UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE DEPUTY SECRETARY

June 13, 2013

Honorable Eloy S. Inos
Governor of the Northern Mariana Islands
Caller Box 10007
Saipan, MP 96950

Dear Governor Inos:

Attached are the special conditions for grant awards made by the U.S. Department of Education (Department) to the Commonwealth of the Northern Mariana Islands Public School System (CNMI PSS) for Federal fiscal year (FFY) 2013. These special conditions apply to grants awarded by the Department to CNMI PSS on or after the date of these special conditions. These special conditions also apply to grant funds previously awarded by the Department to CNMI PSS that are still available for obligation or liquidation as of the date of these special conditions.

Based on the outcome of the onsite visit conducted by the Department's Risk Management Service in August 2012, the delay by CNMI PSS in filing the FY 2011 single audit, the findings included in the March 18, 2013 audit report, and the disclaimed opinion concluded for this report, the Department has determined that additional special conditions must be imposed on all Department grants awarded to CNMI PSS. This action is necessary to ensure fiscal accountability of Department grant funds, while CNMI PSS continues to implement corrective actions to address current and prior audit findings. As indicated in the FY 2012 special conditions cover letter, and in previous special conditions cover letters since removal of the high-risk grantee designation from CNMI PSS in 2004, the Department reserved the right to take appropriate action should CNMI PSS's progress in implementing corrective actions cease or fiscal or program accountability problems recur. We are concerned by the deficiencies in managing Department grant funds that were revealed during the site visit and in the FY 2011 single audit report in areas including : (1) bank reconciliation concerning Federal funds ; (2) procurement; (3) allowable use of Department funds; (4) property management (including inventory); (5) travel policies; and (6) payroll procedures; as well as prior areas of concern regarding monitoring and evaluating Department programs, and tracking of property and equipment purchased with Department funds. We are therefore imposing the additional special conditions.

Under the special conditions, CNMI PSS must develop and implement a corrective action plan (CAP), approvable by the Department, containing measures that address the fiscal and administrative deficiencies outlined above. CNMI PSS must submit quarterly reports to the Department to demonstrate its progress in implementing the measures included in the CAP. The Department will continue to monitor the progress of CNMI PSS in improving the fiscal accountability for, and management of, the Department funds that it receives, and will be available to offer technical assistance, as necessary. If CNMI PSS does not begin to demonstrate significant progress in addressing the fiscal and administrative issues that have led to these

special conditions, the Department again reserves the right to take additional action as appropriate, which could include reinstating CNMI PSS's high-risk status or other actions.

If you have any questions or require further assistance, have your staff contact Christine Jackson, the primary contact for the Risk Management Service within the Office of the Deputy Secretary, at (202) 245-8276 or via e-mail at christine.jackson@ed.gov.

We look forward to continuing to work with you to improve the delivery of Federal education services to the children in the CNMI.

Sincerely,

Philip A. Maestri
Director
Risk Management Service
Office of the Deputy Secretary

cc: Rita Sablan
Commissioner, CNMI Public Schools System
Ms. Marylou Ada
Chairperson, Board of Education

Enclosure

Commonwealth of the Northern Mariana Islands Public School System - Special Conditions
Federal Fiscal Year (FFY) 2013

PREAMBLE: These special conditions are imposed on all program grants issued by the U.S. Department of Education (Department) to the Commonwealth of the Northern Mariana Islands Public School System (CNMI PSS) on or after the date of these special conditions. Additionally, the special conditions apply to grant funds previously awarded by the Department to CNMI PSS that are still available for obligation or liquidation on the date of these special conditions. The special conditions are imposed to help ensure that CNMI PSS's awards are expended in accordance with applicable legal requirements and with appropriate fiscal accountability measures, management practices, and internal controls.

I. BACKGROUND

A. In September 2003, the Department designated the Government of CNMI, including the then CNMI Department of Education (CNMI DOE), as a high-risk grantee under 34 C.F.R. § 80.12, and imposed special conditions on all grants awarded to CNMI DOE. In August 2004, the Department decided to remove the high-risk designation from CNMI DOE based on its demonstration of significant progress in implementing necessary changes and improvements in its implementation of Department grant programs. The Department noted the expeditious manner in which CNMI DOE had submitted complete audits under the Single Audit Act, the results of those audits, and the initial stages of implementing corrective actions to address past audit findings and stated that the areas in which CNMI DOE had demonstrated improvement were, for the most part, the areas that had led to CNMI DOE's designation as a high-risk grantee.

B. Although the Department removed the high-risk designation, it imposed three special conditions on CNMI DOE's grant awards, requiring it to submit complete and timely single audit reports, post updates on its web site concerning its Department grants, and provide the Department with a quarterly report on its administration of program funds. These three special conditions have been imposed on all grant awards that the Department has made to CNMI DOE and its successor, CNMI PSS, every year since August 2004.

C. The Department's Risk Management Service (RMS) conducted a site visit at CNMI PSS in August 2012 and became concerned by a number of fiscal accountability and administration issues that were revealed during the site visit. These included deficiencies in areas including : (1) bank reconciliation concerning Federal funds; (2) procurement; (3) allowable use of Department funds; (4) property management (including inventory); (5) travel policies; and (6) payroll procedures; as well as prior areas of concern regarding monitoring and evaluating Department programs, and tracking of property and equipment purchased with Department funds. In addition, CNMI PSS was delayed in filing the FY 2011 Single Audit report, and the findings included in that report, as well as the auditors' disclaimed opinion for the report, raise further concerns about CNMI PSS's management of Department grant funds.

D. All of the Department-wide special conditions that the Department has issued to CNMI PSS since August 2004 have stated that the Department reserved the right to take appropriate action should CNMI PSS's progress in implementing corrective actions cease or fiscal or program accountability problems recur. Accordingly, the Department has determined that it is necessary to impose additional special conditions on grants awarded to CNMI PSS to help ensure that CNMI PSS expends these awards in accordance with applicable fiscal accountability measures, management practices, and controls.

II. SPECIAL CONDITIONS

A. Single Audits

CNMI PSS shall continue to conduct single audits on an annual basis in a timely manner. All single audits shall be completed and the reports published within nine months after the end of each fiscal year, as required by the Single Audit Act of 1984, as amended. If, for any reason, CNMI PSS expects an audit or report to be delayed and late, it shall notify as soon as possible the Department's contact person of the reason and extent of the delay.

B. Corrective Action Plan

CNMI PSS shall submit to the Department for approval a corrective action plan (CAP) no later than thirty days after the date of these special conditions that describes how it is addressing the deficiencies in its management of Department funds, including problems relating to: (1) bank reconciliation; (2) procurement; (3) allowable use of Department funds; (4) property management (including inventory); (5) travel policies; (6) payroll procedures; and (7) monitoring and evaluation of Department programs. Once the CAP has been approved by the Department, CNMI PSS must implement the measures therein and report quarterly on its progress. The format and deadline for submitting the first quarterly CAP report to the Department will be specified in subsequent correspondence to the Commissioner of Education from the Department. If a report is not timely or is not considered acceptable by the Department, i.e., does not contain enough information to demonstrate progress, after consultation with CNMI PSS, the Department may take appropriate action, including restricting the amount of grant funds that can be drawn down, until sufficient documentation is provided.

C. Updates on CNMI Web Site

CNMI PSS shall continue to post within a timely manner copies of, and information regarding, its budget, applications, and reports submitted to the Department on its website for access by the general public.

III. ADDITIONAL PROVISIONS

A. Failure to Comply with Conditions

Failure to comply with any of these special conditions will negatively impact CNMI PSS's ability to continue to receive grant funds from the Department. These terms and conditions do not preclude the Department from taking any authorized enforcement or other actions at any time, including, but not limited to, withholding of Department funds.

B. Submission of Reports

All reports or other submissions that CNMIS PSS is required to submit to the Department under these special conditions must be sent to:

Christine Jackson
Senior Risk Consultant
Risk Management Service
Office of the Deputy Secretary
550 12th Street, SW
PCP, Room 11064
Washington, DC 20202

C. Reconsideration and Modifications

At any time, CNMI PSS may request reconsideration of the above special conditions by contacting the Department contact named above, and stating in writing the reasons why CNMI PSS believes any particular condition should be amended or removed. Additionally, the Department may impose additional special conditions or modify these special conditions as appropriate. The Department will remove the special conditions at such time as CNMI PSS fully demonstrates, to the Department's satisfaction, the ability to manage Department funds, and property acquired with Department funds, in a manner that complies with applicable Federal requirements concerning accountability and grants management.

Dated: June 13, 2013