

INSULAR GOVERNMENT FINANCIAL MANAGEMENT QUARTERLY

ALOHA

Welcome to the third edition of the Insular Government Financial Management Quarterly (IGFMQ). We hope you have enjoyed reading the articles in this and past newsletters as much as we have enjoyed putting them together.

2004 was a good year for financial management and reporting progress in the insular areas with further development of both the Association of Pacific Islands Public Auditor (APIPA) and the Island Government Finance Officers Association (IGFOA). Congratulations to APIPA for a very successful 15th annual conference. Over 180 participants from across the Pacific and the Virgin Islands attended this year's APIPA Conference in July on Majuro. IGFOA celebrated its 4-year anniversary this past June by kicking off the audit findings resolution project. It's encouraging to see what the insular governments have accomplished to date with developing audit findings resolution plans and procedures. Of course it is equally important that the governments give as great an emphasis as possible to producing timely financial statements.

The IGFMQ wishes to congratulate and thank the U.S. Department of Interior/Office of Insular Affairs Budget Director David Heggstad for his 22 years of providing the insular governments with a supportive voice in Washington, D.C. Dave has announced his retirement effective January 2005. Best wishes Dave on a happy retirement.

I would like to take this opportunity to wish all of our readers a joyous holiday season and a healthy and productive 2005.

Stephen Latimer
Project Manager

DOI/OIA OPENS OFFICE IN HAWAII



The Hawaii Field Office staff includes (left to right): Roylinne Wada, Joann Morris, Stephen Savage, Sissy Hungerford, Gerald Shea and Tiffany Taylor

If you have wanted to visit the U.S. Department of the Interior's Office of Insular Affairs (DOI/OIA) but didn't want to travel all the way to Washington, D.C. to do so, you can now visit DOI/OIA in their new office in downtown Honolulu, Hawaii. The office is located on the 25th floor of the Pacific Guardian Center, just across the street from the Aloha Tower Marketplace.

The Department of the Interior has the responsibility of being the U.S. administering agency for the Compact of Free Association (Compact) between the United States and the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI).

Amendments to the Compact were negotiated with each government and enacted into U.S. law in December 2003. The amendments, which provide direct assistance for an additional 20 years, stress greater oversight and accountability than was the case during the first 17 years of the Compact. Major actions taken by the negotiators and DOI to improve accountability include:

1. Establishing the Hawaii Field Office

The principal function of DOI/OIA's Hawaii Field Office is to monitor implementation of the Compact sector grants under a new Fiscal Procedures Agreement. The responsibilities and requirements of this function are probably unprecedented in federal grants history, since the grants being monitored are to foreign governments and constitute such a large percentage of those countries' annual budgets.

The Hawaii Field Office houses an administrative assistant and five professional staff, each with his or her own area of expertise. Roylinne Wada serves as Lead Specialist as well as a specialist in health care. Joann Sebastian Morris serves as Specialist in the Education Sector, Stephen Savage in the Infrastructure Sector, Tiffany Taylor for the Public Sector Capacity Building and Environment Sectors, and Gerald Shea for the Financial Management and Private Sector Development Sectors. The Hawaii Field Office is further augmented in the field by two additional professionals, one located in the U.S. embassy in Majuro, RMI and one located in the U.S. embassy in Pohnpei, FSM.

2. Creating Joint Management Committees

To further strengthen the oversight process, joint management committees were created to approve the allocation and uses of Compact funds. The Joint Economic Management Committee (JEMCO) formed for the FSM and the Joint Economic Management and Fiscal Accountability Committee (JEMFAC) formed for the RMI strengthen management and accountability with regard to assistance provided under the Compact.

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SUCCESSFUL APIPA CONFERENCE HELD ON MAJURO

If you are a public sector auditor or a financial manager there is a good chance that you or at least one of your office colleagues attended the 15th annual Association of Pacific Islands Public Auditors (APIPA) Conference held on Majuro, Marshall Islands during the week of July 26 – 30, 2004. More than 180 participants representing each of the insular areas in the Pacific and the U.S. Virgin Islands attended this year's APIPA conference.

The 2004 APIPA Conference was hosted by the Republic of the Marshall Island's (RMI's) Office of the Auditor General. RMI Auditor General Jean Tonyokwe and her staff laid out the red carpet for all the off-island guests. Even the rain couldn't spoil the fun of the opening reception that was attended by conference participants as well as numerous RMI dignitaries.

APIPA's emphasis continues to be on the further development and strengthening of regional training capacity to meet the training needs of auditors, financial managers, and accountants for the attainment of increased transparency and greater government accountability. As in previous years, the Graduate School, USDA's Pacific Islands Training Initiative (PITI) provided three training tracks: one track for Auditors, another for Audit Supervisors, and a third track for Financial Managers and Accountants, a track that was added to the APIPA conference in 2002 to encourage communication among financial managers and auditors.

The opening plenary session entitled "Managing for Results and Suggested Criteria for Reporting Performance Measures" was delivered by James R. Fountain. Having recently retired as Assistant Director of Research for the Governmental Accounting Standards Board (GASB), Mr. Fountain is an internationally renowned speaker in the areas of financial and performance management for government.

PITI provided three other instructors for the conference: Sefton Boyars who delivered sessions primarily in the auditor track; Carole Buncher who lent her specialty primarily to the supervisory auditor track and Frank Crawford who for the third year in a row was the lead instructor for the financial management and accounting track.

APIPA executives met outside of the trainings on several occasions during the week to discuss a number of current issues including the implementation of the audit findings resolution project, the cornerstone of the financial management improvement efforts being supported by the U.S. Department of Interior's Office of Insular Affairs (DOI/OIA) and the Graduate School, USDA. In addition, APIPA executives adopted the revised APIPA Memorandum of Understanding, established the revised schedule for the next round of the peer reviews, and updated the APIPA Peer Review Quality Control Manual.

According to Ms. Tonyokwe, this year's APIPA Conference was especially worthwhile: "The feedback from the participants who attended the conference was all positive. The participants expressed that the topics were well presented and provided knowledge

and skills to improve and enhance their work performance."

Ms. Tonyokwe expressed her appreciation for all those that assisted with the coordination of this year's APIPA conference and in particular acknowledged her staff for their endless efforts and hard work. On behalf of APIPA Ms. Tonyokwe also expressed her gratitude to the Graduate School, USDA, for their assistance, support and guidance, and to DOI/OIA for their commitment to ensuring continued financial support to APIPA. Last but not least Ms. Tonyokwe expressed her appreciation to her fellow Public Auditors who generously offered their help and support to make the 2004 APIPA conference a success.

Looking forward to a professional enhancing (and fun) trip next year? Start making plans now to attend the 16th annual APIPA Conference tentatively schedule for June or July 2005 on Palau.

Opening session of the 15th annual Association of Pacific Island Public Auditors conference held on Majuro, Republic of the Marshall Islands, July 2004.



MOVING FORWARD WITH GASB 34

BY FRANK CRAWFORD, CPA

GASB 34 implementation, the most significant change to governmental external financial reporting in the last 25 years, is well underway throughout the Pacific and Virgin island governments. Many insular areas are pleased and relieved to have one year of implementation under their belt while other insular areas are in the process of implementing GASB 34 for the first time.

Four of the insular governments were required to implement GASB 34 and its related standards for the fiscal year that ended September 30, 2002, with three of the four having released their audited financial statements and the fourth planning to release its audited financial statements by December 31st of this year.

Congratulations to the Virgin Islands, Guam and the Commonwealth of Northern Mariana Islands (CNMI) for having released their audited fiscal year 2002 financial statements earlier this year, with American Samoa soon to join them. The Virgin Islands, Guam and the CNMI are also working to complete their 2003 audited financial statements that is required in their second year of GASB 34 reporting.

The Republic of the Marshall Islands (RMI) also met its first year reporting requirements by releasing its September 30, 2003 audited financial statements. Although first to do so, a parade of others, including the Federated States of Micronesia and the Republic of Palau will soon release their 2003 audited financial statements as well. They too are in the first year of GASB 34 implementation and reporting.

Probably the single largest implementation issue has been that of recognizing capital assets, related accumulated depreciation and depreciation expense for all assets. Placing a value on the general infrastructure such as streets and bridges, has been quite a challenge for most of the insular governments, as many are discovering just how many capital assets they actually

have in service. However, all of the governments continue to make progress on the accuracy and completeness of capital asset information and attempt to keep the detail records of such capital assets current.

With most of the first year GASB 34 implementations either completed or nearing completion, the insular governments are turning their focus toward making their annual financial statements more accurate and complete. Slowly but surely, a major effort to resolve audit findings and to improve the timeliness of the release of audited financial statements is underway, with many governments diligently striving to be more accountable to their constituencies.

As part of the accountability process, when each government releases a set of GASB 34 financial statements, a Performer analysis is scheduled to occur, and a score assigned to each government indicative of that fiscal year's financial health and financial performance. The scoring methodology uses multiple financial ratios and a scale of 1-10. A score of "1" indicates poor financial health and performance and a score of "10" indicates excellent financial health and performance. The scores serve as an objective analysis to help each government understand

its financial progress from year to year. The Performer scoring methodology will only be as good as the information that is found in the audited financial statements, so governments must continue to strive for the most complete, accurate and timely audited financial statements.

Governments don't get to rest after full implementation of GASB 34 because the GASB continues to issue new standards. These new standards will continue to challenge the various finance offices. Capital asset impairments, accounting for other post-employment benefits, and other environmental liabilities are just some of the recent accounting standards that the various insular governments will soon have to address.

Once again, congratulations to all the insular governments for their GASB 34 implementation efforts. The IGFMQ will continue to update readers on further progress and the latest standards effecting finance offices and government operations.

The CNMI Government was one of the first insular governments to implement GASB 34. Seated left to right are Robert Schrack, Fermin Atalig, Cathryn Villagomez and PITI instructor Frank Crawford.



NICK ANDON

If you think you're busy in your job, take a moment and consider the responsibilities of Nick Andon. In addition to serving as the Secretary of Finance and Administration for the Federated States of Micronesia (FSM), Nick also serves as a member of the Joint Economic Management Committee (JEMCO), as a committee member for the Trust Fund for the People of the FSM, as a Governor for both the Asian Development Bank and the International Monetary Fund, and as Treasurer of the Insular Government Finance Officers Association (IGFOA).

Nick was born on the small island of Kuttu in the Mortlocks region of Chuuk State. Kuttu is approximately 1 mile long, half a mile wide, and has a population of about 300 people. Nick has been married for 25 years to his wife Marpelina. Together Nick and Marpelina share two beautiful children, a 24 year old daughter, Maybelline Andon Bing who is married to a Marshallese and a 17 year old son, Nelson who is still in high school.

Nick could not be better qualified to serve as the FSM's Secretary of Finance and Administration. After working with the Trust Territory Government in Saipan from 1977-1978, Nick earned a Masters Degree in Management and Organization Development from United States International University in San Diego, CA, graduating in 1980. For the next twenty years Nick held a variety of high level public sector administration positions including that of Budget Officer for Chuuk State (1984-1990), Grants Management Administrator for the FSM Budget Office (1990-1997), and Chuuk State Finance Director (1998-2000).

Nick tested the private business environment in 2000 by taking a position with the FSM Telecommunications Corporation as State Manager for the Chuuk State Office. However, after three years Nick returned to government service when he was asked by FSM President Joseph J. Urusemal to assume the position of Secretary of Finance and Administration for the FSM

National Government. We caught up with Nick recently at the conclusion of the FSM Finance and Budget Officer's Conference that was held on Chuuk in mid-September.

IGFMQ: It's been a long week full of meetings throughout the day as well as after hours. Are you satisfied with the results of the Conference?

Nick: I am very happy with the outcome of the Conference. We did not accomplish everything that we all wanted to but we did accomplish a lot, especially issues relating to the implementation of the amended Compact and the selection of a new uniform Financial Management Information System (FMIS). Once the new FMIS is implemented, it will be the first time in almost fifteen years that the FSM National Government and the four FSM States will all be linked to the same financial management system.

IGFMQ: You serve as the Secretary of Finance and Administration at a very critical time in the FSM's history. How do you see your role and what are the greatest challenges you face?

Nick: I see myself as a facilitator or coordinator of activities that need to be implemented during the amended Compact period. My job is to make sure that these activities are implemented smoothly and successfully. The greatest challenge that I and/or my office is facing at this critical moment is to make sure that the FSM complies with the accounting and reporting requirements of funds under the amended Compact. In doing so, we need to make sure that all the State and National government finance offices have the necessary staff and resources to be able to handle these enormous responsibilities.

IGFMQ: You also serve as Treasurer for IGFOA, a regional association of insular government finance officers. What role does IGFOA play in the region?

Nick: As I see it IGFOA is a regional organization established to provide leadership on gov-



ernment financial management in the insular areas. At past IGFOA conferences, we were able to discuss common issues and problems affecting the island governments and we were able to resolve some of them successfully. However, we need to do more by continuing to meet regularly and sharing more information among the members. Thanks to the Department of the Interior's Office of Insular Affairs and the Graduate School, USDA for their assistance in making IGFOA a useful and successful regional organization.

IGFOA: Hopefully you don't spend all of your time in the office. What kind of activities do you like to do when you are not working?

Nick: My hobbies are playing tennis and mowing the lawn when it is not raining. However, my favorite all-time activity is fishing. When I lived in Chuuk I went fishing a lot. However, since I moved to Pohnpei I don't have as many opportunities to fish due to the lack of a boat.

IGFOA: Thank you for taking the time to share your experiences with our readers. We wish you the best of luck in all of your endeavors and hope that one of our readers on Pohnpei who owns a boat will read this article and offer to take you fishing.

MEET DEBBIE MILKS



Perhaps the most well-known instructor throughout the Pacific and Virgin Islands is none other than Debbie Milks. In addition to her wealth of knowledge and experience she brings a sense of dedication and professionalism to any project regardless of size or duration. Armed with her CPA and extensive work with automated accounting systems, Debbie has provided technical assistance and training throughout the Pacific and Virgin islands for over 20 years.

Debbie began her island life as a Peace Corps volunteer in the finance office of Yap District in January 1978. She later moved to Saipan, CNMI and worked for the Trust Territory Headquarters first as "System Liaison" between the finance office and EDP, then as the Deputy Director of Finance. Starting in 1985, she worked with Deloitte & Touche and retired as a Partner in 1995.

IGFMQ caught up with Debbie while she was in Kansas helping her husband, Charlie, harvest chestnuts. Apparently the nuts fell early and caught them by surprise. Nonetheless, she took some time to talk with us and reflect on her experiences.

IGFMQ: What is the most important change you've noticed over the years? What has remained about the same?

Debbie: I think a significant change is the ability of the islands to communicate with each other and the rest of the world quickly and relatively cheaply. Living on Yap in 1978, we used short wave radios and it seemed like the whole world was listening. We exchanged financial reports by mailing out hard copies twice a week. We anxiously waited for the plane to bring back the newspapers from Guam. Also, e-mail, the internet, and cell phones have dramatically changed communication among the islands and to the mainland U.S. While it is good for the islands, I sometimes miss the sense of being far away and isolated.

The finance offices have changed as well. Financial reporting has become more sophisticated and government standards more complex. The knowledge and skills now required of finance officers are quite advanced. Despite these challenges accountants' warmth and ability to stay in touch with their respective cultures have not changed. It struck me at the APIPA conference in Majuro recently where we had auditors dealing with GASB 34 and other complex accounting issues yet the meeting did not lose its distinctly island flavor.

IGFMQ: What do you still find refreshing when you return to work or play in the islands?

Debbie: Definitely the fun and friendly attitude of islanders. I can feel the difference just getting on a plane---there is nothing like the boarding gate for a flight to American Samoa! I never get tired of the clean air, the beautiful waters, and the easy driving. Although, I must admit that I am finding Guam's traffic a bit daunting and never even tried driving on the left in St. Thomas! And of course, seeing old friends. I have known many of the staff in the finance

offices for 20 years or more. And as I have noticed several times, I am meeting and working with the kids of people with whom I worked with when I first arrived in Micronesia.

IGFMQ: In what areas do you enjoy working and teaching?

Debbie: All areas, really. Since I have had the opportunity to work in several roles throughout the island governments I try to give balanced, practical assistance. I served as a finance office manager having to deal with cash flow problems, auditors, and the demands from the grantor agencies. As an auditor I learned to deal with independence concerns and Single Audit requirements, and as an accounting system implementer I understand the difficulties of power outages and long distance software vendors. Finally, through the Graduate School, USDA, I've had the opportunity to provide technical assistance to all of the Pacific island governments as well as the Virgin Islands.

I hope that I bring a balanced and practical aspect to the work I do with the island governments. By far, I most enjoy working on projects with the governments where I can partner with staff to achieve concrete improvements, whatever the financial area. The finance offices have an essential role in presenting an objective financial position of their governments to the politicians and the public. Whatever I can do to assist them with that task is satisfying work.

Many thanks to Debbie for her years of serving the Pacific and Virgin island governments. We wish Debbie and Charlie a great chestnut harvest and look forward to seeing her on Maui in December for the IGFOA conference.

RIISING TO THE CHALLENGE: GUAM'S DEPARTMENT OF ADMINISTRATION

Like many island governments Guam's Department of Administration (DOA) is at the heart of the government's operations. It pays government employees, runs financial and administrative computer systems, hires and manages personnel, receives money, and pays the bills. With a failed implementation of an automated financial management system and four different directors in a five-year period, it is no wonder Guam's DOA was in need of stable leadership and a plan for resolving some growing operational issues.

In 1999 the Department of Interior's Office of Insular Affairs (DOI/OIA) through the Graduate School, USDA's Pacific Islands Training Initiative (PITI) assisted Guam's DOA in developing a Financial Management Improvement Plan (FMIP). Although a few of the FMIP's goals were accomplished, the change in Governor and several changes in the DOA Director position seemed to sidetrack the implementation.

Then, in 2003 DOA's incoming Director, Lourdes Perez, requested support to create and implement a new FMIP. Recognizing the potential for addressing some much needed operational changes, DOI/OIA and PITI provided four consultants to assist with the planning process. Steve Medlin, who was asked to be PITI's Project Manager, was hesitant at first, saying "I was looking for readiness for change, stable leadership with a significant commitment to imple-

menting the FMIP, and the willingness of the Government of Guam and DOA to build the organizational infrastructure needed to implement the FMIP successfully."

To ensure implementation went smoothly this time, Ms. Perez and the Executive Steering Committee (ESC) appointed Ken Borja as Guam's Project Manager. With the help of Joey Manibusen, Deputy Director, DOA and the ESC's guidance, Ken and his teams accomplished the following since March 2004:

- Modified and simplified its Chart of Accounts, allowing it to generate financial reports much more easily, accurately, and timely. Financial statements that used to take days to prepare now take a couple of hours.
- Installed major upgrades to its AS400 computer, providing vastly faster response times and greater system capacity, and providing a robust, stable platform for future operations and growth. System queries that took more than 35 seconds are now completed in less than 2 seconds.
- Reduced processing time of biweekly payroll (3500 employees) from 5 hours to 30 minutes.
- Implemented a cash receipts Point-of-Sale system (POS) that gives information about funds available to the government much more quickly and reduces the reconciliation needs

between Treasurer of Guam data and DOA Accounting information.

- Developed and implemented a PC-based purchase order (PO) system to replace its typewriters and PO forms, reducing the average 200 PO backlog by 75% and reducing the error rate by 65%.

How could so much be accomplished so quickly with such great success? A number of factors contributed to DOA's accomplishments. First, DOA developed the FMIP with its key partner agencies and involved them in the implementation of the plan, so that they too experienced the benefits of the FMIP. Plus, regular oversight by the DOA and the ESC ensured the plan was implemented successfully and timely.

What's next for Guam? In December 2004 DOA and its partners will update their FMIP to focus their attentions on the new set of highest priority issues. The update will include numerous opportunities to further improve financial management operations. Perhaps more importantly, DOA, the ESC and the Government of Guam will expand its use of configuration and project management disciplines to cover a broader range of its organizational and system change efforts and to better control and manage FMIP implementation.

As Governor Felix Camacho recently said while reviewing the FMIP implementation team's accomplishments, "The FMIP has allowed us to focus on our most pressing problems and address them in a systematic way. The accomplishment of the FMIP strategic goals has significantly improved our financial management and laid a solid foundation for even greater improvements. I look forward to updating the FMIP and continuing progress toward exceptional achievements from its implementation."

Representatives from GovGuam's Department of Administration, Bureau of Budget and Management Research, and Department of Revenue and Taxation discuss Guam's FMIP implementation progress.



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Each Committee is composed of five members, three of which are from the U.S. and two from the FSM or RMI respectively. The Committees' most important function is to review and approve grant allocations, performance objectives, and assessment tools for the upcoming year.

Other duties of the Committees are to:

- monitor the progress made by the governments toward sustainable economic development and budgetary self-reliance;
- monitor the use of development assistance from all sources as it relates to the allocation of financial assistance under the Compact;
- review audits and actions taken or being taken to reconcile problems and qualified findings;
- review performance outcomes and other reported data in relation to the previous year's grant funding levels, terms, and conditions;
- evaluate progress, management problems and any shifts in priorities in each sector, and identify ways to increase the effectiveness of U.S. assistance;
- review quarterly trust fund investment reports;
- determine special conditions to be attached to any or all annual grant awards to improve program performance and fiscal accountability, and ensure progress toward macroeconomic goals.

3. Limiting Assistance to Six Sectors

The final step was to limit the uses of Compact funds to only six sectors, with an emphasis on the Health, Education, and Infrastructure sectors:

The Education Sector Grant is to support and improve the primary, secondary and post-

secondary educational systems of the governments and to develop the human and material resources necessary for the governments to perform these services. In addition to the primary Education Sector Grant, each government also receives a Supplemental Education Grant. This annual block grant substitutes for certain program grants that were previously awarded by the U.S. Departments of Education, Health and Human Services, and Labor. Funds awarded under the Supplemental Education Grant will be used to support the goals and objectives of the education portion of each government's Development Plan and will be used to support additional direct educational services at the local school level.

The Health Sector Grant will support and improve the delivery of preventive, curative and environmental care, and develop the human and material resources necessary for the governments to perform these services.

The Sector Grant for Private Sector Development will support the efforts of the governments to attract new foreign investment and increase indigenous business activity.

The Sector Grant for Public Sector Capacity Building will support the efforts of the governments to build effective, accountable, and transparent national and local government and other public sector institutions and systems.

The Environment Sector Grant will support the efforts of the governments to protect their land and marine environments and to conserve and achieve sustainable use of its natural resources.

The Public Infrastructure Sector Grant will provide for the construction or acquisition

of major public capital facilities. The highest priority is given to primary and secondary education projects and projects that directly affect health and safety, including water and wastewater projects, solid waste disposal projects, and health care facilities. Second priority is given to economic development-related projects, including airport and seaport improvements, roads, sea walls, and energy development including renewable energy that cannot be funded through the rate structure.

The IGFMQ congratulates DOI/OIA on the opening of its new Hawaii Field Office and looks forward to reporting on some of the performance outcomes that come about as a result of Compact funding.

The principal function of DOI/OIA's Hawaii Field Office is to monitor implementation of the Compact sector grants under a new Fiscal Procedures Agreement with the Federated States of Micronesia and the Republic of the Marshall Islands.

WHO WE ARE

The Pacific Islands Training Initiative (PITI) and Virgin Islands Training Initiative (VITI) programs were established in 1991 by the U.S. Department of Interior's Office of Insular Affairs (DOI/OIA) in partnership with the Graduate School, USDA. PITI/VITI provides customized results-oriented professional and organizational development services that enable insular governments to strengthen performance and accountability in financial management and program performance.

Training services are designed to support DOI/OIA's mission to "assist the U.S.-affiliated islands in developing more efficient and effective government by providing financial and technical assistance, and help manage Federal-insular relations by promot-

ing appropriate Federal policies." Participating governments include the U.S. Virgin Islands, American Samoa, Guam, Commonwealth of the Northern Mariana Islands, Republic of the Marshall Islands, Federated States of Micronesia, and the Republic of Palau.

The goals of the PITI/VITI programs are to assist the insular governments as they:

- Improve financial management systems and practices.
- Strengthen organizational processes to increase effectiveness and program results.
- Build leadership and management capacity to improve government program performance.

For further information on the Pacific Islands Training Initiative please contact Stephen Latimer via email at: stephen_latimer@grad.usda.gov or by phone at (808) 523-1650. For information on the Virgin Islands Training Initiative please contact Ellard-James Hurley via email at: ellard-james_hurley@grad.usda.gov or by phone at (202) 314-3512.