



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**MANAGEMENT OF FEDERAL GRANTS,
PUBLIC SCHOOL SYSTEM,
COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS**

**REPORT NO. 99-I-147
DECEMBER 1998**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

DEC 15 1998

Ms. Marja Lee Taitano
Chairwoman, Board of Education
Public School System
Commonwealth of the Northern Mariana Islands
P.O. Box 1370 CK
Saipan, MP 96950

Subject: Audit Report on Management of Federal Grants, Public School System,
Commonwealth of the Northern Mariana Islands (No. 99-I-147)

Dear Ms. Taitano:

This report presents the results of our review of the Public School System's management of Federal grants. The objective of the audit was to determine whether the Public School System's grants management system ensured that applicable laws and regulations were complied with as they related to (1) the procurement and administration of contracts and property, (2) the identification and allocation of costs for personnel and for contract employees, and (3) the billing of and control over cash drawdowns.

As part of the audit, we evaluated the accounting and management controls over procurement, property, personnel costs, and cash drawdowns. Our audit disclosed that personnel services costs charged to Federal grant programs were adequately supported by time and attendance records and that cash drawdowns were made in compliance with Federal cash management standards. However, we found that the Public School System needed to make improvements in the areas of procurement and property management.

Specifically, our audit disclosed that the Public School System (1) did not adequately justify the use of sole source and emergency procurement methods; (2) split procurements into small purchases which resulted in competitive procurement methods not being used; and (3) did not obtain the required number of written price quotations for small purchases. Furthermore, the Public School System did not maintain accurate inventory records for reportable property and did not ensure that all controlled property was eventually recorded in the property records. In addition, the Public School System used funds provided by the Federal Transit Administration to pay for school bus repairs that should have been covered under the warranty from the seller/manufacturer.

These deficiencies occurred because the Public School System had not (1) developed procurement plans to facilitate competitive procurement, (2) developed and implemented written procedures to ensure that small purchases were reviewed for possible consolidation by the Procurement and Supply Office, (3) established adequate written procedures to ensure that the Procurement Rules and Regulations were followed, (4) developed adequate property control procedures and forms, (5) required the seller/manufacturer of the buses to provide

warranty service through a local representative, and (6) maintained centralized files and controls over warranties. As a result, the Public School System did not have full assurance that the best prices were received on at least 139 small purchases, totaling \$523,589. In addition, the Public School System did not have control over accountable property of \$197,964 that was purchased with Federal funds, and it unnecessarily used Federal funds of \$17,044 to repair buses.

To correct these conditions, we recommended that you, as the Chairwoman of the Board of Education, direct the Commissioner of Education to develop and submit written procedures to the Board for (1) preparing annual procurement plans, (2) ensuring that purchase requisitions are consolidated to the maximum extent possible, (3) performing biennial physical inventories, (4) requiring delivery of all accountable property directly to the Procurement and Supply Office's central warehouse for receiving and tagging, and (5) ensuring that a centralized file for warranties is maintained and that warranties are used to make any necessary repairs. In addition, we recommended that the Public School System (1) enforce provisions of the Procurement Rules and Regulations that prohibit artificially dividing procurements to avoid competitive bidding and that require **three** written price quotations for small purchases; (2) conduct a complete physical inventory of accountable property, compare the results with existing property records, and investigate and resolve any discrepancies; (3) revise the property record card format to include all information required by Federal regulations; (4) establish and maintain a general fixed assets account group in the new financial management system; and (5) require the seller/manufacture of the buses to provide warranty service through an arrangement with a local representative and seek reimbursement from the seller/manufacture for the cost of repairs made to the school buses during the warranty period.

The Commissioner of Education's November 9, 1998, response (Appendix 2) to the draft report on behalf of the Board of Education indicated concurrence with Recommendations A.1, A.2, A.3, B.1, B.2, B.3, B.4, B.5, and B.7. Based on the response, we consider these recommendations resolved but not implemented. However, the Board did not concur with Recommendation B.6, and we consider this recommendation unresolved. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and the Board is requested to reconsider its response to Recommendation B.6.

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by January 15, 1999. The response should be addressed to our Pacific Office, 415 Chalan San Antonio, Baltej Pavilion, Suite 306, Tamuning, Guam 96911. The response should provide the information requested in Appendix 3.

We appreciate the assistance of the management and staff of the Public School System in the conduct of our audit.

Sincerely,

A handwritten signature in black ink, reading "Eljay B. Bowron". The signature is fluid and cursive, with the first name "Eljay" being more prominent and stylized than the last name "Bowron".

Eljay B. Bowron
Inspector General

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INTRODUCTION

BACKGROUND

The Public School System was established in October 1988 by Commonwealth of the Northern Mariana Islands Public Law No. 6-10 as a nonprofit corporation of the Commonwealth. The Public School System is under the direction of the Board of Education, which consists of five voting members elected at large on a nonpartisan basis and three nonvoting members appointed by the Governor. The Public School System is the state education agency responsible for operating all of the Commonwealth's public preschool, elementary, and secondary education programs. The Commissioner of Education, who is appointed by the Board, is responsible for administering the Public School System in accordance with applicable laws and Board policies. During fiscal year 1996, the Public School System had 1,183 employees, expended local funds of \$32.3 million and Federal funds of \$11.5 million, and administered 16 schools located on three islands with a total enrollment of 8,250 students. By law, the public elementary and secondary education system is guaranteed an annual budget of not less than 15 percent of the general revenues of the Commonwealth.

Through Board Policy 1004, the Board of Education adopted the "CNMI [Commonwealth of the Northern Mariana Islands] Public School System Procurement Rules and Regulations." These regulations created the Public School System's Procurement and Supply Office, which is headed by a Procurement and Supply Officer. The Procurement and Supply Officer is responsible for (1) ensuring that procurement regulations are followed; (2) conducting procurement activities such as bidding, negotiating professional services contracts, and administering contracts; (3) planning for the centralized purchase of supplies; (4) providing general supervision and control over supply inventories; and (5) establishing and maintaining programs for the inspection, testing, and acceptance of supplies.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Public School System's grants management system ensured that applicable Federal laws and regulations were complied with as they related to (1) the procurement and administration of contracts and property, (2) the identification and allocation of costs for personnel and for contract employees, and (3) the billing of and control **over** cash drawdowns.

The scope of the audit, which was conducted during the period of September 1997 to May 1998, included a review of the Public School System's procedures and controls for the management of Federal grants that were in effect during fiscal years 1995 through 1997. We also examined financial and administrative records and reports at the Public School System's Federal Programs, Fiscal and Budget, and Procurement and Supply Offices, as well as documents and reports related to Public School System's capital improvement projects maintained at the Commonwealth's Department of Finance. In addition, we interviewed Public School System and Commonwealth officials and private contractors and visited public

schools on the islands of Saipan, Tinian, and Rota to inspect property purchased with Federal funds. However, we could not determine the total number and value of property items purchased with Federal funds because the Public School System's property records were inaccurate (see Finding B).

The audit was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the accounting and management controls over procurement, property, personnel costs, and cash drawdowns. We determined that personnel services costs charged to Federal grant programs were adequately supported by time and attendance records and that cash drawdowns were made in compliance with Federal cash management standards, which require the Public School System to minimize the elapsed time between the transfer of funds from the U.S. Treasury and the disbursement of funds by the Public School System. However, we found internal control weaknesses in the methods used by the Public School System to conduct procurements and manage property. The internal control weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, the General Accounting Office has not issued any audit reports pertaining to the Public School System's management of Federal grants. However, in January 1993, the Office of Inspector General issued the audit report "Food Service Operations, Public School System, Commonwealth of the Northern Mariana Islands" (No. 93-I-403) which stated that the Public School System submitted to the Food and Nutrition Service, U.S. Department of Agriculture, claims for Federal cash assistance based on (1) meal claims percentages that were not valid and (2) meals that were not eligible for reimbursement.

In addition, in January 1998, the Commonwealth Office of the Public Auditor issued the audit report "Audit of Marianas High School Gymnasium Contract" (No. AR-98-01). The report stated that the Public School System "poorly managed" the gym construction project and was "negligent" in enforcing applicable contract provisions and procurement regulations. The report concluded that about \$970,000 in local government funds may have been "wasted" as a result of mismanagement by School System officials.

Finally, in February 1996, a certified public accounting firm issued a single audit on the Public School System for the fiscal year ended September 30, 1994. The single audit report stated that the Public School System (1) did not maintain a properly valued register of all fixed assets on hand and (2) did not have title from or lease agreements with the Commonwealth's Division of Public Lands for land on which several of its schools were located. Single audit reports for fiscal years 1995, 1996, and 1997 had not been issued as of July 1998.

FINDINGS AND RECOMMENDATIONS

A. PROCUREMENT ACTIVITIES

The Public School System did not ensure that procurement activities involving Federal grant funds were carried out in accordance with applicable laws and regulations. Specifically, the Public School System (1) split procurements into small purchases to avoid the use of competitive procurement methods, (2) did not obtain the required number of written price quotations for small purchases, and (3) did not adequately justify the use of sole source and emergency procurement methods. Procurement requirements are contained in the “CNMI Public School System Procurement Rules and Regulations.” The deficiencies occurred because the Public School System had not developed procurement plans to facilitate the competitive procurement of goods and services by the Procurement and Supply Office. In addition, there were no written procedures to ensure that small purchases were reviewed by the Procurement and Supply Office to determine whether separate purchase requisitions could be consolidated. Also, the Public School System had not established adequate written procedures to ensure compliance with the “Procurement Rules and Regulations.” As a result, the Public School System did not have full assurance that the best prices were received on at least 139 small purchases, totaling \$523,589.

Procurement Standards

Section 3-1 01 of the “Procurement Rules and Regulations” requires that all contracts of more than \$10,000 be awarded on the basis of competitive sealed bids except for small purchases, sole source procurements, emergency procurements, and procurements of professional and architect-engineer services. According to Section 3- 104, sole source procurements require that the official who has expenditure authority provide a written determination of “the unique capabilities required and why they are required and the consideration given to alternative sources.” In addition, the Procurement and Supply Officer is required to state in writing that there is only one source for the required goods or services. Additionally, according to Section 3-1 05, emergency procurements require a written justification by the official who has expenditure authority of the basis for the emergency and the basis for the selection of a particular contractor. The justification must include the extent and nature of the harm to the Public School System, such as a threat of serious financial or other injury, and must be approved by the Procurement and Supply Officer and the Commissioner of Education.

Further, Section 3-1 03 of the “Procurement Rules and Regulations” defines small purchases as those valued at \$10,000 or less. Purchases under \$2,500 may be made without obtaining bids or price quotations if the Procurement and Supply Officer considers the price to be reasonable. For small purchases valued at \$2,500 to \$10,000, written price quotations must be obtained from at least three vendors, and the selection must be based on competitive price and quality. Section 3-103 also states that procurement requirements should not be artificially divided so as to constitute a small purchase. Section 2-1 05 of the “Procurement Rules and Regulations” states that if the Procurement and Supply Officer determines that a

procurement requirement has been split into smaller requisitions for the purpose of avoiding bidding, the Officer may require the contract to be bid competitively.

Small Purchases

The Public School System split procurement requisitions, thereby avoiding the requirement that competitive sealed bidding should be used on large dollar procurements, and it processed small purchases without obtaining the required number of written price quotations. These conditions occurred because the Public School System had not developed procurement plans to facilitate the competitive procurement of goods and services by the Procurement and Supply Office. In addition, there were no written procedures to ensure that small purchases were reviewed by the Procurement and Supply Office to determine whether separate purchase requisitions could be consolidated. Also, the Public School System had not developed adequate written procedures to ensure that the "Procurement Rules and Regulations" were followed. As a result, the Public School System did not have MI assurance that the best prices were received for goods and services totaling at least \$523,589 during fiscal years 1995 through 1997.

Based on our review of the purchase order logbooks maintained by the Fiscal and Budget Office, we determined that during fiscal years 1995 through 1997: the Public School System processed 7,271 purchases of less than \$2,500, totaling \$5.2 million; 4,768 purchases between \$2,500 and \$10,000, totaling \$13.6 million; and 203 purchases of more than \$10,000, totaling \$15.9 million. Of these procurement actions, the following were for Federal programs: 3,263 purchases of less than \$2,500, totaling \$2.5 million; 2,634 purchases between \$2,500 to \$10,000, totaling \$6.0 million; and 123 purchases of more than \$10,000, totaling \$11.9 million. Of the Federally funded procurement actions, we judgmentally selected and reviewed 62 purchases of less than \$2,500, totaling \$96,780; 71 purchases from \$2,500 to \$10,000, totaling \$36 1,189; and 6 purchases of more than \$10,000, totaling \$1.9 million. We did not identify any exceptions related to the six purchases of more than \$10,000 that were included in our sample. However, we determined that 112 purchase orders of \$10,000 or less, totaling \$335,354, had been split, thereby avoiding the requirement that competitive price quotations or sealed bids should be obtained. As a result, for these 112 purchase orders, the Public School System did not have assurance that the best prices were received.

For example, on November 9, 1995, the Research, Information, and Training Officer submitted four internal requisitions--three for \$4,521 each and one for \$2,321 --to purchase four copies of a multiuser computer software package from a local vendor. In January and February 1996, four formal purchase orders, each in the amount of \$3,971 and totaling \$15,884, were issued to the vendor to acquire the software package. In our opinion, since the total amount of the procurement exceeded the small purchase threshold of \$10,000, the requisitions should have been consolidated and processed using competitive procurement methods.

We also found that the Public School System did not obtain three written price quotations when it made small purchases of \$2,500 to \$10,000. We judgmentally selected and reviewed

an additional 46 purchase orders, totaling \$307,857, and found that 1 purchase order, for \$4,000, was correctly processed as a sole source procurement and that 18 purchase orders, totaling \$115,622, were processed with the required three written price quotations. However, 15 purchase orders, totaling \$107,305, were processed with only two written price quotations, and 12 purchase orders, totaling \$80,930, were processed with only one written price quotation. In addition, for the 12 purchase orders with one quotation, 5 had no written justifications to support the use of sole source or emergency procurement methods, and 7 did not have adequate written justification to support the use of sole source procurement methods. As a result, for the 27 purchase orders, totaling \$188,235, the Public School System did not have assurance that the best prices were received.

The Procurement and Supply Officer told us that because the schools and administrative/program offices did not plan their procurements, they made many small purchases, which could have been consolidated and processed using competitive procurement methods. The Procurement and Supply Officer also said that there was no system in place to detect and consolidate requisitions for like items and that she did not have adequate staff to thoroughly screen the large number of purchase requisitions submitted to her office for processing. In our opinion, if the Public School System had developed and used annual procurement plans, the Procurement and Supply Office would have had sufficient lead time to consolidate similar items, process procurement requests competitively, and potentially lower costs.

Recommendations

We recommend that the Chairperson, Board of Education, direct the Commissioner of Education to:

1. Develop and submit to the Board for approval written procedures for preparing annual procurement plans to ensure that the Procurement and Supply Office has sufficient lead time to process purchase requisitions competitively.
2. Develop and submit to the Board for approval written procedures to ensure that purchase requisitions, including purchases of \$10,000 and less, are consolidated to the maximum extent possible.
3. Enforce provisions of the "Procurement Rules and Regulations" that prohibit the artificial dividing of procurements which results in competitive bidding requirements being bypassed and require three written price quotations for small purchases of \$2,500 to \$10,000.

Board of Education Response and Office of Inspector General Reply

The Commissioner of Education's November 9, 1998, response (Appendix 2) to the draft report on behalf of the Board of Education concurred with Recommendations 1 through 3. Based on the response, we consider all three recommendations resolved but not implemented (see Appendix 3).

B. PROPERTY MANAGEMENT

The Public School System did not adequately record, control, and manage fixed assets acquired with Federal grant funds. Specifically, the Public School System did not maintain accurate inventory records for reportable property and did not ensure that all controlled property was eventually recorded in the property records. In addition, the Public School System did not conduct the required physical inventories of accountable property, and it used funds provided by the Federal Transit Administration to pay for school bus repairs that should have been covered under the warranty from the seller/manufacturer. Federal property management requirements applicable to the Public School System's grant programs are contained in Title 34 of the Code of Federal Regulations. The deficiencies occurred because the Public School System did not have adequate property control procedures and property record cards, did not require the seller/manufacturer of the buses to provide warranty service through a local representative, and did not maintain centralized files and controls over warranties. As a result, the Public School System did not have adequate control of accountable property of at least \$197,964 that was purchased with Federal funds, and it unnecessarily spent Federal funds of \$17,044 to repair buses.

Property Management Standards

Title 34 of the Code of Federal Regulations contains the standards for property management activities for equipment purchased with Federal grant funds. Section 80.32(d)(1) of the Code requires grantees to maintain records that include specific information on assets purchased with Federal funds, and Section 80.32(d)(2) requires grantees to conduct physical inventories at least every 2 years. Although Section 1550 of Commonwealth Public Law No. 6-10 (the Education Act of 1988) requires the Board of Education to establish policies for proper management and control of property, including equipment and vehicles, the Board had not established adequate policies and procedures.

Reportable Property

The Public School System did not adequately control and account for reportable property purchased with Federal funds. This condition occurred because the Public School System had not developed and implemented written procedures to ensure that reportable property was adequately controlled. As a result, the Public School System was unable to locate 70 property items, valued at \$197,964, and at least 82 property items of unknown value located at three schools were not recorded in the Public School System's reportable property records, which made these items vulnerable to loss or theft.

As disclosed in the single audit report for fiscal year 1994, the Public School System did not conduct inventories or value its fixed assets and did not include a fixed assets account group in its financial statements. The former Fiscal and Budget Officer said that the Public School System planned to resolve these deficiencies with a new automated financial management system, which was scheduled to be implemented by October 1, 1998. The Procurement and Supply Officer stated that her office had maintained a database for controlled assets on a

“stand-alone” personal computer but that this system had malfunctioned in April 1997. Consequently, for almost 1 year, the control system consisted of only a manually maintained property card file. As an interim solution, the Procurement and Supply Office created a new computer database tile in March 1998 from information shown on the property record cards. However, the database was incomplete because the property record card form did not include all of the data elements required by Federal regulations, such as the source of the property, the grant award number, the determination as to whether title vests in the Public School System or the Federal Government, and the percentage of Federal participation in the cost of the property. In addition, we determined that since its inception in October 1988, the Public School System had not taken a physical inventory and reconciled the results with the property record card file. Furthermore, since the requesting school and administrative officials were allowed to receive goods directly from local vendors, there was no assurance that equipment was eventually recorded on the property record cards or tagged as property of the Public School System. Because of the incompleteness of the property record cards, we could not determine the total value of Federally funded property. Additionally, because equipment was delivered to the individuals who initiated the purchases, there was insufficient segregation of responsibilities to ensure that the items were properly controlled and used for official purposes. We believe that vendors should be required to deliver all accountable property to the Procurement and Supply Office central warehouse for receiving, tagging, and delivery to the requesting official.

We obtained, from the Procurement and Supply Office, a listing of the property record database as of March 20, 1998. From this list, we selected 160 property items, valued at \$431,473, for physical inspection at a high school on Saipan and at elementary schools on the islands of Tinian and Rota. Of the 160 property items, the schools were unable to locate 70 items (44 percent), valued at \$197,964. In addition, the schools were unable to provide survey or missing property reports for the 70 missing items. At the schools, we also found 82 property items, consisting of computer, audiovisual, and shop equipment, that were not recorded in the Public School System’s reportable property records. As a result, these sensitive items were vulnerable to loss or theft.

Bus Repairs

On December 27, 1995, the Public School System awarded, to a bus manufacturer in North Carolina, a contract to purchase 12 new school buses. The school buses were purchased with funds provided by the Federal Transit Administration. The bid specifications required the manufacturer to provide a 60-month, 100,000 mile warranty, which was shown in the manufacturer’s bid submission. However, between August 1996 and May 1997, the Public School System spent Federal Transit Administration funds of \$17,044 to repair the air conditioning on the buses, although the repairs should have been covered by the manufacturer’s warranty.

Based on our review of contract files at the Procurement and Supply Office, we found that the manufacturer of the new buses had not designated a local repair shop to handle warranty repairs and that the Public School System administration had not required the manufacturer to provide the name of a local representative to provide service under the warranty. Also,

we found that the Public School System did not have control records and a central file for warranties.

The Public School System's chief mechanic stated that although he had not seen the warranty documents for the new buses and his shop did not file warranty documents for any of the Public School System's vehicles, he did have the warranty manual from the factory, which provided instructions on how to process claims for warranty repair service. In addition, the former Fiscal and Budget Officer stated that her office planned to submit the invoices and payment documents to the bus manufacturer for reimbursement of repair costs under warranty. However, as of March 1998, warranty reimbursement had not been requested or received by the Public School System.

Recommendations

We recommend that the Chairperson, Board of Education, direct the Commissioner of Education to:

1. Develop and submit to the Board for approval written procedures for performing biennial physical inventories of accountable property acquired with Federal funds.
2. Immediately conduct a complete physical inventory of accountable property, compare results with information on existing property records, and investigate and resolve any discrepancies found during the physical inventory.
3. Revise the format of the property record card form to include all the information required by Federal regulations, such as the source of the property and the grant award number, the determination as to whether title vests in the Public School System or the Federal Government, and the percentage of Federal participation in the cost of the property.
4. Establish and maintain a general fixed assets account group in the new financial management system to ensure that property purchased with Federal funds is controlled.
5. Develop and submit to the Board for approval written procedures to require vendors to deliver all accountable property directly to the Procurement and Supply Office central warehouse for receiving, tagging, and delivery to the requesting official.
6. Require the seller/manufacturer of the buses to provide warranty service through an arrangement with a local representative and seek reimbursement from the seller/manufacturer for the cost of repairing the buses during the warranty period.
7. Develop and submit to the Board for approval written procedures to ensure that a centralized file for warranties is maintained and that warranties are used to make any necessary repairs.

Board of Education Response and Office of Inspector General Reply

The Commissioner of Education's November 9, 1998. response (Appendix 2) to the draft report on behalf of the Board of Education concurred with Recommendations 1, 2, 3, 4, 5, and 7. The Board also indicated disagreement with the portion of the finding related to Recommendation 6. Based on the response, we consider Recommendations 1, 2, 3, 4, 5, and 7 resolved but not implemented and request that the Board reconsider Recommendation 6, which is unresolved (see Appendix 3).

Recommendation 6. Nonconcurrence indicated.

Board of Education Response. The Board indicated disagreement with the section of the report "Bus Repairs" and requested that this section be deleted. The Board stated that "because of a dispute over billings between the manufacturer of the air conditioning units and the firm doing the retrofits and service," the Public School System paid for the retrofits and service on the buses and was reimbursed by the seller/manufacturer of the buses for services covered under warranty. In addition, the Board stated that it "must take issue" with the \$17,044 amount cited in our report and that the amount should be \$9,971 because the difference was related to nonwarranty items such as oil filters. The Board further stated that the Public School System expects "to receive a reimbursement shortly" from the seller/manufacturer of the buses.

Office of Inspector General Reply. As stated in our report, the Fiscal and Budget Officer told us that, although planned, warranty reimbursement had not been requested by the Public School System as of the time of our audit (March 1998). Although the Board states that the Public School System "was reimbursed" by the seller/manufacturer of the buses "for work covered under the warranty," the reply to Recommendation 6 states that the Board has "requested reimbursement" from the seller/manufacturer. In regard to the amount, we obtained copies of paid invoices totaling \$17,044 for air conditioning repairs during the audit. These invoices did not include any regular maintenance items, such as oil filters, which are not covered under warranty. In our opinion, the dispute between the manufacturer of the air conditioning units and the firm doing the retrofits and service on the buses could have been avoided had the seller/manufacturer of the buses appointed a local representative to handle warranty services on the buses. The recommendation is intended to reduce the likelihood of similar disputes for any future warranty service that may become necessary on the buses. Therefore, the Board of Education is requested to reconsider its response to the recommendation.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Areas</u>	<u>Funds To Be Put To Better Use*</u>
A. Procurement Activities	
Small Purchases	\$523,589
 B. Property Management	
Reportable Property	197,964
Bus Repairs	<u>17,044</u>
 Total	 <u><u>\$738,597</u></u>

*Amounts represent Federal funds.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
STATE BOARD OF EDUCATION
PUBLIC SCHOOL SYSTEM
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STUDENT REP.
MERCED A. ADA

November 9, 1998

[~~THE~~ OFFICE OF INSPECTOR GENERAL
HAS DELETED FROM THE RESPONSE THE
IDENTITIES OF THE BUSINESSES
DISCUSSED IN THE REPORT.]

Mr. Robert J. Williams
Assistant Inspector General for Audits
Office of the Inspector General
North Pacific Region
238 Archbishop Flores Street
PDN Bldg. Suite 807
Agana, Guam 96910

Dear Mr. Williams:

Thank you for performing an audit of the grants management system of the CNMI Public School System. We appreciate your mentioning that personnel costs charged to federal grants and cash drawdowns were in accordance with federal standards. We also appreciate your noting areas such as procurement and property management that are deficient.

We must take issue with your assertion that the PSS used Federal Transit Administration (FTA) grant funds to pay for school bus repairs that should have been covered under the warranty. What PSS did was pay for air conditioning system retrofits and maintenance and then was reimbursed by [REDACTED], the manufacturer for work covered under the warranty. This arrangement was necessary because of a dispute over billings between the manufacturer of the air conditioning units and the firm doing the retrofits and service on our buses. Also, we must take issue with the \$17,044 amount which appears to include items not covered under the warranty such as oil filters. Our records show \$9,971 balance due from [REDACTED] and we expect to receive a reimbursement shortly. We therefore respectfully request a deletion of the finding on bus repairs.

We will address the recommendations in the order in which they were presented. They are as follows:

Inspector General Audit Response
November 9, 1998
P.-Z

Procurement Recommendations:

Recommendation No. 1: Develop and submit to the Board for approval written procedures for preparing annual procurement plans to ensure that the Procurement and Supply Office has sufficient lead time to process purchase requisitions competitively.

Auditee Response: We concur with this finding.

Corrective Action Plan: This will be done by the Procurement & Supply Officer within the next 120 days.

Recommendation No. 2: Develop and submit to the Board for approval written procedures to ensure that purchase requisitions, including purchases of \$10,000 and less, are consolidated to the maximum extent possible.

Auditee Response: We concur and will work with our schools to maintain a framework for consolidated orders as we evolve toward site-based management with expenditure authority and procurement functions devolving to the schools.

Corrective Action Plan: This will be done by the Procurement & Supply Officer and Internal Auditor within the next 90 days.

Recommendation No. 3: Enforce provisions of the "Procurement Rules and Regulations" that prohibit the artificial dividing of procurements which results in competitive bidding requirements being bypassed and require three written price quotations for small purchases of \$2,500 to \$10,000.

Auditee Response: We concur and will work with our schools on strict adherence to procurement rules and regulations small purchase procedures as we evolve toward site-based management with expenditure authority and procurement functions devolving to the schools.

Corrective Action Plan: This is being done by the Procurement and Supply Officer, Internal Auditor and our Principals.

Inspector General Audit Response
November 9, 1998
P.-3

Property Management:

Recommendation No. 1: Develop and submit to the Board for approval written procedures for performing biennial physical inventories of accountable property acquired with federal funds.

Auditee Response: We concur.

Corrective Action Plan: This will be done by the Internal Auditor within the next 120 days.

Recommendation No. 2: Immediately conduct a complete physical inventory of accountable property acquired with federal funds.

Auditee Response: We have completed the physical inventory and are reconciling records.

Corrective Action Plan: This is being done by the Procurement & Supply Office staff under the supervision of the Procurement and Supply Officer.

Recommendation No. 3: Revise the format of the property card form to include all the information required by federal regulations, such as the source of the property and the grant award number, the determination as to whether title vests in the Public School System or the federal government, and the percentage of federal participation in the cost of the property.

Auditee Response: We concur.

Corrective Action Plan: This will be done by the Procurement & Supply Officer within the next 60 days.

Recommendation No. 4: Establish and maintain a general fixed asset group in the new financial management system to ensure that property purchased with federal funds is controlled.

Auditee Response: We concur.

Corrective Action Plan: This will be accomplished in FY 2000 under the supervision of the Fiscal and Budget Officer.

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Recommendation No. 5: Develop and submit to the Board for approval written procedures to require vendors to deliver all accountable property directly to the Procurement and Supply Office warehouse for receiving, tagging and deliver to the requesting official.

Auditee Response: We concur and will work with our schools on property **accountability** procedures as we evolve toward site-based management with expenditure authority and procurement functions devolving to thye schools.

Corrective Action Plan: This will be done by the Procurement & Supply Officer within the next 90 days

Recommendation No. 6: Require the manufacturer of the buses to provide warranty service through an arrangement with a local company and seek reimbursement from the manufacturer for the costs of repairing the buses during the warranty period.

Auditee Response: We had an arrangement for the warranty service with [REDACTED] and have requested reimbursement from [REDACTED] for services covered under the warranty.

Corrective Action Plan: Not Applicable.


Recommendation No. 7: Develop and submit for board approval written procedures to ensure that a centralized file for warranties is maintained and that warranties are used to make repairs.

Auditee Response: We concur.

Corrective Action Plan: This will be done by the Procurement & Supply Officer within the next 90 days.

Should you have any questions, please contact Tim Thornburgh of my Federal Programs Office at (670) 664-3789.

Sincerely,


Rita Hocog Ins, Ed. D
Commissioner of Education

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1 and A.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when approved, a copy of the written procedures should be provided to our Pacific Office.
A.2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
B.1, B.5, and B.7	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when approved, a copy of the written procedures should be provided to our Pacific Office.
B.2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when completed, a copy of the inventory reconciliation report should be provided to our Pacific Office.

Finding/Recommendation Reference	Status	Action Required
B.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when revised, a copy of the new property record card form should be provided to our Pacific Office.
B.4	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when established, a copy of the system procedures for the general fixed assets account group should be provided to our Pacific Office.
B.6	Unresolved.	Reconsider the recommendation. If concurrence is indicated, provide the target date and the title of the official responsible for requiring the seller/manufacture of the buses to designate a local representative to provide any future warranty service and for ensuring that reimbursement is received from the seller/manufacture for the cost of repairing the buses during the warranty period. If nonconcurrence is indicated, provide reasons for the nonconcurrence.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL**

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