, which is not aligned with the verification requirements of 2 CFR §180.300. The absence of standardized procedures, accountability measures, and routine compliance monitoring contributed to these deficiencies.

Finding No. 2023-019, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Effect or potential effect:

PSS is in noncompliance with applicable procurement regulations and questioned costs of $307,881 result.

Condition	Questioned Costs
1a	$ 19,808
1b	115,000
2	173,073
	$307,881

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

1. Enforce uniform procurement procedures that require complete documentation of all competitive sealed bidding steps, including public notices, bid openings, bid evaluations, and contract awards.

2. Establish and implement written policies and procedures to verify the suspension and debarment status of all vendors involved in covered transactions prior to contract award, in accordance with 2 CFR §180.300.

3. Require staff training and supervisory review to ensure procurement requirements are consistently followed and adequately documented.

4. Implement ongoing monitoring and internal review processes to ensure continued compliance and to prevent recurrence of similar deficiencies.

Finding No. 2023-019, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM083644
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings and recommendations. Refer to PSS' Corrective Action Plan for additional information.

Finding No. 2023-020

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM086344-01M001 and 6H79SM086344-01M002
Area:	Special Tests and Provisions - Key Level Management
Questioned Costs:	Undeterminable

Criteria:

In accordance with 2 CFR 200.303(a), the recipient and subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Further, in accordance with the grant agreement, PSS key level management are required to provide level of effort as follows:

Position	Level of Effort
Project Director	100%
SEA Project Coordinator	100%
SMHA Project Co-Coordinator	50%
LEA 1 Community Project Manager	100%
LEA 2 Community Project Manager	100%
LEA 3 Community Project Manager	100%

Condition

For all six (or 100%) key level management personnel required to provide level of effort, PSS did not provide adequate evidence to substantiate that the required level of effort to the program were complied with.

Cause:

PSS did not provide documentation evidencing the level of effort of key level management personnel.

Finding No. 2023-020, continued

Federal Agency:	U.S. Department of Education
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Award No.:	6H79SM086344-01M001 and 6H79SM086344-01M002
Area:	Special Tests and Provisions - Key Level Management
Questioned Costs:	Undeterminable

Effect or potential effect:

PSS is in noncompliance with applicable key level management requirements. No questioned costs result as we are unable to determine the extent of noncompliance.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

PSS should maintain documentation for its compliance with the key level management requirement, such as Notice of Personnel Action (NOPA) forms, certification of time worked under federal programs and payroll registers, among others.

Views of Auditee and Corrective Action Plan:

PSS concurs with the findings. Refer to PSS' Corrective Action Plan for additional information.

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Corrective Action Plan

Finding No.: 2023-001
Area: General Ledger and Financial Statement Close Process

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit finding and recommendation. We acknowledge that the internal control environment surrounding the financial statement close process requires further strengthening to ensure the accuracy and completeness of our financial reporting.

Additionally, financial management procedures were promulgated in a SOP on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements, which will enhance capabilities. The SOP and the Tyler Munis implementation are under review by an external consultant; recommendations have been made to incorporate additional internal controls for improved timely reconciliations, enhanced communications, and increased supervisory review of the financial statement close process.

Corrective Action Plan: To address the underlying causes of the material misstatements, PSS plans to address this matter through the following corrective measures:

Strengthening Standardized Operating Procedures: A key action item is to finalize updated Financial Management SOP and policies with enhanced reconciliation activities, including monitoring by award budget period and reconciliation activities on a monthly, quarterly, and annual basis.

I. **Enhanced Reconciliation Protocols**: Management is implementing a standardized quarterly reconciliation schedule for all major asset and liability accounts. These reconciliations will be required to be completed within a set number of days following month-end to ensure errors are identified and corrected in real-time.

II. **Formalized Cut-off Procedures**: We are developing a comprehensive year-end "Closing Checklist" that clearly defines cut-off dates and documentation requirements. This will ensure that revenues and expenses are recognized in the correct accounting period.

III. **Interdepartmental Communication Strategy**: PSS will establish quarterly fiscal coordination meetings between the Finance Department and operational units such as Procurement & Supply Division and Federal Programs Office. This will facilitate the timely flow of information regarding capital asset acquisitions, disposals, and significant contractual obligations.

Proposed Completion Date: In progress for FY 2024 and continue to improve internal controls in 2026.

Name of Contact Person and Title:
Contact: Jonathan Aguon, Director of Finance
Email Address: jonathan.aguon@cnmipss.org

Finding No.: 2023-002
Area: Schedule of Expenditures of Federal Awards

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management procedures were promulgated in a SOP on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve coding of grant details and expenditures, increased frequency of reconciliations, and a specific SOP for SEFA preparation.

Corrective Action Plan: To address this deficiency, PSS will implement the following:

I. **Finalize and Implement Updated Financial Management SOPs:** Finalize updated financial management SOP and policies with enhanced reconciliation activities throughout the award period to include monitoring by award budget period and reconciliation activities monthly, quarterly, and annually.

II. **Optimization of the Financial Management System:** Utilize additional fields in the new financial management system to track expenditures by FAIN and budget period.

III. **Automation through Technology:** Leverage technology and manual tracking processes to implement shared dashboards for enhanced accountability, more frequent review of status of funds.

IV. **Dedicated SEFA Preparation Procedures:** Develop and implement a dedicated SOP for SEFA preparation, including step-by-step instructions for reconciling SEFA totals to financial statement amounts, proper ALN identification, and correct segregation of COVID-19 and non-COVID-19 expenditures.

Proposed Completion Date: In progress for FY 2024, with full implementation and finalization anticipated by 2026.

Name of Contact Person and Title:
Contact: Jacqueline Che, Federal Programs Officer
Email Address: jacqueline.che@cnmipss.org

Finding No.: 2023-003
AL Program: 10.555 National School Lunch Program (NSLP)
Area: Allowable Costs/Cost Principles
Questioned Costs: $-0-

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management policies procedures were promulgated in SOPs on September 18, 2024.

The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received.

Corrective Action Plan:

I. **Finalization of Allowability and Disbursement SOPs:** PSS will finalize comprehensive Standard Operating Procedures (SOPs) and policies specifically governing allowability determinations and vendor payments.

II. **Enhanced Disbursement Controls**: PSS is implementing a documented review and approval controls over the payment process. Before any check or ACH disbursement is finalized, a reviewer must verify that the payment amount agrees exactly with the approved invoice. This verification will be physically or digitally documented on the payment voucher to provide a clear audit trail of the pre-payment review.

Proposed Completion Date: In progress for FY 2024 with full implementation and documentation processes expected to be completed in 2026. As part of this improvement, we are designing a standardized, documented review process to ensure all disbursements are verified against approved invoices prior to payment.

Name of Contact Person and Title:
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Finding No.:	2023-004
AL Program:	10.555 National School Lunch Program (NSLP)
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$725,425

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings regarding procurement and suspension and debarment procedures. We recognize that maintaining the integrity of the competitive bidding process requires strict adherence to public notice timelines, documented justifications for vendor selection, and mandatory debarment verifications. Procurement processes were promulgated in a SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to improve documentation of the vendor selection process, both competitive and sole source exception.

Corrective Action Plan: To remediate these deficiencies and ensure compliance with 2 CFR §200.317 and PSS Procurement Rules, management will implement the following:

I. **Procurement Selection Justification Requirement**: PSS will implement a formal "Basis for Award" memorandum template. In any instance where the lowest bidder is not selected, the Procurement Officer must provide a detailed written justification—reviewed and approved by legal counsel—explaining why the selected offeror is the most advantageous to PSS based on the criteria in the solicitation.
This is covered by § 60-40-205 Competitive Sealed Bidding (i) Notice of Intent to Award. After bid evaluation, a notice of intent to award the contract to the lowest responsive bid by a responsible bidder whose bid fully meets the requirements of the invitation for bids and this chapter shall be issued to all bidders. The notice of intent to award is not a promise or guarantee of award, and the intended bidder should not incur any costs based on either the notice of intent to award or reliance of a contract.

   Bid rejections are issued as well detailing where the bids did not qualify under § 60-40-205(g).

II. **Mandatory SAM.gov Verification Protocol**: PSS has updated its contracting checklist to include a mandatory "Suspension and Debarment Verification" step. For all contracts exceeding $25,000, a SAM.gov exclusion search must be performed, and a dated PDF of the search results must be physically or digitally attached to the contract file prior to execution. The Procurement SOP will be updated with more specific guidance and selection checklist for each method (e.g., sealed bid, sole source) including documentation requirements to support vendor eligibility as verified at a minimum by review of SAM.gov and certification by the proposer. CNMI PSS legal counsel will be consulted regarding the addition of an appropriate contract clause to add to new contracts. All vendors with active contracts in 2023 and subsequent years will be reviewed in SAM.gov for eligibility.

III. **Centralized Procurement Filing System**: PSS is implementing a digitization protocol of all procurement documents. A review will be conducted prior to upload to ensure it contains the public notice evidence, all received bids, the evaluation rubric, and the debarment verification.

Finding No.: 2023-004, continued
AL Program: 10.555 National School Lunch Program (NSLP)
Area: Procurement and Suspension and Debarment
Questioned Costs: $725,425

Proposed Completion Date: September 2026

Name of Contact Person and Title:
Contact: Michael Jason A. Babauta, Chief Procurement & Supply Officer
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Finding No.:	2023-005
AL Program:	10.555 National School Lunch Program (NSLP)
Area:	Reporting
Questioned Costs:	$-0-

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management procedures were promulgated in a SOP on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve coding of grant details and expenditures, increased frequency of reconciliations, and a specific SOP for report preparation.

Corrective Action Plan:

I. **Implementation of a Comprehensive Grant Tracker:** PSS will develop and implement a centralized Grant Lifecycle Tracker for all active federal awards. This tool will serve as the primary monitoring mechanism for compliance by recording all financial and programmatic reporting due dates, assigning specific preparers for each report, and establishing automated milestones to ensure sufficient lead time for both the preparation phase and the subsequent supervisory review.

II. **Deployment of Enhanced Data Analysis Tools:** To ensure that quarterly program reporting is both consistent and timely, PSS will develop and implement specialized data analysis tools. these tools will streamline the aggregation of program data, reducing manual entry errors and allowing for more efficient evaluation of program performance against federal benchmarks.

Proposed Completion Date: In progress for FY 2024 with completion by August 2026.

Name of Contact Person and Title:
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Finding No.: 2023-006
AL Program: 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles
Questioned Costs: $5,130

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit findings and the associated questioned costs. Financial and Grants Management policies procedures were promulgated in a SOPs on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received.

Corrective Action Plan: To prevent future occurrences and ensure full compliance with federal cost principles, PSS will implement the following:

I. **Review of Travel Authorization Requirements:** PSS will conduct a review of its travel policy to require a written statement of alignment with program goals or objectives for every travel request. This statement must explicitly document how the travel is necessary and reasonable for the performance of the specific federal award.

II. **Centralized Digital Documentation Protocol**: To resolve the inadequate systematic filing issue, PSS implemented a protocol to improve its digital filing procedures. All supporting documents, including invoices, boarding passes, approved timesheets, and pay rate authorizations, must be uploaded and verified before the final liquidation of any federal drawdowns.

III. **Strengthening Review Process:** Finalize expanded SOPs and policies to include more detail on time and effort reporting (including differential pay) and travel justifications specific to allowability determinations that are currently in draft including an analysis rubric and checklist for review. Where necessary, program specific supplemental guidance for allowability determinations will be provided. PSS central office staff participated in live training in October 2025. Refresher training on cost principles will be required annually for staff making allowability determinations.

Proposed Completion Date:

PSS is currently in the process of implementing these corrective actions with full implementation by August 2026.

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Finding No.:	2023-007
AL Program:	84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. We recognize that our current capital asset records and decentralized maintenance practices do not fully meet the rigorous data and oversight standards of 2 CFR §200.313. Property management and inventory control processes were promulgated in the Procurement and Supplies SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to expand property management and inventory control into a separate SOP. PSS central office has contacted the State Infrastructure Technology Department for additional information about an existing inventory tracking system and its potential for implementation and integration with the new financial management system, Tyler Munis. PSS is committed to a comprehensive overhaul of our inventory management system to ensure full compliance and better protection of federal property.

Corrective Action Plan: To address the deficiencies in recordkeeping, safeguarding, and physical verification, PSS will implement the following:

I. **Asset Listing Remediation**: PSS will update the Master Capital Asset Listing to include information such as asset condition.

II. **Standardized Safeguarding & Maintenance Guidance**: PSS will finalize SOPs and policies to include more detail on property management and inventory control. PSS will develop and distribute a district-wide equipment maintenance & safeguarding guidance. This will establish the minimum required procedures for all schools and offices, including standardized logs for routine maintenance and specific security protocols (e.g., tagging, restricted access, and secure storage) to prevent loss or theft.

III. **Formal Inventory Certification**: To resolve the issue of missing count sheets, PSS will implement a standardized annual inventory process. This will require each location custodian to submit a signed and dated "Physical Inventory Certification" along with the count sheets to be verified by Procurement personnel. No inventory will be considered complete until the Central Office verifies that the custodian list matches the asset records. PSS staff at each school and in the central office will be identified as property custodians held accountable for annual inventory and property management of assigned assets. Training to be required annually for these personnel.

Proposed Completion Date: September 2026

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Finding No.:	2023-008
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Area:	Matching, Level of Effort, and Earmarking
Questioned Costs:	$345,823

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the finding regarding the Maintenance of Financial Support (MFS) for IDEA Part B. We recognize that the inclusion of unverified encumbrances in the MFS calculation led to an inadvertent shortfall in actual expenditures compared to the required support levels.

Corrective Action Plan: To ensure future compliance with IDEA §612(a)(18) and 34 CFR §300.163(a), PSS is implementing the following measures:

I. **Establishment of an MFS Monitoring Framework:** The Finance Department, in coordination with the Special Education Program, will develop a formal MFS Tracking Ledger. This tool will track actual expenditures on a quarterly basis to ensure spending is on pace to meet or exceed the preceding fiscal year's support levels.

II. **Verification of Encumbrances:** PSS policy has been clarified to ensure that only "liquidated expenditures" (actual costs incurred) are used for MFS compliance reporting. Any encumbrances included in preliminary projections must be supported by valid contracts or purchase orders and must be reconciled against actual payments prior to final federal reporting.

III. **Enhanced Supervisory Review:** PSS will develop an "MFS Certification" process. The Director of Finance will review and sign off on the expenditure reports at mid-year and year-end. This review will include a side-by-side comparison of current-year spending against the Part B Application requirements to identify potential shortfalls early.

Proposed Completion Date: September 2026
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Finding No.:	2023-009
AL Program:	COVID-19 84.027 Special Education Cluster - Grants to States (IDEA, Part B)
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$102,862

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit finding. While there are internal practices to monitor for compliance, we acknowledge that there are inconsistencies of completeness. Furthermore, we recognize the necessity of performing and documenting SAM.gov exclusion checks for all covered transactions over $25,000.

Procurement processes were promulgated in a SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to improve documentation of the vendor selection process, both competitive and sole source exception. (See also 2023-004)

Corrective Action Plan: To address these deficiencies and ensure compliance with PSS Procurement Rules and 2 CFR §200.317, PSS will implement the following:

I. **Small Purchase Compliance Enforcement**: The Procurement Office will strictly enforce the procurement policies through the implementation of a compliance checklist. This checklist is to be aligned with procurement regulations and completed by requesters with procurement personnel reviewing for compliance.

II. **Competitive Sealed Proposal (RFP) Workflow**: PSS implemented a mandatory RFP Authorization document as a result of FY22 findings. FY22 findings where issued and completed at the beginning of FY24. This packet must include the written determination from the Commissioner of Education, citing legal counsel's advice, regarding the impracticality of sealed bidding. No RFP will be advertised until this signed determination and the corresponding evaluation rubric are uploaded to the permanent contract file.

III. **Strengthening SOP's:** Update Procurement SOP with more specific guidance and selection checklist for each method (e.g., sealed bid, sole source) including documentation requirements to support vendor eligibility as verified at a minimum by review of SAM.gov and certification by the proposer. CNMI PSS legal counsel will be consulted regarding the addition of an appropriate contract clause to add to new contracts. All vendors with active contracts in 2023 and subsequent years will be reviewed in SAM.gov for eligibility.

Proposed Completion Date: September 2026

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Finding No.: 2023-010
AL Program: 84.403 Consolidated Grants to the Outlying Areas
Area: Allowable Costs/Cost Principles
Questioned Costs: $-0-

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management policies procedures were promulgated in SOPs on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received.

Corrective Action Plan:

I. **Finalization of Allowability and Disbursement SOPs:** PSS will finalize comprehensive Standard Operating Procedures (SOPs) and policies specifically governing allowability determinations and vendor payments.

II. **Enhanced Disbursement Controls**: PSS is implementing a documented review and approval controls over the payment process. Before any check or ACH disbursement is finalized, a reviewer must verify that the payment amount agrees exactly with the approved invoice. This verification will be physically or digitally documented on the payment voucher to provide a clear audit trail of the pre-payment review.

Proposed Completion Date: In progress for FY 2024 with full implementation and documentation processes expected to be completed in 2026. As part of this improvement, we are designing a standardized, documented review process to ensure all disbursements are verified against approved invoices prior to payment.

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Finding No.: 2023-011
AL Program: 84.403 Consolidated Grants to the Outlying Areas
Area: Equipment and Real Property Management
Questioned Costs: Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the finding and recommendations regarding Equipment and Real Property Management. We acknowledge that current decentralized practices have led to inconsistencies in asset record-keeping and maintenance. PSS is committed to fully aligning its internal policies with 2 CFR §200.313 to ensure the integrity and protection of all federally funded assets.

Property management and inventory control processes were promulgated in the Procurement and Supplies SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to expand property management and inventory control into a separate SOP. PSS central office has contacted the State Infrastructure Technology Department for additional information about an existing inventory tracking system and its potential for

implementation and integration with the new financial management system, Tyler Munis. (See 2023-0007)

Corrective Action Plan: To remediate these deficiencies and ensure consistent compliance across all locations, PSS will execute the following:

I. **Comprehensive Asset Data Update**: PSS will redesign the Master Capital Asset Listing to include all federally mandated fields and the specific physical condition of each asset. A one-time district-wide data validation check will be conducted to populate these missing fields.

II. **Standardized Maintenance and Safeguarding Framework**: PSS will develop a Unified Asset Protection Guidance that establishes mandatory safeguarding protocols and maintenance schedules for all equipment types. This framework will serve as the minimum standard for all schools and offices, requiring them to maintain localized logs that prove equipment is being serviced and secured.

III. **Standard Operating Procedures and Policies finalized:** PSS will include more detail on property management and inventory control. Identify and evaluate the use of a digital inventory management system with the intent, if feasible, to implement within the next year. PSS staff at each school and in the central office will be identified as property custodians held accountable for annual inventory and property management of assigned assets. Training to be required annually for these personnel.

Proposed Completion Date: September 2026

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Finding No.: 2023-012
AL Program: 84.403 Consolidated Grants to the Outlying Areas
Area: Procurement and Suspension and Debarment
Questioned Costs: $1,019,874

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit findings. We recognize that the procurement files for the identified contracts lacked the necessary documentation, specifically bid evaluation forms, public notices, and suspension and debarment verifications, required to substantiate compliance with PSS Procurement Rules and 2 CFR §200.317. Procurement processes were promulgated in a SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to improve documentation of the vendor selection process, both competitive and sole source exception. (See also 2023-004, 2023-0009)

Corrective Action Plan: To address the systematic filing issues and ensure robust monitoring of procurement requirements, PSS will implement the following:

I. **Mandatory Bid Opening and Evaluation Packet**: PSS is implementing a standardized "Bid Evaluation Checklist" that must be completed for every Invitation for Bid (IFB). This checklist will require the Procurement Officer to verify that the file contains: (1) the Bid Opening Summary Sheet, (2) evaluation forms for all bidders (successful and unsuccessful), and (3) the original signed bids.

II. **Proof of Publication Certification**: To ensure compliance with the four-week public notice requirement, PSS will now require a "Publication Certification Form" for every competitive procurement. This form will include dated evidence (such as website timestamps or newspaper affidavits) to provide a verifiable audit trail of the continuous advertisement period.

III. **Standardized SAM.gov Verification Protocol**: For all covered transactions equal to or exceeding $25,000, PSS has made it a mandatory requirement to perform a SAM.gov exclusion search prior to contract execution. A dated PDF copy of the search result must be printed and physically or digitally attached to the contract file as evidence of compliance with 2 CFR §180.300.

IV. **Updated Procurement Standard Operating Procedures:** Procurement SOPs will be updated with more specific guidance and selection checklist for each method (e.g., sealed bid, sole source) including documentation requirements to support vendor eligibility as verified at a minimum by review of SAM.gov and certification by the proposer. CNMI PSS legal counsel will be consulted regarding the addition of an appropriate contract clause to add to new contracts. All vendors with active contracts in 2023 and subsequent years will be reviewed in SAM.gov for eligibility.

Proposed Completion Date: September 2026

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Finding No.:	2023-013
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Area:	Activities Allowed/Unallowed, Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management policies procedures were promulgated in SOPs on September 18, 2024.
The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the

Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received.

Corrective Action Plan:

I. **Finalization of Allowability and Disbursement SOPs:** PSS will finalize comprehensive Standard Operating Procedures (SOPs) and policies specifically governing allowability determinations and vendor payments.

II. **Enhanced Disbursement Controls**: PSS is implementing a documented review and approval controls over the payment process. Before any check or ACH disbursement is finalized, a reviewer must verify that the payment amount agrees exactly with the approved invoice. This verification will be physically or digitally documented on the payment voucher to provide a clear audit trail of the pre-payment review.

Proposed Completion Date: In progress for FY 2024 with full implementation and documentation processes expected to be completed in 2026. As part of this improvement, we are designing a standardized, documented review process to ensure all disbursements are verified against approved invoices prior to payment.

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Finding No.:	2023-014
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Area:	Equipment and Real Property Management
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit findings and recognizes the systemic nature of the deficiencies in equipment management. We acknowledge that the current decentralized approach to safeguarding and maintenance is insufficient to meet the standards of 2 CFR §200.313. PSS is committed to implementing a district-wide, standardized asset management framework to protect federally funded property.

Financial and Grants Management policies procedures were promulgated in a SOPs on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received. Payment procedures are being addressed in a separate SOP.

Corrective Action Plan: To remediate these findings and ensure consistent compliance across all 27+ locations, PSS will implement the following:

I. **Capital Asset Listing Enhancement**: PSS will immediately update the master inventory database to include all data fields required by 2 CFR 200.313(d)(1). A system-wide data validation will be conducted semi-annually or greater to ensure these fields are populated for all existing federal assets.

II. **Uniform Safeguarding and Maintenance Guidance**: PSS will develop and issue a mandatory guidance on Uniform Safeguarding and Maintenance. This will provide standardized maintenance schedules and safeguarding protocols (e.g., specific tagging requirements and secure storage standards) that must be adopted by every school and office. This eliminates the "lack of standardized controls" across different locations.

III. **Standardized Maintenance Logs**: PSS will require all locations to utilize a standard "Equipment Maintenance Log." This log will serve as the primary documented evidence that maintenance procedures are being performed.

IV. **Standard Operating Procedures and Policies:** PSS will finalize SOPs and policies internal controls and specifically allowability determinations and vendor payments that are currently in draft including an analysis rubric and checklist for review. Where necessary, program specific supplemental guidance for allowability determinations will be provided. PSS central office staff participated in live training in October 2025 regarding allowability of costs. Refresher training on cost principles will be required annually for staff making allowability determinations. Payment processes will be added to this training.

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Finding No.: 2023-014, continued
AL Program: COVID-19 84.425A/84.425X Education Stabilization Fund
Area: Equipment and Real Property Management
Questioned Costs: Undeterminable

Proposed Completion Date: September 2026

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Finding No.: 2023-015
AL Program: COVID-19 84.425A/84.425X Education Stabilization Fund
Area: Matching, Level of Effort, Earmarking
Questioned Costs: Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management does not agree with the finding. PSS has allocated and expended more than 20% on evidence-based interventions to address learning loss. Specifically, projects listed under the ARP expense report are mapped directly to learning loss categories (e.g. expenses for summer school, extended learning opportunities, high dosage tutors, etc.). Based on this documentation, we request that the audit finding be revised to reflect compliance.

Proposed Completion Date: Resolution in progress and on track for completion by August 2026.

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Finding No.:	2023-016
AL Program:	COVID-19 84.425A/84.425X Education Stabilization Fund
Area:	Special Tests and Provisions - Wage Rate Requirement
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit findings. We acknowledge that our current procurement and contract administration processes did not consistently incorporate the mandatory Davis-Bacon Act labor standard clauses or the subsequent collection of certified payrolls. PSS is committed to implementing a rigorous compliance framework for all federally funded construction and repair projects.

Financial, Procurement, and Grants Management policies procedures were promulgated in a SOPs on September 18, 2024. The financial management system was subsequently changed to Tyler Munis to conform with CNMI central government requirements which will enhance capabilities. The SOPs and the Tyler Munis implementation are under review by an external consultant and recommendations made to improve documentation of cost allowability have been received. Payment procedures are being addressed in a separate SOP.

Corrective Action Plan: To ensure full compliance with 29 CFR 5.5 and federal wage rate requirements, PSS will implement the following:

I. **Standardized Construction Contract Template**: PSS Legal Counsel and the Procurement Office will develop a standardized "Federal Construction Contract Addendum." This addendum will contain all mandatory Davis-Bacon Act clauses required by 29 CFR 5.5(a)(1)-(10). Effective immediately, no contract or purchase order exceeding $2,000 for construction, alteration, or repair will be executed without the inclusion of this addendum.

II. **Mandatory Certified Payroll Submission Protocol**: PSS will update its "Notice to Proceed" and project management guidelines to explicitly state that progress payments will be withheld until the contractor submits the required weekly certified payrolls. Contractors will be provided with the Form WH-347 (or an equivalent) to ensure they are using the correct reporting format.

III. **Pre-Construction Compliance Meetings**: For all future Davis-Bacon covered projects, PSS will hold a mandatory pre-construction meeting with contractors to clearly communicate their obligations regarding certified payrolls and the posting of the applicable wage decision at the job site.

IV. **Document Retention and Review Audit**: PSS will implement a "Project Close-out Checklist." Finance will not process the final retention payment for any construction project until the Labor Compliance Monitor certifies that all weekly certified payrolls have been received, reviewed, and filed.

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Finding No.: 2023-016, continued
AL Program: COVID-19 84.425A/84.425X Education Stabilization Fund
Area: Special Tests and Provisions - Wage Rate Requirement
Questioned Costs: Undeterminable

V. **Updated Standard Operating Procedures and Training:** PSS will finalize SOPs and policies internal controls with updated internal controls and procedures for required contract clauses and oversight. Checklists will be updated to include a specific control for Davis-Bacon reporting. Require all current contractors and those identified in this audit to submit certified payrolls for 2023 through the span of their contracts for all Davis-Bacon covered work. PSS Procurement and Supply staff will receive refresher training on cost principles annually regarding required contract clauses and documentation to support compliance with requirements.

Proposed Completion Date: September 2026

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Finding No.: 2023-017
AL Program: COVID-19 84.425A/84.425X Education Stabilization Fund
Area: Special Tests and Provisions - Private School Participation
Questioned Costs: Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management disagrees with the finding. PSS asserts that timely and meaningful consultations were conducted with private school officials prior to making decisions regarding the size, scope, and funding of equitable services for FY2023. Calculations for the equitable share under the Education Stabilization Funds were performed in accordance with federal regulations, ensuring that per-pupil allocations for eligible private school students and teachers were equitable relative to public school expenditures.

PSS maintains that consultation timelines, meeting records, and allocation formulas were maintained. While PSS is continuously refining its administrative workflows, the existing documentation and controls were sufficient to satisfy the requirements of 34 CFR § 299.7.

Proposed Completion Date: Resolution in progress and on track for completion by August 2026.

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Finding No.:	2023-018
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Area:	Allowable Costs/Cost Principles
Questioned Costs:	$-0-

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the finding. While internal verification of disbursements is a standard part of our fiscal workflow, we recognize that our current process has the space to improve.

Corrective Action Plan: To ensure that all disbursements are verified and documented prior to payment, PSS will implement the following:

I. **High Level Review and Approval**: Implementation of Comptroller/ Director of Finance review on the Batch Invoice Summary signifying invoice entries on the said batch are verified and correct. After the review, the Comptroller will sign.

II. **Updated Payment Verification Process**: Payments via check or ACH are reviewed by the Comptroller/ Director of Finance through Payment Manager and marking the Batch Invoice Summary that payments matched the invoice.

Proposed Completion Date: December 2025

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Finding No.:	2023-019
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Area:	Procurement and Suspension and Debarment
Questioned Costs:	$307,881

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the audit findings and recommendations. We recognize that our internal controls and existing policies regarding suspension and debarment must be modernized to align with 2 CFR §180.300. PSS is committed to implementing a standardized, mandatory verification process that ensures all vendors are vetted prior to the commitment of federal funds.

Procurement processes were promulgated in a SOP on September 18, 2024. The SOP is under review by an external consultant and recommendations made to improve documentation of the vendor selection process, both competitive and sole source exception. (See also 2023-004, 2023-0009, 2023-0012)

Corrective Action Plan: To address the lack of standardized procedures and ensure full compliance with procurement and debarment regulations, PSS will implement the following:

I. **Standardization of Procurement Files**: PSS will implement a mandatory "Procurement Compliance Folder" structure for all competitive sealed bids. This folder must contain indexed sections for: (1) Evidence of four-week public notice, (2) Signed bid opening summary sheets, (3) Individual evaluation rubrics for all bidders, and (4) The final Basis of Award. No contract will be executed until the Procurement Office certifies the folder is complete.

II. **Revised Suspension and Debarment Protocol**: PSS will update its internal policies to decouple the SAM.gov verification requirement from the Commissioner's formal debarment actions. Per 2 CFR §180.300, a mandatory "Vendor Eligibility Verification" step will be added to the pre-award phase. Staff must perform a SAM.gov exclusion search and attach the dated results to the contract file before it is routed for the Commissioner's signature.

III. **Implementation of a Procurement Checklist**: A comprehensive "Pre-Award Compliance Checklist" will be introduced. This checklist will serve as the primary enforcement mechanism, requiring staff to initial and date each procurement step as it is completed.

IV. **Updated Procurement Standard Operating Procedures:** The Procurement SOP will be updated with more specific guidance and selection checklist for each method (e.g., sealed bid, sole source) including documentation requirements to support vendor eligibility as verified at a minimum by review of SAM.gov and certification by the proposer. All vendors with active contracts in 2023 and subsequent years will be reviewed in SAM.gov for eligibility.

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Finding No.: 2023-019, continued
AL Program: 93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Area: Procurement and Suspension and Debarment
Questioned Costs: $307,881

Proposed Completion Date: September 2026

Name of Contact Person and Title:
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Finding No.:	2023-020
AL Program:	93.243 Substance Abuse and Mental Health Services Projects of Regional and National Significance
Area:	Special Tests and Provisions - Key Level Management
Questioned Costs:	Undeterminable

Views of Auditee and Corrective Action Plan:

Management's Position: PSS Management concurs with the findings. Financial and Grants Management processes were promulgated in a SOP on September 18, 2024. The SOPs are under review by an external consultant and recommendations made to improve documentation of time and effort allocable under federal awards. (See also 2023-004, 2023-0009)

Corrective Action Plan:

I. **Establishment of Time and Effort SOPs**: PSS will finalize and implement a dedicated Time and Effort Reporting SOP. This policy will explicitly define the key management Level of Effort (LOE) requirements by position and mandate the collection of specific supporting records, including Notice of Personnel Action (NOPA) forms, payroll registers, and certified timesheets. The SOP will feature robust internal controls and supervisory review procedures designed to prevent improper payments and ensure accurate labor distribution.

II. **Standardization of Key Management Records:** PSS will obtain and systematically retain NOPA forms or equivalent documentation for all six positions identified in the grant agreement. This documentation will serve as the primary evidence to demonstrate compliance.

III. **Labor Distribution Monitoring Controls**: PSS is implementing ongoing monitoring controls to ensure continued compliance. This includes a periodic internal review of payroll registers against the original grant agreements to verify that the labor costs charged to the award remain consistent with the approved personnel budget and documented effort.

Proposed Completion Date: August 2026

Name of Contact Person and Title:
Contact: Jacqueline Che, Federal Programs Officer
Email Address: jacqueline.che@cnmipss.org

FY2023 Schedule of Prior Audit Findings (SPAF)

Finding Number	Assistance Listing Number	Requirement	Total Questioned Costs (QC)	Overall Status	Remarks
2020-001	-	General Ledger and Financial Statements Close Process	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JD Edward System to the Ent ERP System that will accomplish a thorough year end process.
2020-002	-	General Ledger and Schedule of Expenditures of Federal Awards	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JDE to the ERP System. The Federal Programs Office and Deputy Budget Officer reconciles the SEFA report.
2020-002	84.425A	Reporting	$ -0-	Resolved – pursuant to 2 CFR 200.511	Complete.
2020-005	84.938A	Allowable Costs/ Cost Principles	$1,000	Resolved – pursuant to 2 CFR 200.511	PSS does not foresee issuing another retention incentive.
2020-006	84.938A	Allowable Costs/ Cost Principles	$84,926	Resolved – pursuant to 2 CFR 200.511	Resolved.
2020-007	84.938G	Allowable Costs/ Cost Principles	$ -0-	Resolved – pursuant to 2 CFR 200.511	Resolved.
2020-008	84.403	Procurement and Suspension and Debarment	$666,325	Resolved – pursuant to 2 CFR 200.511	Resolved.
2021-001	-	General Ledger and Financial Statements Close Process	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JD Edward System to the Ent ERP System.

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FY2023 Schedule of Prior Audit Findings (SPAF), continued

2021-002	-	General Ledger and Schedule of Expenditures of Federal Awards	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JDE to the ERP System. The Federal Programs Office and Deputy Budget Officer reconciles the SEFA report.
2021-003	84.425A	Allowable Costs/ Cost Principles	$467,888	Resolved – pursuant to 2 CFR 200.511	Condition 1 Resolved. Condition 2 is pending Federal grantor agency feedback. Condition 2b PSS does not foresee issuing another retention incentive.
2021-004	84.425A	Equipment and Real Property Management	$ -0-	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Completed through transition from JDE to ENT ERP Condition 2 - Custodian signature complete.
2021-005	84.403	Equipment and Real Property Management	$ -0-	Resolved – pursuant to 2 CFR 200.511	Complete.
2021-006	93.243	Matching, Level of Effort, and Earmarking	$98,711	Resolved – pursuant to 2 CFR 200.511	Currently, aside from the recently vacated position, LOE is being met.
2022-001	-	General Ledger and Financial Statements Close Process	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JD Edward System to the Ent ERP System that will accomplish a thorough year end process.
2022-002	-	General Ledger and Schedule of Expenditures of Federal Awards	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JDE to the ERP System. The Federal Programs Office and Deputy Budget Officer reconciles the SEFA report.

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FY2023 Schedule of Prior Audit Findings (SPAF), continued

2022-002	-	General Ledger and Schedule of Expenditures of Federal Awards	$ -0-	Resolved – pursuant to 2 CFR 200.511	Completed transition from the current JDE to the ERP System. The Federal Programs Office and Deputy Budget Officer reconciles the SEFA report.
2022-003	84.027	Allowable Costs/ Cost Principles	$ -0-	Resolved – pursuant to 2 CFR 200.511	Condition 1 - PSS recently implemented the Enterprise ERP system that will address general ledger and subsidiary ledger discrepancies. Condition 2 - Timesheets for 190-day employees for summer pay are now required starting June 2024.
2022-004	84.403	Allowable Costs/ Cost Principles	$28,975	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Human Resource Office to include pay differential eligibility per PSS regulations in the NOPA starting 8/1/2024. Condition 2 - Federal Programs Office instituted a stringent SOP for seeking prior approval for equipment costing over $5,000.
2022-005	84.425	Allowable Costs/ Cost Principles	$246,285	Resolved – pursuant to 2 CFR 200.511	Condition 1 - PSS recently implemented the Enterprise ERP system that will address general ledger and subsidiary ledger discrepancies. Condition 2 - PSS does not foresee issuing another retention incentive. Condition 3 - FPO instituted a stringent SOP for seeking prior approval for equipment costing over $5,000.

FY2023 Schedule of Prior Audit Findings (SPAF), continued

2022-005	84.425	Allowable Costs/ Cost Principles	$246,285	Resolved – pursuant to 2 CFR 200.511	Condition 1 - PSS recently implemented the Enterprise ERP system that will address general ledger and subsidiary ledger discrepancies. Condition 2 - PSS does not foresee issuing another retention incentive. Condition 3 - FPO instituted a stringent SOP for seeking prior approval for equipment costing over $5,000.
2022-006	93.356 93.600	Allowable Costs/ Cost Principles	$132,591	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Fair allocation of fringe benefits documented. Condition 2 - Federal Programs Office instituted a stringent SOP for seeking prior approval for equipment costing over $5,000.
2022-007	93.356 93.600	Special Tests and Provisions – Program Governance	$ -0-	Resolved – pursuant to 2 CFR 200.511	Condition 1 - complete Condition 2 - complete Condition 3 - complete
2022-008	84.027	Equipment and Real Property Management	$29,988	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Asset Accountability Form signed by custodian implemented. Condition 2 - Custodian's name and condition of equipment complete as part of transition from JDE to ENT ERP.
2022-009	84.403	Equipment and Real Property Management	$36,244	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Asset Accountability Form signed by custodian implemented. Condition 2 - Custodian's name and condition of equipment complete as part of transition from JDE to ENT ERP.
2022-010	84.425	Equipment and Real Property Management	$854,432	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Complete Condition 2 - Custodian signature complete.

FY2023 Schedule of Prior Audit Findings (SPAF), continued

2022-011	93.356 93.600	Equipment and Real Property Management	$165,367	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Asset Accountability Form signed by custodian implemented.
2022-012	10.555	Procurement and Suspension and Debarment	$261,889	Resolved – pursuant to 2 CFR 200.511	Condition 1 - Written determination of the price reasonableness implemented Condition 2 - 3 price quotations for purchase requests strictly implemented Condition 3 - PSS has revised its regulation that only requires one quotation for purchases $1,000 and below Condition 4 - Written determination by the COE that satisfies T60-40-224(a) have been implemented
2022-013	84.027	Procurement and Suspension and Debarment	$105,959	Resolved – pursuant to 2 CFR 200.511	Resolved.
2022-014	84.403	Procurement and Suspension and Debarment	$24,595	Resolved – pursuant to 2 CFR 200.511	Resolved.

PSS hereby acknowledges understanding of 2 CFR 200.511(b)(3) regarding the two-year period for 'Resolved' prior year findings, specifically that this period commences upon the report's upload date to the FAC database.