

ISLAND GOVERNMENT FINANCE OFFICERS' ASSOCIATION ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

Fall Meeting, December 4-6, 2007
Hilton Hawaiian Village
Honolulu, Hawaii

CONFERENCE REPORT



AMERICAN
SAMOA



CNMI



FSM



GUAM



RMI



PALAU



VIRGIN
ISLANDS



GS GRADUATE
SCHOOL USDA

US Department of the Interior & Graduate School, USDA: PITI/VITI
900 Fort Street Mall, Suite 1540, Honolulu, Hawaii 96813



The Island Government Finance Officers' Association (IGFOA) and Association of Pacific Islands Public Auditors (APIPA) would like to express our gratitude to:

**& David Cohen
Edgar Johnson**

We hope your future is as bright as the many years of service you've given to the Pacific and Virgin Islands, and our institutions.



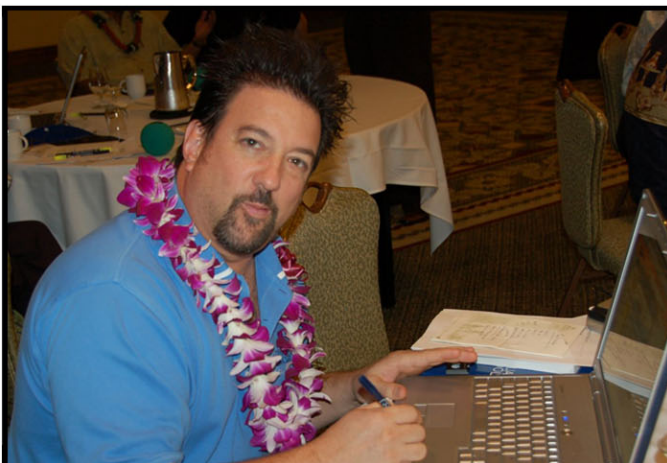


Table of Contents

[Days One and Two: Annual Meeting of the Island Government Finance Officers' Association (IGFOA)]

1.	Executive Summary	1
2.	Background	3
3.	Conference Goals	4
4.	Welcoming Addresses.....	5
5.	Keynote Address: 'Getting in the Way of Prosperity: The Seven Deadly Sins' (David Cohen, Dept Asst Secretary, DOI, OIA).....	6
6.	Keynote Address: 'How Budgetary Discipline Impacts Economic Development' (Ed Case, former U. S. Congressman & Hawaii State Representative)	11
7.	Panel Discussion: Our Government's Best Practices for Economic Development and Budgetary Discipline	15
8.	Small Group Breakout Session: Economic Development and Budgetary Discipline	22
9.	Overview of the Audit Improvement Project, (Debbie Milks, CPA).....	23
10.	Island Government Presentations: Audit Improvement Project.....	25
11.	The OIA Budget Outlook for Fiscal Year 2008, (Thomas Bussanich, Director of Budget & Grants Division, DOI, OIA).....	30
12.	Federal Agency Oversight (OMB Circular A-133), (Marina Tinitali, Accountability, Policy & Audit Liaison Specialist, DOI, OIA)	31
13.	Preparing for SAS-112 and GASB Standard Changes, (Frank Crawford, CPA).....	32
14.	Planning for a Community of Practice in Procurement	33
15.	Small Group Breakout Session: Action Planning to Implement Key Ideas from the IGFOA Conference.....	34

Table of Contents (continued)

[Day Two, Joint Meeting of the Island Government Finance Officers' Association (IGFOA) and the Association of the Pacific Islands Public Auditors (APIPA)]

16.	Keynote Address: Accountability: Progress, Challenges, and a Call to Protect the Public Auditor's Offices (David Cohen, Dept Asst Secretary, DOI, OIA).....	37
17.	Strategic Planning in the Office of Insular Affairs and Progress on Developing Performance Measures (Tiffany Taylor, Budget Analyst, DOI, OIA, and Dr. Patricia Keehley, Southern Utah University)	41
18.	PITI-VITI Strategic Goals and the PITI-VITI Year in Review (John Maykoski, Director, International Institute, Graduate School, USDA)	43
19.	Perfometer Updates: We Know Our Perfometer Score, So What Do We Do With It? (Frank Crawford, CPA).....	45
20.	Keynote Address: 'What Finance Offices Can Do to Support Economic Development and Policy Reform' (Kevin O'Keefe, former Economic Policy Advisor to the Federated States of Micronesia)	46
21.	Panel Discussion: Best Practices in How Public Auditors and Finance Offices Can Work Together	47
22.	Small Group Breakout Session: Action Planning to Implement Key Ideas from the Joint Session	55
23.	Conference Evaluations.....	57

Appendices

Appendix A	Conference Agenda	59
Appendix B	‘Getting in the Way of Prosperity: The Seven Deadly Sins’, Keynote Address by David Cohen	65
Appendix C	‘How Budgetary Discipline Impacts Economic Development’, Keynote address by Edward Case	69
Appendix D	Slides for Palau’s Best Practices for Economic Development and Budgetary Discipline Presentation.....	80
Appendix E	Slides for Guam’s Best Practices for Economic Development and Budgetary Discipline Presentation.....	89
Appendix F	Slides for RMI’s Best Practices for Economic Development and Budgetary Discipline Presentation.....	94
Appendix G	Breakout Session Notes: Economic Development and Budgetary Discipline	103
Appendix H	Slides for Debbie Milks’ Audit Improvement Project presentation	106
Appendix I	Slides for RMI’s Audit Improvement Project presentation	112
Appendix J	Slides for Guam’s Audit Improvement Project presentation.....	121
Appendix K	Slides for ASG’s Audit Improvement Project presentation	129
Appendix L	Slides for OIA Budget Outlook for Fiscal Year 2008 presentation.....	132
Appendix M	Slides for Federal Agency Oversight (OMB Cir A-133) presentation	135
Appendix N	Preparing for SAS-112 and GASB Standard Changes slides	143
Appendix O	Planning for a Community of Practice in Procurement session notes	146
Appendix P	David Cohen’s IGFOA-APIPA Keynote Address.....	147
Appendix Q	Slides for the Strategic Planning in the Office of Insular Affairs and Progress on Developing OIA Performance Measures presentation	151
Appendix R	Chart of OIA Performance Measures	155
Appendix S	Slides for the PITI-VITI Strategic Goals and the PITI-VITI Year in Review presentation.....	159
Appendix T	Slides for Performer Updates: We know our Performer score, so what do we do with it?	170
Appendix U	‘What Finance Offices Can Do to Support Economic Development and Policy Reform’, Keynote Address by Kevin O’Keefe	176
Appendix V	Slides for Panel Discussion: Best Practices in How Public Auditors and Finance Offices Can Work Together	187
Appendix W	Minutes from IGFOA Executive Meetings	190
Appendix X	Summary of Conference Evaluations	194
Appendix Y	Participant List and Contact Information.....	200

1. Executive Summary

The Island Government Finance Officers' Association held its annual meeting in Honolulu, Hawaii, from December 4 to December 6, 2007. The first two days of the conference the finance officers held their meetings and on the third day the finance officers held a joint session with the Association of Pacific Island Public Auditors.

The Island Government Finance Officers Association (IGFOA) was established in 1999 to promote improved financial management in the insular governments. The conference focused on the two main strategic areas OIA and the insular areas have been addressing—economic development and financial accountability. The goals for the conference were to:

1. Discuss and plan for the role the Finance Offices have in the local governments' economic development and budgetary discipline;
2. Review progress and plan for next steps on key financial initiatives—the audit improvement project, grants management, the Performer®[®], and procurement audit findings;
3. Learn about and plan for the impact of SAS-112 and other changes to audit standards on government operations, financial statements, and audits; and
4. Develop site-specific action plans that will be used to encourage economic development and financial management initiatives.

In his opening keynote address, David Cohen, Deputy Assistant Secretary, Office of Insular Affairs, Department of Insular Affairs, talked about the 'seven deadly sins' that interfere with economic development in the insular areas. By recognizing these behaviors and practices, the island governments can mitigate them to facilitate their efforts to improve economic growth. Former U.S. Representative Ed Case (Hawaii) gave a second keynote speech in which he discussed his 'top ten' list of lessons he learned about budgeting, finance, and economic development. By learning from his experiences, he expressed hope that the island finance offices would not suffer from some of the problems he saw during his government career.

Representatives from the insular governments presented their best practices for economic development and budgetary discipline. The best practices ranged from developing and implementing economic reform programs to reductions in force to improved internal controls.

The IGFOA members reviewed progress on the audit improvement project and each government reported on its progress, its challenges, and its best practice for improving audit results. The conference conducted training on SAS-112 and other changes to audit standards affecting the finance offices. The IGFOA conference ended with government-specific action plans built to address the most important issues raised during the sessions.

The joint meeting of IGFOA and the Association of Pacific Island Public Auditors (APIPA) focused on ways in which the finance officers and public auditors could work together to improve the finances of the governments. Mr. Cohen's keynote address challenged both groups to continue working on accountability. The governments have made tremendous

progress over the last few years, but need to keep the high level of emphasis and effort on improving accountability.

The IGFOA and APIPA members discussed the Performer and how it can be used to improve financial discipline. They then held a wide-ranging discussion about audits of the governments—the audit process, the findings, the audit resolution process, and many other aspects of audits affecting their effectiveness. The joint session closed with an action planning exercise in which the finance officers and public auditors from each government identified the key issues for their government and developed actions steps to start addressing the issues.

On the final day of the conference the participants in the joint IGFOA-APIPA conference completed a conference evaluation. IGFOA members answered questions about all three days of the conference while APIPA members responded only based on the last day of the conference. The participants rated the conference very positively and found all of the sessions to be useful and informative.

2. Background

In 1999 the Department of Interior's (DOI) Office of Insular Affairs (OIA) and insular government financial management officials decided to form the Island Government Finance Officers Association (IGFOA). The purpose of IGFOA was to promote improved financial management in the insular governments. IGFOA was incorporated in the Commonwealth of the Northern Mariana Islands and its by-laws were approved in 2001.

Since 1999, IGFOA members have met at least annually to participate in professional development and networking activities and to establish an agenda for financial management improvement. The conferences also provide a forum for participants to discuss common issues and strategies, and to develop a shared agenda for training, organizational development, and technical assistance.

For the past few years IGFOA has focused on accountability in expending government funds and in resolving audit qualifications, findings, and questioned costs. The association has sponsored the Audit Improvement Project and the development and use of the Performer. The first two days of the 2007 fall conference was designed to continue these projects and to identify the next set of activities needed to further improve financial management in the insular governments. (See Appendix A for the conference agenda).

For the last day of the conference IGFOA and the Association of Pacific Island Public Auditors (APIPA) held a joint session to discuss common concerns around audits and financial management. Typically each group holds its own conference separately, but periodically IGFOA and APIPA share a joint conference. The purpose for the joint conference is to provide an opportunity for the finance officers and public auditors to share information, learn about topics of common interest, and identify ways to work together more effectively. The groups held a joint conference December 6, 2007, in Honolulu, Hawaii; the most recent previous meeting was held in 2004.

3. Conference Goals

The IGFOA officers, OIA management, and Graduate School staff developed four goals for the conference. These goals reinforced the progress made from previous conference activities and projects, and laid the foundation for new challenges. The conference focused on the two main strategic areas OIA and the insular areas have been addressing—economic development and financial accountability. The specific goals of the IGFOA conference were to:

1. Discuss and plan for the role the Finance Offices have in the local governments' economic development and budgetary discipline;
2. Review progress and plan for next steps on key financial initiatives—the audit improvement project, grants management, the Performer®[®], and procurement audit findings;
3. Learn about and plan for the impact of SAS-112 and other changes to audit standards on government operations, financial statements, and audits; and
4. Develop site-specific action plans that will be used to encourage economic development and financial management initiatives.

The goals of the joint meeting of IGFOA and APIPA were to:

1. Share information about the strategic direction of the Office of Insular Affairs and the roles of the Finance Office and Public Auditors in achieving these goals,
2. Continue the dialogue between the Finance Officers and Public Auditors on how to improve financial management in the insular areas, and
3. Discuss site-specific action plans developed by the Finance Officers and solicit input from APIPA principals on those plans.

4. Welcoming Addresses

The 2007 IGFOA Conference opened with welcoming addresses from the hosts and sponsors of the meeting. Mr. Jefferson Barton, the Secretary of Finance in the Ministry of Finance, Republic of the Marshall Islands, and the Vice-President of the IGFOA Executive Officers, welcomed participants to the conference and challenged them to take full advantage of the opportunities the sessions offered. He thanked the Office of Insular Affairs for sponsoring and funding the conference and acknowledged the critical role it plays in supporting the island finance officers. Mr. Barton also expressed his appreciation to the Graduate School, USDA, and its staff for planning, organizing, and managing the conference.

Mr. Nikolao Pula, the Director of the Office of Insular Affairs, Department of Interior, welcomed the conference participants and reflected back on previous IGFOA conferences he had attended. In 2003 he talked with IGFOA about issues around single audits—the number and severity of the audit findings, the magnitude of disallowed and questioned costs, the problems with the audits not being completed on time, and a host of other issues. This year he thanked all of the finance officers for the work they have done to bring the single audits current, reduce the number of findings, and decrease disallowed and questioned costs. Despite the significant progress achieved over the last few years, he stressed that it does not mean we are done—we still have work to do as we need to continue these improvements every year.

Mr. Pula stated that although we have been working on single audits the last five years, there is still a lot of work to be done. He further emphasized that IGFOA could not just be two meetings each year, and only be meetings. He encouraged the finance officers to collaborate and share experiences with each other between meetings. Over the next three days he hoped to learn a lot from the conference. Mr. Pula concluded by encouraging the finance officers to continue the work they do to the benefit of all the people in the islands.

Mr. Jack Maykoski, the Director of the International Institute, Graduate School, USDA, greeted the conference participants and discussed the role the Graduate School plays in the conference. He asked the finance officers to use the conference as an opportunity to take a break from their day-to-day operations, to network and share the work they are doing. He thanked the finance officers for the effort they would put in the next three days and looked forward to seeing the results of their work. Mr. Maykoski recognized the IGFOA participants for the tremendous strides they have made over the past few years and encouraged them to keep the momentum going. He also recommended the participants make the conference an opportunity to engage in addressing new and additional needs—in budget, procurement and other issues.

5. Keynote Address: ‘Getting in the Way of Prosperity: The Seven Deadly Sins’ (David Cohen, Deputy Assistant Secretary, Office of Insular Affairs, Department of Insular Affairs)

Mr. David Cohen spoke about the priorities OIA has had in the island governments since he took over as Deputy Assistant Secretary. (The full speech is in Appendix B.) An abridged version of the speech is presented below.

‘Ever since I took this job in June 2002, we have been consistent in expressing the top two priorities for the Office of Insular Affairs. Priority 1 is helping the insular areas promote private sector economic development. Priority 1-A is promoting accountability, particularly for the Federal financial assistance that we provide for the islands. Normally, when I speak before this group, I speak about Priority 1-A. There is an obvious relationship between Priority 1-A—promoting accountability—and your jobs as government finance officers. Today I would like to speak about Priority 1, because I believe that there is also an important relationship between your jobs and the urgent need to promote private sector economic development in the islands.

Why have we made private sector economic development Priority 1? The reason is that in most of the insular area economies, there is an unsustainable imbalance between the public and private sectors. In a healthy economy, a strong private sector creates jobs and generates income and wealth, which can be taxed at a reasonable rate to fund essential services for the public. The private sector dominates the economy. In many island economies, this model is turned on its head: The economy is dominated by the public sector. Since the public sector generally is a consumer and not a producer of wealth, this type of economy can only be sustained with outside subsidy. I have referred to these island economies as being “upside down in the middle of the ocean”. These economies will have to get right side up in order to get their heads above water.

Many island economies have evolved in this manner for several reasons. For one thing, island communities—and small island communities in particular—face unique barriers to private sector economic development. These communities tend to have small populations, few resources and remote locations. That means that they are heavily dependent upon transportation systems to bring people and goods to and from their islands, and that transportation is likely to be significantly more expensive than it is in more populated areas. This, in turn, tends to make everything else on the island more expensive. The cost of doing business is therefore high.

Many island communities are subject to destructive weather patterns, and in the salty ocean air, the climate often corrodes what it does not destroy.

There are cultural and historical forces in play here as well. Pacific cultures, for example, are sharing cultures. The philosophy is “what we have today, we share today”. Pacific cultures do not have the selfish gene that triggers the generation of wealth in a free market economy. Sharing is a virtue and selfishness a vice, but enlightened self-interest has proven to a useful tool to enable societies to achieve a comfortable standard of living.

Ironically, the Pacific virtue of sharing, when combined with outside financial assistance, has helped to create the bloated public sectors that we see today in many island communities.

The island instinct is to share financial assistance from donors in much the same way that food is shared. Since donors generally do not allow island governments to allocate their aid to people in the form of cash, they tend to allocate the aid in the form of public sector jobs. More aid tends to result in more government jobs. Since the Department of the Interior's Office of Insular Affairs provides more aid to the Pacific islands than any other U.S. agency by far, we have been, inadvertently, the greatest U.S. contributor to this phenomenon.

The result is not only an oversized public sector, but also a public sector mindset where government jobs are deemed to be provided for the benefit of the recipients rather than for the benefit of the public. The public sector budget is not oriented to provide public service, but rather to provide public jobs. This means that the public as a whole tends not to receive good value for public expenditures, and donors tend to get frustrated when we attempt to measure the performance of our assistance.

In many island communities, outside subsidies and other distortive policies tend to make government jobs significantly higher paying than private sector jobs. This tends to encourage the islands' best and brightest to aspire to public sector employment and look down on private sector employment. In some islands communities, the overwhelming majority of the indigenous workforce is employed by the local government and the lower-paying private sector jobs are filled almost exclusively by foreigners. These communities become two-tiered societies where a largely unproductive local government workforce is kept afloat by outside subsidies and outside labor. This type of arrangement, besides being economically unsustainable, can create tension within the society and give rise to a sense of dependence and helplessness in the indigenous population.

These problems tend to exacerbate themselves in a vicious cycle. A society that cannot sustain itself without outside subsidy generally cannot afford to invest in education, health, infrastructure and other essential building blocks of a strong and prosperous society. This lack of essential investment tends to weaken the private sector, sending the most talented locals overseas in search of opportunity and making the community more and more dependent on imported labor willing to work for lower wages.

These problems do not exist only in the islands. Small island communities are particularly vulnerable to them, however. These problems can be overcome by intelligent policy, strong leadership and a commitment to good governance. Overcoming these problems requires the development and maintenance of a business climate that enables business to create jobs, to foster prosperity and to assume its natural role as the engine that drives the economy.

That is where all of you come in. All of you are responsible for executing policy, and as any sports fan knows, good execution typically is the difference between success and failure. However, most of you also have sufficient stature within your local governments to have an important influence on the formulation of policy, and not merely its execution. When your respective governments consider reforms designed to improve the business climate, you are likely to be involved in the discussion. You might even be the driving force behind the discussion. With so many things beyond your control, it is all the more important for you as government leaders in small island societies to act with wisdom and political courage to address the things that you can control. Small island societies can successfully transcend their limitations, but there is little room for error.

One of the problems that I have observed with the relationship between the public and private sector in insular area economies is an inability of the public sector to get out of the way. That does not mean that island governments should abandon their duty to regulate business in a reasonable manner. It simply means that in some cases, government actions and failures to act needlessly obstruct economic progress. I have come up with a list of Seven Deadly Sins that could cause island governments needlessly to get in the way of the economic advancement of their own societies.

I will introduce the First Deadly Sin by noting something that most of us love about the islands: the unhurried pace...

Well, the First Deadly Sin on my list of seven is what I will politely call the Sin of Patience. Patience is indeed a virtue, unless one becomes excessively and discourteously patient with other people's time. In business, time is money, and when government officials fail to act responsively in a timely fashion, it can drive away potential investment. Businesses greatly value a bureaucracy's ability to process permits and licenses expeditiously and to respond quickly to inquiries and requests.

The Second Deadly Sin is the Sin of Complication. Needlessly complicated, protracted, redundant and even contradictory permitting, licensing and other regulatory procedures discourage the formation and retention of businesses.

The Third Deadly Sin is the Sin of Competitiveness. This sin occurs when the government sees a private company succeeding in a new type of business and decides that jumping into that business would be a good way to support its bloated public payroll. This is likely to result in both the private company and the government ultimately failing at the business. The private company is likely to fail because the government will not compete fairly. The government will fail because governments are notoriously bad at running businesses. The best way for a government to generate revenue from a profitable business is for it to get out of its way and tax it—reasonably.

The Fourth Deadly Sin is the Sin of Opaqueness. Government procedures should be transparent in order to inspire the confidence and full participation of the private sector. If good companies cannot be satisfied that they will be competing on a level playing field, they will stay away and the community will miss out on the capital, technology, know-how and economic activity that good companies can bring to the islands.

The Fifth Deadly Sin is the Sin of Favoritism. Favoritism comes in many varieties, including nepotism, where one favors one's family; cronyism, where one favors one's friends; xenophobia, where one favors one's countrymen, and self-dealing, where one favors oneself. By creating an uneven playing field, it scares away businesses that can bring good things to the islands.

The Sixth Deadly Sin is the Sin of Fickleness. Businesses value consistency more than anything else. There is nothing more frustrating than policies that constantly lurch back and forth, to and fro, with the political wind.

The Seventh Deadly Sin is the Sin of Arbitrariness. Decisions made by government officials should be based upon objective standards applied consistently. Government leaders who

retain too much discretionary power are in a position to benefit themselves at the expense of their constituents. It is best not to leave government leaders with too much discretionary power, as it is a strong invitation to abuse.

These sins are committed by government officials all around the world, not merely in the islands. They are certainly committed all across the United States by Republicans and Democrats alike. As I noted earlier, however, small island communities have a very narrow margin of error, and hence it is all the more imperative to avoid these sins. Those who commit the sins of Lust, Gluttony, Greed, Sloth, Wrath, Envy and Pride should seek forgiveness from God. Government officials who commit the sins of Patience, Complication, Competitiveness, Opaqueness, Favoritism, Fickleness and Arbitrariness should seek forgiveness from their own people.

We all know that island communities face many challenges. It is important to remember that these challenges can be overcome. They can only be overcome, however, if government leaders do everything in their power to discharge their duties with the highest degree of skill, judgment, integrity and vision. Given everything that is at stake for the people of the islands, to do anything less than that would be a sin.'

Q David, have you seen any progress during your time at OIA?

A We see a lot of positive developments, and I don't mean for this talk to cast the islands in a negative light. A lot of progress has been made throughout the insular areas—even in the time I've been here the recognition has grown tremendously that there is a need to be responsive to businesses. We had our island fellows business students working through the islands to identify ways that reforms can be implemented. We've seen the implementation of secured transaction laws, bankruptcy laws, and things that make it easier to unlock the potential wealth that exists in society. Folks in this room are dealing with these issues already.

Q What can the federal government do to address these issues?

A We have to work with our colleagues to address these things. I understand that in many places the "sins" I describe are part of the culture. All of you in the room who work on these issues daily understand all of that; from our end we have to keep driving home that this is the way that things have to be done. We have a responsibility to taxpayers that provide these funds. Cultures evolve. And culture shouldn't be used as an excuse not to do things that everyone knows should be done. The idea of providing assistance is to provide a benefit and not a burden, and I could easily give a talk about "federal" sins too.

Q Do you feel that the assistance you're providing to the territories is fair?

A I feel that I have an advantage in understanding things from different perspectives. I also have my job to do. I have requirements that we are responsible for, to people that we have to account to. Everybody has to be accountable to everyone—it goes in all different directions. Our office is often in the middle—explaining the islands to Washington and explaining Washington to the islands. Do I think it's fair? It comes from the democratic process; our elected representatives at the US Congress have decided that this is help that

we want to provide. I understand the argument that we may have a moral obligation to give more, but frankly I'm comfortable with the relationship.

6. Keynote Address: 'How Budgetary Discipline Impacts Economic Development' (Edward E. Case, former U. S. Congressman, and Hawaii State Representative)

Mr. Ed Case, the former Congressman from Hawaii, gave a talk about his own experiences with economic development and budgetary discipline. His speech is summarized below.

'Let me start by saying straightly that you guys do the most important work in all of government. I'm sure you know that, and am sure you feel underappreciated. I always found that when you do work that nobody appreciates that you feel better with recognition. How you do your job has a big impact on the private sector—it's an inevitable law of economics.

I have often said that our budget is the most important issue that we're facing. How that budget is managed impacts everything else. If it doesn't balance out and make sense financially, it's just a bunch of talk. Budgets and finances are tremendously misunderstood. When you ask somebody for their tax money, and are paying people and having discussions with foreign investors you are asking them to trust you. And if they don't trust you then things just don't get done. People can just invest elsewhere. They can remove people from office and when you look at the scandals that come up in government they almost always have to do with money--procurement, cooking the books, etc. These are issues of public trust and confidence in government.

It's crucial that you're getting together like this, and it's important that Mr. Cohen talked about the elemental importance of budget and finance.

All of us islands have a different relationship with the federal government, driven by history, strategic interests of the United States.

I'd like to share some lessons I've learned along the way based on 8 years in the state legislature and 4 years in the federal government.

Hawaii in the 90's, their economy was very similar to many pacific islands. Three pillars of tourism, federal/state spending and construction. We are heavily dependent on external factors. We depend as much on the economies of Asia as the US; the financial health of our federal government; of a boom/bust construction cycle. We all knew that the Asian bubble burst, but government never figured it out. We went through a rough legislative cycle in which we made a lot of mistakes. We spent heavily on capital improvements and building; we had to borrow more money at high interest rates, etc. The temptation was there to spend when times were good. We stole money from special funds that we had set up. You get the money into those funds, you think you're insulated from things that can happen in 'down times', and we had more money in special funds. So we stole it from those funds. We didn't cut costs, we found every way not to cut costs, and in fact we were increasing them. And of course, all of this had a significant impact on our private sector. We faced the fundamental reality that we can say whatever we want about the state of our finances, but private capitol goes where it makes money. If you want that money, whether you like it or not, you need to live by a certain set of rules that attract that capitol.

I wish I could say there was a good outcome to this story, but the truth is we haven't solved any of those problems, but we have been saved by a new boom and are still very much at risk.

One success story during that period had to do with public employee's health fund. We had a generous fund that was a defined benefit plan. The money going in and benefits going out were statutory. People got older, we couldn't support it, and we had to step in and do something about it. So we passed reforms putting everyone together in one pool, and let them run their health fund and make their own decisions and we're going to negotiate every year how much the state will contribute to the plan. We implemented that and stabilized the health fund. We had an unfunded liability of \$9 billion.

Social security is a large budgetary challenge for our country—which will impact all of you directly or indirectly. As we have to meet those needs we're going to have less discretionary income. We're also going to have to kick this borrowing habit, which will have similar effects.

What do all these budgets and experiences mean, and what might they offer to you? Perhaps nothing, but I would give you ten lessons that I have taken from these experiences that are common.

1. You're not alone. Every government goes through these issues, faces denial, is tempted not to do the right thing, and finds it hard to make tough political decisions.
2. The solutions are not particularly complicated. There's been no system ever in which people can sustainably spend more than they take in. Solutions are not complicated and we fail to follow our instincts.
3. It's good to have an overall set of budget/finance rules that are embedded in the way of doing things. In Hawaii we have a balanced budget requirement in our constitution, and while there are tricks to get around it, we can't borrow to meet a deficit. We can steal from special funds, siphon off capitol improvement funds, we can do a lot of things, but we can't borrow. We have to have a balanced budget. Contrast that to the federal government, who, without that requirement, just borrows money.
4. Problems are easy to hide—unfortunately. It's easy to give somebody an explanation that's going to work. I remember President Bush saying at one point that deficits don't matter and that this one would work itself out. People believe that because they wanted to. People aren't interested in budgets; they're interested in their jobs and benefits, but not budgets. It's very difficult for most leaders to lead in these areas.
5. Being transparent is absolutely essential. You must have a process that people can look at, understand, and believe. Get them through denial and anger to prove the point.
6. Government efficiency and operations have big impact on private sector.
7. Educate your public officials.
8. Insulate fiscal people from public officials.
9. Bring in private, independent third-party consultant. One thing that's often helpful is to bring somebody in from the outside to tell people what they already know. Sometimes you can't persuade them yourselves, and outside experts can help.

10. Watch your demographics. In 13 years it has changed significantly here, from high birth rates to out-migration, you may end up without an income base to fund longer term commitments.

These are my lessons. Thank you for having me.'

Q Tourism is 17 to 25 percent of the economy here. How can this continue to increase without new hotels being developed?

A Tourism here is boom and bust. We had a great deal of hotels built in the 80s and have basically been recovering from that. If the numbers stay the same we'll probably go through a construction cycle in the next couple of years. Also, tourists are getting absorbed into other parts of our economy.

Q Is there a law regulating the amount of hotels or rooms built?

A We do not have a law, but we have a system of land use here that is regulated across the state and we say that zones can be urban hotels, etc. Right now we have a significant amount of land that is zoned for hotels that's not being used for hotels. We don't specifically regulate that.

Q You mentioned operating in a balanced budget. What happens if you simply don't do it? Does somebody go to jail?

A There would likely have been a court challenge if the legislature or governor just said forget about it. First, the legislature and governor generally do comply. We do have a safety valve of sorts; it's in our state's interest to have a discretionary approach.

Q We've been talking over the years about the difficulty of educating our legislators who refuse to be approached or don't want to deal with these issues. Are there any programs in the Hawaii legislature?

A There are programs in the Hawaii state legislature and for incoming members of the federal government to educate them on the budgetary workings. There are other ways of going about this: informational briefings, presentations, etc. David Walker is very effective, with his website and GAO. To the extent you can politically insulate the people running your budget and finance and take them away from the direct influence of politicians it can really help. The Hawaii auditor is elected for a length of time and can't be kicked out. Same with the Comptroller General. He's not able to be fired by the President and he uses that to his advantage. You can set these programs up and if you're not doing them you should be. My own experience is that the people who most need it, usually Governors and the President, avoid it most. The real question is do they want it, and my experience is roughly 80 to 90 percent do not.

Q Sometimes the Legislature and governor approve a 'balanced budget', but the financial statement at the end of the year shows it was not true. How do we resolve the difference between the two?

A I've never seen a financial statement that really told the story. They usually don't account for unfunded liabilities. Hawaii has done a bit better lately on financial statements

because it's been a long-standing effort to provide one that's accurate, understood, and explains how you're balancing for the year. I don't have a magic solution.

- Q A high government official, well-educated, once said to me that I bring down experts, conduct all this training, and we're probably the most trained people in the Pacific in terms of budget and finances. But your values in the mainland are not the same as ours in the islands.*
- A In Hawaii we're not alone in that way. We get told what to do in training by mainlanders all the time. We know we have our own culture. There's nothing unusual about big government talking down to us. There's no reason that you can't run a good budget within the context of culture. The differences we're talking about are policy differences. I don't think you should listen to outsiders on how to run your culture. But I would say to you that, objectively speaking, if you don't follow the basics on budget and finance, you will have an increasing problem. Nobody in this world, including island economies, can sustain themselves and their cultures without some accommodation to the rest of the world.

We all need to be vigilant about how we can fool ourselves. That's something that's been discouraging to me because I believe that people deserve honesty. I would especially focus on a few things. Firstly, if things don't feel right it's probably because it isn't right. If it's not balancing and working, it probably needs attention. Two, resist the urge to solve something in the short term. Even if you know the fiscal year will be worse for it. Do things in a transparent way, even if it's the hardest thing to do. It's your job, and it makes it easier over the long-run. If you educate people as to what your challenge is, that is biggest part of the solution. Get people through denial and anger. If you try to make a decision without people understanding the problem, it just won't work.

7. Panel Discussion: Our Government's Best Practices for Economic Development and Budgetary Discipline

A panel of representatives from the island governments led a discussion about their own best practices for budgetary discipline and economic development. The panelists were:

- Tiser Reynold, Director, Office of Administration and Finance, Kosrae State, FSM
- Elbuchel Sadang, Minister of Finance, Republic of Palau
- Lourdes Perez, Director of Administration, Guam
- Jefferson Barton, Secretary of Finance, Republic of the Marshall Islands
- Savali Savali, Jr., Treasurer, American Samoa

Tiser Reynold, Director, Office of Administration and Finance, Kosrae State, FSM

Mr. Reynold reported that in Kosrae they have had a structural deficit that's been going on for many years. Kosrae had a \$2 million dollar deficit problem. The government could not balance its budget. Kosrae convened a Leadership Conference of over 200 leaders from the local government and private sector. An independent, third-party consultant conducted a series of economic analyses and reported the financial situation to the conference participants. As the severity of the situation became clear to everyone, they decided to embark on a fiscal austerity program. The program had three major components—raise taxes, cut expenditures, and strengthen (by projectizing) certain government programs.

The leadership decided to eliminate over 100 government positions, at an annual cost saving of about 800 thousand dollars. At the same time, Kosrae adjusted its tax laws and structure. It raised sales and excise taxes. Kosrae has revenue sharing with its municipal governments. The state governments negotiated with municipal governments and agreed to keep 100 percent of the revenues throughout the state. So for the next year Kosrae has an agreement to suspend the revenue sharing with municipal governments.

After October 1 the budget finally passed but there is still a lot of work that needs to be done. Kosrae is still reviewing its reduction-in-force (RIF) program. Kosrae will brief employees by next month. Temporarily the budget is balanced, but the government still needs to find ways to agree to a sustainable level of budget and expenditure.

Q What kind of process did you use to eliminate positions?

A We asked ourselves whether we could do without a particular position? If the answer was yes, then that position was sent to a committee for agreement.

Q Were all of the eliminated positions occupied?

A 68 were occupied, 33 were vacant.

Q Who decides which positions were to be eliminated?

A We held a state-wide leadership conference in which 200 government and local leaders came together in conference and agreed. Two groups had a line-item budget and they determined which positions could be eliminated (120 positions out of 600 total positions in the Kosrae state government)

Q What was the form of compensation you used to get them agree to be RIFed?

A We are thankful to Interior for helping with that. We gave them a lump sum payment of one year's salary.

Q Did your 68 people who were RIFed leave the island?

A Not that I know of. We didn't keep track of them. Maybe one or two.

Q Are there any provisions that they cannot re-enter government employment?

A Yes, if you are RIFed, you can only apply for available jobs again after two years, but if you do come back before then you have to pay back the severance money.

Q How are you managing positions so you don't get in the position you were before?

A We are hiring in critical positions that are currently vacant. We cannot create positions that we have already been RIFed.

Q Was there pressure from the US Federal government to do this?

A (Laughter) Yes there is always pressure, but it was our desire to do this. We had consultants from outside to analyze our situation and recommend to us what to do.

Elbuchel Sadang, Minister of Finance, Republic of Palau

Mr. Elbuchel Sadang made a presentation on what Palau has done to improve its economic development prospects and maintain economic stability. (The PowerPoint slides for his presentation are in Appendix C.)

Mr. Sadang gave a brief summary of the economic conditions on Palau. Palau has a population of almost 20,000, with growth slowing gradually. GDP is increasing steadily and at a pretty healthy pace. The private sector comprises 71% of the total work force and wages in the private sector is 57% of the total wages on the island.

Palau has developed and follows its Sustainable Economic Development Strategy. The strategy is to develop and strengthen the private sector while protecting the environment and reducing the extent and involvement of the government in domestic economic activity. The strategy has three economic policy components and two fiscal policy components.

The economic policy components are:

- Develop economic institutions through a regulatory environment that facilitates strong private sector growth (banking, foreign investment, tax, labor, statistics, commerce),

- Develop infrastructure (using an appropriate planning framework) in energy, water, sewer, communications, and transportation, and
- Develop sectors of the economy that have the potential to support sustainable economic growth, that have a comparative advantage, income potential, and are private sector led, like tourism, fisheries, aqua-culture, and agriculture.

Palau's fiscal policies focus on maintaining fiscal discipline by containing the cost of government in which it has a balanced budget where actual revenues are equal to or greater than actual expenditures. To achieve this goal Palau enacted the Budget Reform Act (RPPL No. 6-11), which requires annual performance reporting, and Executive Order No. 203, which streamlines government processes. The two fiscal policies Palau follows are to:

- Keep the growth of expenditures less than the rate of growth of revenues by streamlining government structure, restructuring personnel, outsourcing services, and improving accountability and productivity of expenditures, and
- Increase revenues by strengthening collection efforts and expanding its revenue base.

Q How did you increase your revenues?

A We got a grant from OIA for \$500 thousand. We have a non-filers program and we go find those and get them to file. We have a monthly payment plus interest they have to pay on their taxes.

Q You said you streamline the government, how did you do that?

A The budget process we used. We do a personnel listing and eliminate vacant or unnecessary positions.

Q For industries in Palau, do they use mostly local labor?

A We use both but some is temporary labor.

Q How are you attacking a \$4M dollar deficit?

A It was \$6M and we reduced it to \$4M by spending less and cutting costs and we have finance and budget under one ministry and you can better control the both ins and out of the money that way.

Lourdes Perez, Director of Administration, Guam

Ms. Perez talked about what Guam has done to increase economic development and instill budget discipline. (The slides for the Guam presentation are in Appendix E). Guam has undertaken a number of activities to try to improve its economic situation. It has held a series of economic development conferences trying to encourage business in Guam. Standard and Poor's reports a stable economic outlook for Guam, especially considering the increase in economic activity resulting from the large military build up due to base re-alignments.

Guam has experienced a number of problems that have made fiscal discipline difficult. Over time, the Governor has lost control over budget and expenditures. The Governor's Office no

longer controls the funds used by the Guam Public School System (GPSS), one of the largest departments. To try to restore greater budgetary discipline and control of the budget to the Governor's Office, the Governor has introduced legislation to re-assert control over GPSS, give allotment control and fund transfer authority back to the Governor, and set aside 10% reserves of allotments. The goals of the legislation are to control spending, keep spending within revenues, and reduce the deficit.

Ms. Perez emphasized the key roles the Finance Office has in achieving budgetary and spending discipline. Specifically, the Finance Office is responsible for:

- Timely, accurate, relevant financial statements which point to urgency of and necessity for budgetary discipline,
- Financial statements that point to the necessity for development of a Deficit Elimination/Fiscal Recovery Plan in the FY 2008 Budget,
- Keeping the rate of expenditure growth lower (not equal) to the rate of revenue growth,
- Establishment of a rainy day/budget stabilization fund,
- Executive orders on travel, overtime, etc. to try and keep expenditure levels below or at budget, and
- Budgeting for previously unappropriated/unfunded items.

Ms. Perez stressed the Performer only confirms the urgent need to take these actions.

For Guam's best practices in fiscal discipline, Ms. Perez cited three accomplishments:

- Government of Guam annual audits were completed on time, with qualifications down to 2,
- The Government has new requirements to post staffing patterns on websites, and financial status reports within 30 days of the end of the quarter. If these two actions are not completed timely, there is a penalty of 20% reduction to Director/Deputy Director and Chief Financial Officer' salary, and
- GovGuam will begin Performance-Based Budgeting in FY 2009, to be effective with 9 agencies. Training has already begun in preparation – with Graduate School sponsoring training recently.

The desired result of these fiscal discipline activities is a Renewed Public Trust in the Finance Office.

Q You submitted a fiscal recovery plan, what did you put in there...like reducing size of government?

A Public sector employment is actually dropping on Guam. We still look for where the overstaffing is. There is a general policy where we don't fill vacant positions. We use an attrition process. We do cost containment and we have opportunities for public input.

Q What is happening with GPSS? And what are your deficits?

A The Governor can now withhold giving 15% to public school. Our deficit is about 500M, about 100M is operational deficit, and the rest is tax-related, another 100M is judgments.

Q You have a required 20-30% reduction in payroll?

A There was a new law enacted. Part of the public auditor's job is to report at the end of each quarter, posting salaries and staffing patterns. The public auditor gets this information and reports. The law has to be amended as to who initiates these actions.

Q How is posting staffing information used?

A We're not really sure.

Q What is your total budget in Guam?

A \$500 million

Q If you don't meet the performance measures, what are the consequences?

A We're just beginning to implement PBB, so we don't have any consequences spelled out yet.

Jefferson Barton, Secretary of Finance, Republic of the Marshall Islands

Mr. Barton discussed the actions the Marshall Islands have taken to improve economic development and ensure budget discipline (see Appendix F for the RMI's presentation slides). To provide the context for his remarks, Mr. Barton described the organizational structure within his organization and presented the tax structure in the RMI. He then presented the actions the RMI has taken:

- In 2004, an assistant secretary was designated to oversee the division.
- In 2005, a Tax Management Automated System (EZ tax system) was installed.
- In 2005, the Tax Audit Unit was established. Since then they have assessed about \$1.3 million in additional taxes.
- The Foreign Investment Registry was transferred to the Tax and Revenue Unit.

Mr. Barton concluded with a detailed discussion of the changes being made in the Tax and Revenue Unit to improve collections and strengthen compliance with the RMI tax laws.

Q How much of that \$1.3 M has been collected?

A All of it.

Q You strengthened your tax audit unit from 2-4, was this before or after...

A We increased the number of people because of the new rules in order to help us collect all the taxes.

Q How much penalty if they don't pay on time? Or not pay at all?

A Up to 20%.

Q How many companies were involved in that \$1.3M?

A Less than 4

Savali Savali, Jr., Treasurer, American Samoa

When I took office there were few internal controls in place that were functioning properly.

I have attempted to hire qualified personnel to begin the change within the Treasury that needed to be made and begin moving to cleaner financial statements and single audits. I cannot control what other departments do but can say no when they do not show that they are accountable.

There are several things that I have worked to change besides key personnel since taking office but for this I will concentrate on payroll:

Placing more controls into the financial software system and enforcing rules that had been in place years ago and became abused. The savings in overtime alone could be around \$5 million or more since we began enforcing those rules.

We have asked departments to send all original timecards and timesheets to us starting this fiscal year in response to insufficient supporting documentation in the Single Audit. I am also reviewing the purchase of an electronic data system that would be able to better track time and employees.

We are calling on the department heads and fiscal managers to be more responsible for their actions. To assure that ample budget dollars exist in accounts and to make certain that federal and local laws, policies, and rules are followed.

We have placed rules in place whereby the directors and managers cannot shift personnel from grant to grant as had been happening. This allows for more stability in planning. We have also stopped journal entries which shift past payroll from grant to grant. Doing so has prevented auditors from properly reviewing what has occurred and creates issues for cash management.

Although we have not yet been able to measure our progress, we believe that we have taken significant strides in saving federal and local money in addition to coming closer to reliable information that can be audited.

Q What do you mean by "back-up"?

A You have to have documentation to back-up your time cards and time sheets.

Q When there is no money in the payroll for the grant or department, and they are not getting paid, how do you avoid lawsuits?

- A If you don't have money that is purposefully dedicated, it should not be paid with money from another grant. Too much abuse. Example: Money was reprogrammed from the executive branch to pay the legislature.

Q Are you enforcing rules that already exist or are these new rules?

- A Most of the rules were already on the books before my time, but were not enforced. I fear, when I leave, they will revert to the way it was (abuse). Policies are in place--they just have to be implemented.

8. Small Group Breakout Session: Economic Development and Budgetary Discipline

After the keynote addresses and the panel presentations on best practices in economic development and budget discipline, conference participants broke into groups to address four questions related to the issues covered:

- What are the key issues your government is facing in economic development?
- What can you do to facilitate economic development?
- What are the key issues your government is facing in establishing budgetary discipline?
- What can you do to help establish budgetary discipline?

The issues identified by each group are presented in Appendix G. Although the groups proposed many issues and possible solutions to those issues, the most common issues cited by the groups for each question were:

- What are the key issues your government is facing in economic development?
 - Lack of a diverse revenue base
 - Geographic distance
 - Local skill base
 - Weak institutional framework to support economic development
- What can you do to facilitate economic development?
 - Change laws and regulations to be more business supportive
 - Diversify economic base
 - Enhance credibility of government finances
- What are the key issues your government is facing in establishing budgetary discipline?
 - Inability to show discipline, expenditures are greater than revenue
- What can you do to help establish budgetary discipline?
 - Provide accurate, timely financial information
 - Implement performance-based budgeting
 - Introduce budget austerity programs
 - Improve internal controls
 - Contain costs of government expenditures

9. Overview of the Audit Improvement Project (Debbie Milks, CPA)

Ms. Milks discussed the status of the audit improvement project prior to presentations by each of the island governments. Her slide presentation is attached as Appendix H. Ms. Milks presented a summary analysis of the FY2006 audits of all the island governments (using a draft of the FY2005 audit findings for the Virgin Islands) and noted that the summary is useful only to track the broadest of changes and trends over all the governments. The FY2006 summary shows procurement, record keeping and reconciliation continue to be the areas which generate the greatest number of findings. Procurement dominates the dollars of questioned costs in FY2006, over 70%, with record keeping as the second major area of questioned costs with 16%. She pointed out that record keeping is often associated with procurement issues when bidding, sole source, or quote documents are missing from a procurement package and therefore the entire purchase is questioned.

Why Procurement?

The number and categories of audit findings and questioned costs can be affected in two ways; one by a change in the island government's financial operations and secondly by the focus of the auditors. Problems which may have been present all along may appear to be suddenly highlighted because the auditors have spent more time in that area. The apparent sudden increase in the dollars of questioned costs in procurement may be due to auditor attention rather than a sudden degradation of government operations. On the whole, the governments' financial statement numbers are more reliable and timelier. When auditors spend less time trying to get good balances for cash and payables they can spend more time looking at other processes, such as procurement.

Other reasons which may have affected the questioned costs in procurement include the May 2006 supplement to Circular A-133 which provides auditors with an easy compliance checklist for all federal grants, the more stringent procurement requirements under the Compact II grants to RMI and the FSM, and the greater attention to the island governments from many of the U.S. Federal Agencies. Ms Milks noted that the U.S. Department of Education has been spending much more time in the islands starting with the compliance agreement with the Virgin Islands, their subsequent visits and additional requirements in Guam and the CNMI and now more focus on the freely associated states. The U.S. Department of Treasury paid visits to each of the flag territories and increased awareness of cash management requirements both with the island finance offices and their auditors. U.S. Department of Health and Human Services is becoming more aggressive with monitoring grant findings in their programs in the islands. The number of eyes looking over the single audits has an affect on how "nitpicky" the auditors may appear to be.

Has there been progress?

Two slides show in total the number of findings and questioned costs that have been tracked over the course of the audit improvement project. The progress since the FY2002 audits is dramatic. The number of findings decreased 20% and the dollars of questioned costs decreased over 60%. However, when comparing FY2005 to FY2006, the picture does not appear as rosy. Both findings and questioned costs went up. As in years past, Ms. Milks cautioned that counting the number of findings and even questioned costs can be a very false measure. Guam's findings in cash management went from 1 to 9 from FY05 to FY06.

Nothing had changed in the scope of the audit or the problem, but at the request of some grantor agencies, the auditors presented cash management findings by individual grant rather than combing them into one.

Ms. Milks emphasized that the only stable and reliable measures for audit improvement must remain the timeliness of the audit and the number of audit report qualifications. By those measures the island governments have improved dramatically and consistently every year.

Audit Findings by Agency

The slide which focuses on the agencies which generate audit findings illustrates that over 50% of findings are not under the control of the finance office. That is a problem as most of the governments see the finance office as “owning” the audit. The chief finance officer can request and assist other agencies with audit related problems, but there will always be some agencies which won’t improve unless forced by the Governor, the Public Auditor or some other higher authority. This problem and the solution is the focus of the discussions with the auditors in Thursday’s session.

Corrective Action Plans and Audit Improvement Plans

Ms. Milks quickly reiterated that there is a major difference in the two plans. The correction action plan must be presented for each audit finding. The audit improvement plan addresses groups of current and prior year audit findings by problematic area. While there are differences, the grantor agencies will accept an audit improvement plan that addresses the specific problem in a particular finding and when a grantor agency asks for progress on the corrective action plan, an audit improvement plan is designed to show that progress. The audit improvement plan should always include enough detail to note the number of the audit finding, the performance measure which is used to measure progress and the type of progress reporting which will be used.

Cash Management

Each government again received one or more findings related to federal cash management. Ms. Milks noted that several of the government’s corrective action plans included a statement that “the finance office cannot control when vendors cash their checks and therefore cannot control the number of clearance days”. She explained that a cash management clearance pattern is meant to develop an average of clearance days and the government treasury then draws federal funds to meet on average when the checks clear the bank. When a government has a written, documented cash management plan, the auditors should audit compliance with the plan, not identify individual checks which clear outside of the average.

Conclusion

Ms. Milks encouraged the governments to maintain the momentum as backsliding on findings and timeliness is easy. She also reminded them that the new level of material weakness under SAS112 may affect the number of findings in their FY2007 audits and therefore to read and address problems that were pointed out in the management letters from their auditors

10. Island Government Presentations: Audit Improvement Project

After Ms. Milks' introduction to the audit improvement project, a panel of representatives from the insular governments talked about their experiences with recent audits. The panelists were:

- Jefferson Barton, Secretary of Finance, Republic of the Marshall Islands
- Tiser Reynold, Director, Office of Administration and Finance, Kosrae State, FSM
- Maria Laaw, Director, Office of Administrative Services, Yap State, FSM
- Andrew Joseph, Acting Director, Department of Treasury and Administration, Pohnpei
- Millan Isack, Procurement Officer, Ministry of Finance
- Hermana Idip, COFA/Systems Accountant, Ministry of Finance, Republic of Palau
- Kathy Kakigi, Controller, Department of Administration, Guam
- Debra Gottlieb, Director, Office of Management and Budget, Virgin Islands

Each panelist addressed three questions:

- In what area have they made the greatest progress?
- Where are they experiencing the greatest challenge?
- What is their single very best practice in audit improvement?

Jefferson Barton, Secretary of Finance, Republic of the Marshall Islands (see Appendix I for the presentation slides)

Areas of Greatest Progress

- Fixed assets qualification removed
- Decreased number of component units not included from 8 to 2

Greatest Challenge

- Inability of Component Units to produce audited financial statements on time for inclusion in the Primary Government's audit-results in qualification on the audit of Primary Government

Very Best Practice in Audit Improvement

- Working together as a team--dedicated colleagues, motivated colleagues, team has a sense of mission

Tiser Reynold, Director, Office of Administration and Finance, Kosrae State, FSM

Areas of Greatest Progress

- Achieved an unqualified audit by writing off uncollectible revenues and bad investments, and by resolving prior year fixed assets finding

Greatest Challenge

- Economic reform program
- Lack of adequate staff
- Vendors' requirements for advance payments

Very Best Practice in Audit Improvement

- Providing letters of funding certification from the bank instead of advance payments

Robert Schrack, Special Assistant to the Secretary of Finance, CNMI

Areas of Greatest Progress

- Timeliness has been a problem, but now doing better
- Eliminated some qualifications at the Finance Office in 2006

Greatest Challenge

- Cash management
- Component units

Very Best Practice in Audit Improvement

- Multi-year contract with the auditors (three years)
- Improved audit management process

Maria Laaw, Director, Office of Administrative Services, Yap State, FSM

Areas of Greatest Progress

- Bank reconciliations

Greatest Challenge

- Component unit's inability to value a fixed asset
- Procurement
- Fixed assets
- Advances (travel and procurement)
- Documentation

Very Best Practice in Audit Improvement

- Monthly reports to the director noting progress on specific issues

Andrew Joseph, Acting Director, Department of Treasury and Administration, Pohnpei State, FSM

Areas of Greatest Progress

- An unqualified audit in 2006

Greatest Challenge

- Fixed assets—tracking supplies in the schools and pharmaceuticals and supplies in the hospital

Very Best Practice in Audit Improvement

- An unqualified opinion without questioned costs
- A small surplus on the books

Millan Isack, Procurement Officer, Ministry of Finance, Republic of Palau

Areas of Greatest Progress

- None mentioned

Greatest Challenge

- Procurement at both the policy and operational level
- Fixed assets
- Antiquated laws and regulations

Very Best Practice in Audit Improvement

- Standardized forms for line agency procurement staff

Hermana Idip, COFA/Systems Accountant, Ministry of Finance, Republic of Palau

Greatest Challenge

- Travel advances
- Getting three quotes for travel tickets
- Non-government people traveling on government funds

Kathy Kakigi, Controller, Department of Administration, Guam (see Appendix J for the presentation slides)

Areas of Greatest Progress

- Fixed assets physical inventory

Greatest Challenge

- Sole source procurement for 911 equipment

Very Best Practice in Audit Improvement

- Established and implemented Standard Operating Procedure for federal cash drawdown and disbursement

Carrie-Lee Magalei, Senior Accountant, Department of Treasury, American Samoa (see Appendix K for the presentation slides)

Areas of Greatest Progress

- Accounts Payable Documentation
- Timely Bank Reconciliations
- Monthly closing of GL

Greatest Challenge

- Payroll
- Internal Control Compliance from other ASG agencies

Very Best Practice in Audit Improvement

- Communication! Communication! Communication! with...departments (front line managers), the Public Auditor, and the Governor and Cabinet

Debra Gottlieb, Director, Office of Management and Budget, Virgin Islands

Areas of Greatest Progress

- Decreases in the number of findings, the severity of the findings, and the amount questioned costs
- Recruitment and retention of highly skilled and professional staff
- Financial management information system

Greatest Challenge

- Staffing constraints
- Financial management information system
- Component units
- Indirect costs

- Timeliness of audits

Very Best Practice in Audit Improvement

- Audit resolution process

11. The OIA Budget Outlook for Fiscal Year 2008 (Tom Bussanich, Director, Budget, Office of Insular Affairs, Department of Interior)

Tom Bussanich gave a preview of the OIA budget picture for FY2008. The Department of Interior is currently under a continuing resolution, which means it must hold spending at last year's levels. When the FY2008 budget passes, OIA expects to have a small increase in its budget. Much of the budget, however, is required funding. The discretionary funds in the office are extremely limited. In addition, Congress has directed OIA to conduct a census of compact emigration. Although congress allotted \$300,000 for the study, it will cost OIA \$1.3 million to complete the study. The additional \$1 million will have to come from Technical Assistance funds, reducing discretionary funds even more.

As part of its budget preparation and review process, OIA identified about \$2 billion in capital improvement needs that are unfunded. Several states (Hawaii, Guam, the CNMI, etc.) are requesting more compact impact funding. Finally, the Guam infrastructure upgrades necessitated by the Department of Defense relocation of troops from Iwo Jima to Guam have not been funded and it is still unclear who, if anyone, will pay for these projects.

12. Federal Agency Oversight (OMB Circular A-133), (Marina Tinitali, Accountability, Policy & Audit Liaison Officer, Office of Insular Affairs, Department of Interior)

Ms. Tinitali made a presentation on the roles and responsibilities the different levels of government play in audits (see Appendix M for the presentation slides). She emphasized that each level of government must be in balance with the other levels; if one should become unbalanced, the relationships among the levels comes under stress and is less effective. If the roles are balanced, program management and staff more likely to:

- Be knowledgeable,
- Have superior work ethics,
- Be fully accountable (time and work),
- Accurate and timely outputs, and
- Higher level of work satisfaction.

Balance among levels of governments helps to ensure:

- Timely and accurate daily detailed work,
- Timely and accurate reports and summaries,
- More reliable financial statements,
- Better quality audit opinions – annually,
- Fewer audit findings, and
- Better able to resolve issues.

Ms. Tinitali then discussed in detail the responsibilities of each level of government as documented audit regulations. Some of the most important responsibilities for local governments are to:

- maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.
- prepare appropriate financial statements.
- ensure audits required are properly performed and submitted when due (within 9 months of fiscal year end), or within authorized extension approval periods.
- follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.

13. Preparing for SAS-112 and GASB Standard Changes (Frank Crawford, CPA)

Mr. Crawford's session on preparing for SAS-112 and GASB Standard Changes attempted to demystify the requirements of AICPA Statement on Auditing Standards #112, with a look at the requirements from the perspective of the auditor and the auditee. The complete slides for this presentation have been included in Appendix N. Time was spent redefining the 3 levels of severity of internal control deficiencies, with particular attention provided to those described as "significant deficiencies" and "material weaknesses". The session also focused on the communication requirements of the new standard, and provided insight to the thought-process used by auditors to determine the severity of each identified internal control deficiency. In addition, recently issued or effective Governmental Accounting Standards Board (GASB) principles were discussed, including GASB Statements 43 and 45, dealing with "other post-employment benefits". The discussion of GASB Statements 43 and 45 centered around the need for the governments to measure the cost of providing these benefits to retirees, and the need for actuarial services to determine these amounts.

14. Planning for a Community of Practice in Procurement

Representatives of the procurement functions from the island governments met separately from the main IGFOA conference to discuss the need for, and their interest in, developing a Community of Practice in procurement. A Community of Practice is simply a group of people in a professional area who want to share issues, find common solutions, explore best practices, and build a network of colleagues within a specific area of expertise (like IGFOA does in finance and APIPA does in auditing). (See Appendix O for the list of participants and the session notes.)

The procurement representatives agreed they need, and would like to form, a Community of Practice. They would like to be a sub-group of IGFOA, as they find the material covered and training provided during the IGFOA Conference are important to their work and profession. They also do not want the formal organizational structure that IGFOA has adopted (e.g., officers, by-laws, etc.). The members preferred to remain an informal group sharing a common profession. They would like special sessions on procurement issues during the IGFOA conference and training specific to their needs to the greatest extent possible. Based on what some members heard at the 2007 Grants Conference in San Francisco, the group recommended IGFOA provide a session on ‘best value’ procurements vs. lowest cost procurements at the next conference.

The group agreed each government would take a turn as coordinator for the group. Guam volunteered to serve as the first coordinator. The role of the coordinator is to serve as communication link between OIA, PITI-VITI and the group’s members—disseminating information, soliciting feedback and input, etc. Members exchanged email addresses and identified three issues where they committed to start sharing information. These three commitments were:

- Members will exchange procurement-related findings from their audits and how they were resolved,
- Members will exchange information on the current bid evaluation process, what the problems with the process are, and ideas on how the process can be improved, and
- The Virgin Islands will send a copy of its revised procurement code to all members as soon as they can legally.

15. Small Group Breakout Session: Action Planning to Implement Key Ideas from the IGFOA Conference

To tie all the components of the IGFOA Conference together and start the governments on their action planning process, conference participants broke into country groups and addressed three questions:

- What have you heard the last two days that you can use when you return home?
- How would you use it?
- Develop a brief action plan on the first steps you will need to take to begin to use it.

The products produced by each island government are summarized below:

American Samoa

Most valuable information: Explanation of Kosrae's Reduction in Force (RIF)

Action Plan:

1. Vacant positions
2. Desk audits
3. Incentives for early retirement
4. Be good friends with Kosrae to get action plan

Guam

Most valuable information--Quantify inconsequential SAS-112 and to be more timely on procurement responses

Action Plan:

1. Meet with audit manager to define and quantify what is inconsequential and what is material.

CNMI

Action Plan:

1. SAS-112, review Management letter
2. GASB 43/50 Retirement Funds
3. Respond to OIA Management Decisions

Palau

Most valuable information--Challenge of demographics (moved 20 miles away from people we serve and vendors serving us)

Action Plan:

1. Utilize e-commerce (secure price quotations via internet, make payments online)
2. Pre-qualify suppliers in order to reduce commutes to obtain 3 price quotations
3. Vendors will be pre-qualified by Feb 15, 2008

FSM

Most valuable information--Budgetary Discipline, need to start with a reasonable and reliable revenue estimate

Action Plan:

1. Budget review committee
2. Budget/Finance Directors to Governor
3. Governor / Legislators consultations with internal staff or outside consultants

RMI

Most valuable information—-independent revenue board and audit resolution committee

Action Plan:

1. Communicate importance to Cabinet
2. Regular meetings of ARC

Virgin Islands

Most valuable information—

1. David Cohen's 7 Deadly Sins Insular Territory comments
2. Ed Case's Ten Lessons Learned
3. Need to work on the deadly sins and lessons learned that GovVI suffers from
4. Use items 3-5 above to develop corrective action plans.
5. Economic development
6. GovVI is the farthest behind in implementing our Audit Management Plan
7. Explore the utilization of a letter of credit to address pre-payments on procurements

Action Plan:

1. Brief the Governor prior to the state of the territory address (Maduro, Gottlieb)
2. Brief Commissioner Anderson on major issues highlighted at the IGFOA December 2007 Conference (Maduro, Gottlieb)

3. Obtain Funding to Develop a Business Retention Program for GovVI to promote economic development
4. Need to accelerate/"fast track" GovVI's Audit Management Plan
5. Seek an Advisory Opinion from AG as to whether obtaining a Letter of Credit is an acceptable means of prepayment to vendors

16. Keynote Address: Accountability: Progress, Challenges, and a Call to Protect the Public Auditor's Offices

David Cohen, Deputy Assistant Secretary, Office of Insular Affairs, Department of Insular Affairs

Mr. Cohen gave the IGFOA-APIPA joint conference keynote address (see Appendix P for the full text of the speech). His speech discussed accountability and how OIA has dealt with accountability in the islands. He closed the speech with a call to maintain and strengthen the public auditor's office in the islands. Excerpts from his speech are presented below:

'Good morning. When I spoke before the Island Government Finance Officers' Association on Tuesday, I noted that Priority 1 for the Department of the Interior's Office of Insular Affairs is promoting private sector economic development in the islands, and Priority 1-A is ensuring accountability for public funds—particularly the Federal financial assistance provided to the islands by my office and others. On Tuesday, I spoke about Priority 1. Today, I will speak about Priority 1-A.

- We say over and over again that accountability is one of OIA's two top priorities, and we have backed up our words with deeds. For example:
- We worked with our colleagues in the Marshall Islands and the Federated States of Micronesia to negotiate a detailed, comprehensive accountability program for funds provided under the Compacts of Free Association.
- As part of our effort to implement the Compacts, we have established an office here in Honolulu dedicated to ensuring that there is accountability for Compact funds. We have also added personnel in the freely associated states for that purpose.
- We have revamped the way that we allocate Capital Improvement Project funds, instituting a competitive process that rewards good fiscal management.
- We have established the position of Accountability Policy Specialist at our headquarters in Washington, D.C.
- We have a longstanding contract with the USDA Graduate School to provide training for island officials, with an emphasis on financial management and improving compliance with the Single Audit Act.
- We have sponsored numerous conferences, workshops and training programs involving officials from the islands and our colleagues at other Federal agencies.
- We fund training for public auditors, including programs that enable personnel from the islands to work and train at various Interior Inspector General offices.
- We have revised our criteria for granting technical assistance to focus primarily on our top two priorities, including promoting accountability.
- We have greatly increased coordination with other Federal agencies to focus on improving the administration of Federal grant programs in the territories and freely associated states.

- We completely revamped OIA's Financial Assistance Manual for the first time in a decade.

Our efforts, together with the hard work of our colleagues from the islands and our Federal colleagues, have yielded positive results. When I took office in 2002, not a single one of the 11 nations, states and territories that we serve was submitting timely or clean Single Audits. Today, the record on timeliness is almost exactly the opposite: only one of our 11 jurisdictions is not current with its Single Audits. In addition, Palau's Single Audits have been timely and clean for the past three years, Pohnpei's have been timely and clean for the past two years, and Kosrae became the newest member of the "Timely and Clean Club" this past year. Pohnpei is in a club of its own, having completed Single Audits for the past two years that were timely, clean and with no questioned costs. Pohnpei will soon be the rule and not the exception, and just as we all worked together to turn the situation around with regard to timeliness of audits, we will do the same with regard to cleanliness.

Although we very much value our positive relationships with our colleagues in the islands, we have taken tough action when tough action was called for. We have been forced to withhold grant assistance on a number of occasions. We hate to do that, because our grants fund important programs in health, education and other crucial areas. We recognize, however, that it is better to withhold funds and preserve them for future use than to release funds into an insecure environment, risking that they will never be properly used to address the needs of the people.

We have excellent working relationships with the governments of almost all of our island communities. This enables us to work through some very difficult issues. A while back, we made the very difficult decision to put American Samoa on high risk status. We imposed a very high bar to have that status lifted: Two consecutive timely and clean Single Audits, two consecutive balanced budgets, and sufficient progress on American Samoa's fiscal reform plan. The plan was adopted pursuant to a Memorandum of Agreement for fiscal reform that I signed with the late Governor Tauese Sunia. Governor Togiola Tulafono has embraced these conditions as a challenge and an opportunity for his government to greatly improve its ability to serve the people of American Samoa. He wants American Samoa to meet those conditions and in so doing become a model for fiscal management in the islands. For our part, we have responded with substantial technical assistance to help American Samoa develop the tools and skills necessary to effectively manage its government finances.

In Kosrae, we have supported a process, involving the new government of Kosrae, the new government of the Federated States of Micronesia and the USDA Graduate School, to address an urgent fiscal crisis. With financial assistance from our office and the FSM National Government, Governor Robert Weilbacher, his team and the Kosrae legislature have taken painful and courageous steps to restore that state to fiscal health.

We are working with FSM President Manny Mori and Governor Wesley Simina to support a similar fiscal recovery plan that is being developed for Chuuk. We had previously worked with the Chuuk State Government and the FSM National Government to establish the Chuuk Financial Control Commission to review and certify all transactions involving Compact funds. OIA has placed a full time accountant in Chuuk to ensure compliance.

All of us working together have made significant progress to improve accountability and fiscal management in the islands. We have a tremendous way to go, however, before the overall performance of the islands in fiscal management could be called acceptable.

I am proud of the progress that we have made together to improve accountability because we have done so in the face of daunting challenges. Each of our insular areas has small populations and educational systems that range from significantly below to very far below mainland standards. The best and brightest often have to leave the islands to find decent job opportunities. As a result of all of these factors, each of the insular areas has a severe shortage of the type of educated talent that is necessary to ensure good fiscal management. As you can tell by looking around this room, there are many educated and talented people in the islands. There just are not yet enough of them.....

Are some of the islands' fiscal management problems caused by corruption? Of course, but there is corruption all over the world, including on the U.S. mainland. The corruption that exists in the islands only makes it harder for the islands to address the challenges that I have just described.

For all of these reasons, it has taken a great deal of work by all of us to achieve the accountability gains that we have achieved in recent years, and it will take a tremendous amount of additional work to raise ourselves up collectively to an acceptable level. We are committed to doing that work.

One thing is clear: Our efforts cannot succeed unless each of our island communities has a strong, active, independent, conscientious, properly staffed and properly funded public auditor's office. The management of public funds is a complicated business, and regular, impartial review of our work is essential to ensure that good value is received for the people's money.

OIA has taken steps to encourage each of the island governments to strengthen their public auditor's offices. For example, we rate each of your public auditor's offices and use that in our determination of the amount of grant funding that various jurisdictions will receive.

To be frank, however, I am not satisfied. None of us should be satisfied. We still have jurisdictions that have not had a qualified public auditor in place for an unacceptably long period of time. We still have public auditor's offices that do not have the staff or budget to do an effective job. We still have public auditor's offices that are too vulnerable to political retaliation.

Protecting the auditors is always a challenge. The problem is that auditors routinely have to be critical of those who have control over their budgets, personnel decisions and other important matters.....their imperfect attempts to do their job are essential to our ability to improve in our imperfect attempts to do our job.

Earlier, we notified each of your governments that the failure to have a public auditor's office meeting minimal standards would eventually result in a loss of eligibility for OIA technical assistance funds. Today, I would like to start a process where we all work together to flesh out that concept. I would like all of us—finance offices, public auditor's offices, the USDA Graduate School, Interior's Inspector General's Office, OIA—to work together to craft clear,

objective and reasonable standards that must be met in order to ensure continued eligibility for technical assistance funds. The objective will be to ensure that public auditor's offices are protected in their independence and are properly funded and properly staffed with qualified people, starting from the very top. We will work together to establish reasonable time frames and reasonable procedures. We have no desire to cut off technical assistance funds simply because a public auditor's office is not perfect, or does not meet the "gold standard" in terms of budget and staffing. We simply want to ensure that public auditor's offices are not allowed to fall so far as to become irrelevant, unable to perform their role in any significant fashion. Sadly, that has occurred in at least some of our jurisdictions, and that is the problem that we must work together to address...

The process that I have proposed today will be an important step in our effort to improve accountability for public funds in the islands. We should be proud of the progress that we have made to date, and continue to be committed to making progress in the future. We will definitely continue to make progress as long as we remember why we are here: To make life better for the people of the islands.'

17. Strategic Planning in the Office of Insular Affairs and Progress on developing OIA Performance Measures (Tiffany Taylor, Budget Analyst, Office of Insular Affairs, Department of Interior; Dr. Patricia Keehley, Southern Utah University)

Tiffany Taylor, OIA Budget Analyst, and Dr. Patricia Keehley, Graduate School, USDA, presented a draft report on OIA's Performance Measurement Project (see Appendix Q for the presentation slides). As a result of the Government Performance Results Act of 1993, DOI and OIA have established strategic goals and performance measures for each goal. Those goals and measures represent a first step toward a broader and more detailed performance measurement and management system.

The purpose of the Performance Measurement Project was to

- Develop an integrated measurement model for the programs and activities of the Office of Insular Affairs,
- Link the budget and expenditures to OIA's programs, activities and measures, and
- Provide information to better manage OIA's program and activities.

The project identified over forty possible output measures, a dozen possible outcome measures, and several indices for OIA's consideration (see Appendix R for a chart of OIA's proposed measurement structure). A proposed timeline for collecting the measures and the individuals responsible for collecting and reporting those measures was included.

Phase II of the Performance Project will include activities to refine the proposed measures, institutionalize the measurement reporting process, use the measures for activity based costing and other management practices, solicit comments and feedback from the insular areas, and develop priorities for assisting the insular areas with collecting and reporting measures.

Q How does OIA intend to measure these things?

A Some of these questions have frustrated performance management experts for years because of the type of activities OIA has. There's HHS and DOE, we are marginally involved in every aspect of island government. It is extremely difficult to measure what we do. If you compare Guam to American Samoa, we have a mixed role in each of these islands, some larger, some smaller. We can focus on some of our programs and have very distinct measures. We have a difficult time coming up with a single index, but we more or less have to do this because we're the only federal link the government has.

Q (Guam) We've been timely with our audits, but not clean. We tried to do an FMIP with Guam school system. We need a good FMIP at GPSS. We need an FMIP at Rev and Tax. Are we collecting all the revenue there? I would like to see a shift toward more FMIPs.

Q On the primary mission to promote economic self sufficiency, does this imply that the goal, that the end outcome, is to be self sufficient?

- A The best way for us to improve that is to cut off the money but that doesn't make any sense. The main mission is to develop more private sector, business.
- Q Looking at the strategic goals, increasing private sector employment is difficult for the island, how do you quantify self-sufficiency? When DOI awards grants to the insular areas, does it look at those outcomes based on them improving? And if they don't, do the insular areas not get grants because they are not improving?*
- A At this time, we are not doing that. If American Samoa doesn't improve, we do not cut off their funds.
- Q One of the frustrations in CNMI is getting reliable data . Some census data that I've tried to get is 7 years old. So when I call Guam or CNMI the numbers we get we don't always know how right they are.*
- A With financial data, we're still working with the Census Bureau, and they are very expensive... we're trying to work with the University of Michigan as an alternative. We have to do an enumeration for Compact impact, and we had \$300,000 and the Census wanted \$1.3 million to do this. We're working on it.
- Q Performance Management Project---how can we and how long can we give comments and questions?*
- A We are in the beginning stages of Phase one, only in the first few months. You can give me comments now until forever. Email or call me. I want to hear from you.

18. PITI-VITI Strategic Goals and the PITI-VITI Year in Review (Jack Maykoski, Director, International Institute, Graduate School, USDA)

Mr. Maykoski presented information about the Pacific Islands Training Initiative (PITI) and Virgin Islands Training Initiative (VITI) programs and how they support OIA's mission and strategic plan. (See Appendix S for the presentation slides.) PITI/VITI was established in 1991 to support the U.S. Department of the Interior's Office of Insular Affairs (DOI/OIA) with its mission. OIA's mission is to assist the U.S.-affiliated "islands in developing more efficient and effective government by providing financial and technical assistance, and help manage Federal islands relations by promoting appropriate Federal policies". As part of DOI/OIA's Technical Assistance program, the International Institute of the Graduate School, USDA (GS/USDA), provides training and related services through the Island Training Program (ITP) to assist the insular governments in improving the financial management and program performance of the Pacific and Virgin Islands governments.

PITI/VITI currently serves the Virgin Islands, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. The programs are designed and delivered in a manner that complements and supports insular efforts to implement and maintain sound financial management and program performance practices.

As part of its yearly planning process the PITI/VITI staff reviews accomplishments, develops training plans for the next year, and budgets for the planned activities. Periodically the PITI/VITI staff also revises its strategic plan to focus its efforts and resources on the most critical issues facing the insular areas and OIA.

During November 2007, the PITI/VITI staff and a few of its key consultants conducted a thorough review of the PITI/VITI program, its strategic plan, and its performance measures. The review team started with DOI's strategic plan and annual reports, OIA's annual reports and budgets, and OIA's performance measures. Using these documents as the drivers for PITI/VITI activities, the team then reviewed and revised the PITI/VITI program's vision statement, mission statement, and strategic goals to better align them with OIA's goals and measures.

PITI/VITI's vision is provide the services that enable insular governments to use resources efficiently and effectively to promote economic growth, achieve fiscal stability, and fulfill citizens' needs.

PITI-VITI's mission is to provide customized, results-oriented professional and organizational development services that enable insular governments to strengthen financial and program performance and accountability, achieve fiscal stability, and promote economic growth. PITI/VITI works to build trust in insular governments by fostering responsible leadership and financial stewardship of the highest standard.

Based on these vision and mission statements, PITI/VITI works to achieve five strategic goals:

1. Improve leadership and management capacity to effectively perform;

2. Improve financial management systems and practices;
3. Increase effectiveness and program results;
4. Institutionalize regional professional organizations and communities of practice;
5. Improve the capacity and capabilities of the public sector work force in critical positions and functions.

For each of these strategic goals PITI/VITI has developed sets of activities and performance measures. These activities, when completed, will lead to the accomplishment of the strategic goals. The performance measures are the means by which PITI/VITI can assess progress towards the goals and through which PITI/VITI can be held accountable by its stakeholders.

19. Performer Updates: We know our Performer score, so what do we do with it? (Frank Crawford, CPA)

Mr. Crawford gave a brief update on the Performer scores for each government, then discussed how to use the Performer to improve the financial health of the islands (see Appendix T for his presentation slides). The Performer measures the financial health and success of a government based on information found in the government's annual audited financial statements.

Mr. Crawford explained the Performer can be used in many ways to try to improve a government's finances. The Performer can be used to:

- Educate the decision-makers
- Measure the impact on financial health and performance before making significant financial decisions, such as
 - Issuing debt and/or raising taxes
 - What do our tax and debt burdens per capita look like?
 - Would our citizens be willing to pay more taxes?
 - Would our creditors be willing to allow us to issue more debt?
 - Can we increase fees of our charges for services activities and increase our revenue dispersion control and not be so reliant on revenues not under our direct control?
 - How should we address long-term pension obligations that are most-likely unfunded at the current time?
 - Pension funding bonds?
 - Changes to the plan(s)?
- Determine the need for, or amount of, cash to keep aside for operational purposes
 - General Fund fund balance
 - Investments, short or long-term
- Measuring future cash flows that might be necessary for capital asset replacement or needed for operations if federal funding diminishes

Lastly, but possibly most important, Mr. Crawford recommends using the Performer to do the obvious:

- Track your financial health and performance over the years
- Review the A.F.T.E.R analysis to track progress on the elimination of audit findings and questioned costs, timeliness of the release of the financial statements, and component unit related issues

20. Keynote Address: ‘What Finance Offices Can Do to Support Economic Development and Policy Reform’ (Kevin O’Keefe, Former Economic Advisor to the Federated States of Micronesia)

Kevin O’Keefe talked about the four different aspects of policy reform—policy formulation, policy review, policy advocacy, and policy implementation. He recommends that all policy formulation activities include a financial component. All too often, governments formulate policy with no budget constraints, which inevitably leads to fiscal problems. As policy is developed, the analysts must answer the question, “how much will it cost?” Policy reviews should also consider the economic implications of the policy.

During policy advocacy, Mr. O’Keefe emphasized that finance officers need to ‘play it straight’. They need to get the budget figures out early and accurately; under no circumstances should they ‘fudge’ the numbers. It is essential to build and maintain credibility so when the budget debates begin, the finance office has the credibility to persuade its point of view. He suggests fighting bad ideas with good data. The finance office needs to provide information publicly and widely so other parties can participate in the debate. In some situations it helps to bring in an independent third party to offer a fresh opinion. Finally, don’t worry about your losses. Fight the good fight then move on.

When policies are being implemented, Mr. O’Keefe recommends you ‘hasten slowly’. Policies that are hurried into use are often introduced, implemented, regretted, and rejected. Once a policy fails, it is unlikely to be implemented successfully any time in the foreseeable future.

Based on his experience with policy reform, Mr. O’Keefe offered some ‘lessons learned’:

- First, do no harm. Don’t hide problems. ‘Borrowing’ funds from Peter to pay Paul does not work. As Herb Stein’s Law says, ‘if something can not go on forever, it won’t. If something is unsustainable, then it can’t be sustained’.
- Second, look at the numbers, both long-term trends and short-term figures. Three measures he particularly likes are the Performeter, personnel costs as a percentage of total expenses, and average aging of all payments.
- Third, the auditors need to audit the revenue forecasting process. They need to keep track of past performance and determine whether the forecasting is done well, competently, etc. They also need to assess the extent to which the process is subject to political pressure.
- Finally, Mr. O’Keefe says to keep it simple. Things don’t need to be complicated, so don’t make them complicated.

21. Panel Discussion: Best Practices in How Public Auditors and Finance Offices Can Work Together (Debbie Milks, CPA)

Ms. Milks introduced the panelists and gave some brief background information about the issues to be discussed. She then presented the questions the panelists would be addressing (see Appendix V). The panelists were:

- Satrunino (Nino) Tewid, Acting Public Auditor, Republic of Palau
- Yuka Cabrera, Audit Supervisor, Government of Guam
- Debra Gottlieb, Director, Office of Management and Budget, U.S. Virgin Islands
- Mike Sablan, Public Auditor, CNMI
- Ruth Wong, Controller, Republic of Palau
- Maria Laaw, Director of Administrative Services, Yap, FSM

Debbie Milks The goal of this session is to discuss how Finance Officers and Public Auditors can work together to achieve better results in terms of our financial reporting and the service we give our government. Over the last 5 years, I have done an analysis of the audit findings as a whole for all seven governments together, in search of trends. This year I saw a very dramatic jump in the percentage of procurement-related questioned costs and it's never been that high. The number of findings as a percentage of the total was also up very high, about 30%. The total (excluding the VI) Questioned Costs was 9.3M and 71% of that is related to procurement. What are we going to do together to address this problem in a systematic way.

Mike Sablan Were the findings in any particular aspect of procurement?

Debbie Milks Well I've seen a large number of findings in small purchases, travel, grant-related stuff, where they weren't getting permission to buy what they were buying.

1. Procurement findings and questioned costs are quite high. Why? What are we going to do about it?

Nino Tewid People who process federal grants are not very familiar with regulations. Procurement officers should propose amendments to Congress to implement procedures that make the administrator's job easier. Auditors are getting picky in recent times. They should've been picky six years ago because if they had, the problems would have been avoided.

Mike Sablan We (CNMI) are not directly involved with working the independent auditors on the single audits as Guam is. Our focus in the CNMI in the public auditors office has been on strengthening the infrastructure on which procurements are based. We have a relatively decentralized procurement system where autonomous agencies have their own procurement rules. What we see in the procurement process are opportunities and loopholes for contractors to take advantage. In July 2007, my office, in collaboration with the IG office, released an evaluation of construction findings, everyone else calls it an audit. We made the recommendation to establish a contracting office patterned after the

federal contracting office and took a serious approach to improving the procurement process to address many of the deficiencies. With help of Graduate School, we've had grants management training. The problem is not with procurement it's the PEOPLE handling procurement. I think many of these procurement findings are on the rise because the people are not as familiar with the regulations as they should be.

Debra Gottlieb Training is a problem. Most of the findings have been corrected and addressed. We developed manuals. Agencies coming through the regular, centralized procurement process have to follow boiler-plate procedures. Adequate and ongoing training is important. Poor documentation causes some of the problems. Best practices is – moving from lowest bidder to best value.

Mike Sablan In CNMI the Public Auditor receives appeals for procurement decisions. This responsibility triggers some questions about independence if they are later asked to audit a contract. Most of the prior problems associated with the evaluation and selection phase. We experience four appeals per year. This is a quasi-judicial responsibility in addition to our audit responsibilities.

Maria Laaw We have never really managed to overcome some of the problems. We decentralized a few years ago from one area. Departments now have their own responsibility and they must meet all the requirements. We look at the overall requirements in the finance department. Turnover in the line or finance departments have led to waivers by the governor. Staff believes a single waiver can apply to other procurements so they don't get competitive bids. The line departments are not involved in the resolution process so they do not fully understand the need to provide documentation. If we require them to submit corrective action plans to the governor, the grantor, and the finance office would be a good beginning for all departments to start working together to minimize questioned costs. Also, we have assigned a certain office in administrative services to departments so three people in the finance offices are certifying funds. We did this to help ensure consistency and so we could explain how things should be done. We are also thinking of establishing a minimum of about \$1000 to return to a purchase contract and giving some people signing authority if they have been involved in the process.

Yuka Cabrera We have come to that conclusion as well. The Procurement law is inconsistent with the regulations and often people are confused. Yes, there should be revamping and updating of the procurement law and regulations on Guam. I believe some task forces have been set up but nothing has really been done and I'm not sure what the reasons are, but we do need to update the rules. Our office also has a procurement appeals function as well, one of the goals/missions we put in, aside from hearing appeals, is after we get set up and established for awhile, we wanted to take on the task of revitalizing those rules so that everyone works off the same rules and regulations and law. Right now we, too, are decentralized. So many have their own regulations, if you are a vendor, you couldn't go to one regulation to see what to do to submit a bid. We have to get everyone on the same page and following the same rules.

Maria Laaw As far as procurement in Yap, we have several recurring situations we have not managed to overcome that have various significances over the years. A few years back the procurement process was decentralized to the department from administrative services to the line department. We look at the overall requirements, the state requirements are

largely more stringent, however in certain instances, depending on or whether there's been turnover, there have been instances when the governor has waived requirements thinking that the waiver takes care of all requirements and we've gotten into trouble in these circumstances. They are not aware that governor cannot waive certain requirements for certain programs. One of the problems recurring is that at the end of the day when you have the audit reports with a lot of questioned costs; the line department is not necessarily included in the resolution process. But they basically get away free and there are no negative consequences, and we end up paying for it. If we involve them in the process and turn in corrective action plans and governor and grand court and whatever the finance office has to offer I think it would be a good beginning to help make sure these things are minimized. Another thing we have done is assign a certain office of Administrative Services to at least look at all the documents, and have at least three people in the finance office look at them to see if the requirements are being adhered to before they certify it. We need the scrutiny of more people. It has helped, but the scrutiny needs to be consistent, if they make a mistake we know who to go to.

Another thing is the attorney general's office. Normally they don't think they should be involved in this stuff at all. All of this procurement, they don't think should be in their daily responsibilities but we are moving to having them more involved in this. We're thinking of taking purchases of over \$4 thousand or more and turning them into a purchase contracts, especially for outside vendors. If there are questions, at least they (the attorney general) have been involved in the process and solution in the end.

Nino Tewid When we revise regulations we need to get everyone responsible for procurement to propose amendments. All component units also have problems and should address the issues at the same time.

Debbie Milks What I am hearing is that we need to review the regulations and get all the right people at the table when we do those reviews and, like Yuka said, move that process along by doing whatever it takes--illustrating how many questioned costs you have and participating in the review. Then, as Debra was saying, get boilerplate information on reforms, and keeping them simple enough so everyone can understand them, and putting the responsible people in the review. I'd like to add one cautionary note. When you get too many people reviewing everyone assumes the other guy has done the job so you have to balance that.

Steve Medlin The VI has updated its procurement regulations and it has been approved up the administrative channels. The approved regulations can be obtained through Anita Cruz (Guam).

Marina Tinitali One of the reasons why procurement officers have been included for the past couple years is because of all the issues with the single audits. And we talked with them last year about revising their procurement procedures: American Samoa, CNMI, and VI have gone through theirs. I want to separate the US territories from the compacts. In the past under the old Compact, it really wasn't specified what federal regulations had to be followed. With the amended Compact there is now the Fiscal Procedures Agreement (FPA) and that is what the auditors are using in conjunction with your state's procurement regulations out in the freely associated states. The Fiscal Procedures Agreement is what we are holding you accountable to. If there is an issue in your state regulations that conflicts

with the FPA, we spoke with your procurement people to take a look at that and use the FPA and whatever else they are using to revise your state procurement regulations. Guam, when you spoke about decentralization, it is my understanding that even though the process is decentralized where agencies can put documents together, there is only one set of procurement regulations, which is a state procurement regulation so they should still be working off the same set of rules. I am happy to hear procurement has made good progress in taking a good look at their state rules, and hopefully that will be reflected in the subsequent single audits.

Lydia Faleafine-Nomura Procurement rules are sufficient to meet compliance. One of the problems is continuity of personnel and changeover in governments. Sometimes people do not have government experience when they come in with a new administration. As people come in we need to educate them about the regulations.

Debbie Milks We need checklists and training.

Debra Gottlieb We've made a commitment/agreement to working on rules and regulations in the VI and to avoid circumventing them because we've gotten burned by that in the past. Our Governor can declare public emergency and determine that we are not following the rules, but that is more the exception than the rule. We can't work in that capacity so we have made a serious commitment to avoid doing that. Sometimes there are unintended consequences with respect to departments and agencies not sharing the consequences of findings and questioned costs. We've had instances in the past where, because something was not resolved during the audit resolution process, it became an issue of illegality, and then we got hit with questioned costs. We had instances where some of our federal funds were swept to address that. So we share that information, even though it doesn't bite the agencies and they are not responsible for paying it back, it's hits someone else in the "back end." It is to your best advantage to resolve it before it becomes a permanent finding and seriously address things such as questioned costs, and if public emergency has to be declared, to make sure there is good and proper documentation.

Yuka Cabrera Turnover sometimes leads to asking questions of people that know nothing about the original problem. We require program managers to attend some of the meetings to resolve audit findings.

Debbie Milks The missing documents issues come out as procurement findings but that is another benefit of having timely audits so you're not looking for documents that are 3-4 years old.

Marina Tinitali At the Conference in June 2007, we had a lot of program people representing various agencies in the island and procurement officers. We stressed to them that procurement is not a procurement office thing. It is a program manager's responsibility to know what those procurement rules are and to stay involved in the process, and we actually had Patrick Tervola, the Deputy Director of ASG, in the panel, and we asked how often is their training among the different agencies of procurement and finance. He said it had never happened before but when he went back, that was something he would pursue.

Yuka Cabrera To extend on what Marina was saying, what we have done with our oversight of the Guam Public School System, in the past when the audit findings come out,

it's always the fiscal people that have to deal with findings that they didn't know anything about. So what we've done the past couple of years is to meet monthly- the people overseeing their audits-- to meet every month and give us a status and update. When the findings come in we require that the program people be at the meeting as well so that the fiscal people aren't sitting there with their mouths open because they don't know what happened. We hold the program people accountable to the findings so that they can respond. I also wanted to add that, yes, sometimes the auditors can be a bit picky, with regard to the documentation problem. But when the procurement findings come out and we all come to the table, including both program and fiscal people, we are able to produce the documents and it has worked out very well on Guam.

Andrew Joseph In our case, other departments never help us so what we do now, we are the ultimate single point of review.

Lourdes Perez In Guam, over the last 2-3 years, we developed a checklist and the AG wont sign off on a new contract unless it is accompanied by a procurement checklist, and you can attach it to your procurement document from the time you first advertise it to the minutes of your meetings, etc, and the whole process actually accompanies the contract that goes to the AG. Now our findings are not on contracts anymore. This process has really helped to reduce the number of findings. So this process might be applied to other types of issues.

Kathy Kakigi We have training twice a year on accounting policies and all our federal and local mandates. Our goal is to have no findings (or to have good procurement people and processes in Guam). I invited Anita to come and join us to help us.

Debbie Milks Does anyone have any ideas about dealing with issues of the grantor agencies?

Ruth Wong We beg them to forgive us?

Debbie Milks Well, You find a systemic problem and you build on all these factors such as: work on the regulations, do quarterly training, develop a checklist, have a single point of control, and then you follow it and put timelines on it.

Marina Tinitali We've had situation where some of the governments have written to us asking us to help resolve issues, and if it concerns OIA monies, it's easy for us to determine what the action should be, so for the Marshalls and FSM, they sent us letters having to do with Education and certain MOUs that were supposed to be in place between Education and the main government before monies were let, and because they weren't in place, all the monies to schools were questioned. So Tom and Steve Savage worked with the schools and the national governments to get those MOUs in place even though it was after the fact, then they verified that the monies was spent by the school so we forgave the questioned costs now that the new procedures were in place.

Debbie Milks The auditors were picky but they had to follow the rule and the auditor didn't have a choice. It's up to the grantor agency to determine that no harm has been done and doesn't change the future.

Mike Sablan I want to comment on the grantor agency's participation in the oversight of grants. It is very frustrating. First of all, we all have a common problem of diminishing resources and I think we can all agree that we cannot afford to risk our limited resources on disallowed costs. There are situations when left unchecked, these problems become disallowed costs. We can't afford to wait months to be reimbursed or to advance local money and later to be reimbursed. The reality is that they also have resource challenges and we can't expect HHS to have an auditor unit on the islands. They have a huge amount in NY and California, which make our problems so immaterial in the big picture. So what are we doing to address this is-- we are hoping to develop the capabilities from within to do the audits that the grantor agencies should be doing. But because these are federal monies there would be a fee for service. If HHS does not have this priority then let the public auditors do their oversight for them for a fee. My biggest concerns are training and new administrations coming in with non-government people. Continuity is very critical, talk to people at AGA. We have a gatekeeper initiative. As public auditor we are protected. That gives us a longer horizon to do what we need to do without fear. We have funding challenges. Why protect auditors only? You are the gatekeepers where the money comes in and is disbursed. What I would like to see is if we can fortify the gates, protect, impose restrictions. You are protecting the public auditors first, more than the gatekeepers. I hope that we can use some leverage in using our federal grants -- impose severe personal liability. Its kind of ironic that we are protecting the auditors more than the gatekeepers. We are only dealing with symptoms of the problems and a lot of it can be prevented

Marina Tinitali I want to comment about the meaning of your speech when you talked about the federal government not being able to dedicate resources for auditing because resources are so great in other places. I'm not sure if the auditors are aware that OIA has begun an effort a year ago to help coordinate the entire federal government, especially major grantors, that provide funding to the island because of issues you spoke of. On the audit side, we are trying to encourage federal program managers to step up and do their oversight responsibility and provide the technical advice they are supposed to be providing. So hopefully that will help.

Mike Sablan All of the insular governments were declared high-risks in terms of education grants. A lot of that was due to the lack of lack of presence. If you don't have the presence, we understand that we all have to deal with diminishing resources at the grantor level, empower the public auditors so we don't have to wait. We are just doing our job. We look at this on a personal level. We feel we have a responsibility that when we see problems, we want to address them.

Marina Tinitali Do you currently not have the authority to look at federal grants in your area? Aren't you able to look at all government spending? Did the law limit you in what you could look at?

Mike Sablan Because we are locally funded, I have been challenged before about locally-funded public auditors doing that work. When it comes to grant audits, by law I am authorized to look at federal grants.

2. Is your governor or president aware that SAS112 is coming out and how it will affect your government's financial statements?

Debbie Milks We discussed and Frank helped us out with this today (SAS 112). The basic question: "Is your governor or president or other financial users of the statements of your government aware that this is coming out and that it may affect how your audit looks?"

Frank Crawford Most public auditors were not present at the discussions that we had of SAS 112.

Debra Gottlieb Yes, we are making all our program people aware. We are also making our component units aware.

Debbie Milks It's not so much a matter of compliance. My concern is that if you have 8 or 10 findings in your management letter it may affect the financial statement and how the trends reflect that.

3. GFOA has a recommended best practice for audit committees. Do you have one in your government? What is it tasked to do? How does/will it assist with improving accountability?

Nino Tewid In Palau, I work very closely with the minister and procurement officers and grant administrators and with the audit committee and we give them the draft finding. They are responsible for preparing and submitting the response, and we get copies of that response and that's to make sure that the response is responsive to the findings. We have a representative from each grantor on your committee.

Debra Gottlieb OMB plays an integral role. We meet every two weeks with the auditors-getting information together. Once a month we bring all program people together to take a look at what we are starting/finishing, what issues we have. The program people are there from the entrance conference to the exit conference. We have a 14-day window to expedite it, we meet regularly on it. We provide training and develop corrective action plans. Also because we are OMB, we know what departments and agencies have, all those issues, and if they are related to funding we are right there and are able to address it. It has made a difference for us.

Mike Sablan The Act that created our office also created an interagency group to review recommendations for programs. We have issued 566 audit recommendations. We are now issuing a semi-annual audit report to list recommendations that have not been implemented. It used to be over two hundred pages. When an agency receives a follow-up letter we record the information and follow-up about six months later. When we follow up with auditees again and again, the issues get addressed or we meet and agree on action. Delinquent agencies are usually the ones that do not want their names in the media.

Nino Tewid An audit tracking system is very important. CNMI helped Palau to set up a system. We just implemented it and we'll follow-up on recommendations from 2004.

Yuka Cabrera We have a hard time following up on recommendations. We have very limited resources and have not been able to assign this to anyone. The enabling legislation requires agencies to implement recommendations. We can take them to court if they do not, but we have not done so.

Nino Tewid We took the single audit MOU and used the same format to enter into an agreement. The component units and the auditor must submit to the legislature a report on outstanding audits.

Mike Sablan Now I have a question for you. What about a master audit contract? Lydia said it has already happened in ASG. Multiple different auditors has caused serious problems with completing the single audit. Now, the firm doing the single audit is doing all of them and its working well. For Guam it might compel everyone to perform on time.

Marina Tinitali A master RFP will limit things because there aren't enough technical experts and it might be more costly.

Nino Tewid Wouldn't there be a problem of independence? Someone must sign a name to all those reports. If it's subcontracted, I'm still responsible. If I'm not a subcontractor, I lose come control. Plus, I need to do due diligence on subcontractors.

Frank Crawford All you're really talking about is coordination. Someone has to sign their names to all of those reports. You may still do that work, but my name has to go on that opinion. If I am going to rely on your work, then I have to get myself comfortable and I have to make sure you don't have any other issues because you're just an extension of me. There are some good and bad things to it. I've seen Master Audit attempted but it hasn't worked.

22. Small Group Breakout Session: Action Planning to Implement Key Ideas from the Joint Session

To tie all the components of the conference together, the finance officers and public auditors broke into country groups to identify the most important issues for them to address and to begin to plan how they were going to resolve the issues. The issues and plans for each island government are summarized below:

Palau

1. Review SAS112 in line with single audit of ROP
2. Review and amend procurement laws and regulations
3. Discuss and resolve repeat audit findings (ROP)

Chart 2

1. Using the “Performer” to educate Governor and cabinet legislature
2. Audit follow-up and corrective action plans
3. Preparing for SAS-112 and other new GASB standards

Chart 3

1. Using the “Performer”
 - Meeting with Frank to educate the policy makers and OFB
2. SAS-112
 - meet with auditors to define and quantify inconsequential vs. material
3. Component units
 - Engage OPA and Governor’s office
 - Preventing future procurement findings
 - Procurement training in respect to audit findings and prevention

Chart 4

1. Addressing Component unit audit issues
 - Lack of capacity
 - Lack of poor internal control
 - High staff turnover
2. Plan of action
 - Provision of training
 - Strengthen internal controls
 - Incentives

Chart 5

1. Use the Performer
 - Use numbers/analysis to educate policy makers/public
 - Live with Performer
2. Procurement findings
 - Review audit recommendation and implement
 - Update/prepare written procurement guidelines consistent with relevant laws and regulations

Chart 6

1. SAS -112
2. Establishment of Internal Audit Units in critical agencies

Virgin Islands

1. SAS 112
2. Catch-up on Audits in critical agencies

CNMI

1. Coordinate with internal auditors and finance officials to develop implementation plan
2. Coordinate with component units and legislations

23. Conference Evaluations

To close the conference, the participants completed the conference evaluation form (see Appendix X for a summary of the evaluations) and provided feedback about what they considered the most and least useful sessions in the conference. (also in Appendix X). In general the conference was very well received. On a scale of 1-5 with 1 being the lowest score and 5 the highest, the average rating on specific aspects of the conference:

- The conference was relevant and timely — 4.67
- The meeting's objectives were substantially met—4.46
- Logistics for bringing participants to and from Honolulu were handled satisfactorily—4.42
- The conference site (hotel) was comfortable and conducive to the meeting—4.71
- Support services by the Graduate School, USDA staff during the meeting were handled well and in a timely manner—4.83
- Overall, this meeting of the Island Government Finance Officers' Association (IGFOA) was—4.54
- The joint meeting of the Island Government Finance Officers' Association (IGFOA) and Association of Pacific Island Public Auditors (APIPA) on Thursday, December 6 was—4.13

Although conference participants had many suggestions for future conferences, some of the most common comments were:

- Make the conference longer and/or cover fewer topics,
- Have joint conferences more often,
- Have more outside experts speak, and
- Have more island panels presentations.

Appendix A Conference Agenda

DRAFT AGENDA

GOALS: The 2007 Island Government Finance Officers Meeting will be held to:

1. Discuss and plan for the role the Finance Offices have in the local governments' economic development and budgetary discipline;
2. Review progress and plan for next steps on key financial initiatives—the audit improvement project, grants management, the Performer®, and procurement audit findings;
3. Learn about and plan for the impact of SAS-112 and other changes to audit standards on government operations, financial statements, and audits; and
4. Develop site-specific action plans that will be used to encourage economic development and financial management initiatives.

MONDAY, DECEMBER 3, 2007

- | | |
|-----------------------|---|
| 10:00 a.m. | Arrive and Register
Judy Perry of the Graduate School, USDA will be next to the Honolulu Suite on the second floor the Tapa Tower starting at 10:00 a.m. to distribute stipends and answer any logistical questions. |
| 2:00 p.m. – 5:00 p.m. | IGFOA Executive Officers Meeting; Strategic Planning Session for IGFOA Executive Officers.
[Iolani Suite II] |

TUESDAY, DECEMBER 4, 2007

- | | |
|------------------------|--|
| 7:00 a.m. – 8:15 a.m. | Breakfast [Honolulu Suite Lanai] |
| 8:30 a.m. – 9:00 a.m. | Welcoming Addresses [Honolulu Suite] <ul style="list-style-type: none">• Claudette Anderson, President, IGFOA; Commissioner of Finance, U.S. Virgin Islands• Nikolao Pula, Director, Department of the Interior Office of Insular Affairs• Jack Maykoski, Director, International Institute, Graduate School, USDA |
| 9:00 a.m. – 9:30 a.m. | Review of Agenda and Introductions <ul style="list-style-type: none">• Dr. Steve Medlin, Facilitator |
| 9:30 a.m. – 10:15 a.m. | Keynote Address <ul style="list-style-type: none">• David Cohen, Deputy Assistant Secretary, United States Department of the Interior, Office of Insular Affairs |

Questions and Answers

- | | |
|-------------------------|---|
| 10:15 a.m. – 10:30 a.m. | Break |
| 10:30 a.m. – 11:30 a.m. | <p>Keynote Address: “How Budgetary Discipline Impacts Economic Development”</p> <ul style="list-style-type: none"> • Edward E. (Ed) Case, former United States Congressman (2002 to 2007) and Hawaii State Representative (1994 to 2002) |
| 11:30 a.m. – 12:00 a.m. | General discussion—How can finance offices affect economic development and budgetary restraint? |
| 12:00 a.m. – 1:00 p.m. | Lunch [Honolulu Suite Lanai] |
| 1:00 p.m. – 2:45 p.m. | <p>Panel Discussion on Opening Presentations: Government Representatives Present their Best Practices:</p> <ul style="list-style-type: none"> • Economic Development • Budgetary Discipline • Fiscal Accountability • Role of Finance Office in Encouraging Economic Development • Role of Finance Office in Establishing Budgetary Discipline |

Questions and Answers

- | | |
|-----------------------|---|
| 2:45 p.m. – 3:00 p.m. | Break |
| 3:00 p.m. – 4:00 p.m. | <p>Small Group Breakout Session—mixed groups [Iolani Suite II & Iolani Suite III]</p> <ul style="list-style-type: none"> • What are the key issues your government is facing in economic development? • What can you do to facilitate economic development? • What are the key issues your government is facing in establishing budgetary discipline? • What can you do to help establish budgetary discipline? |
| 5:30 p.m. | <p>Joint Reception Hosted by Bank of Hawaii [Open Pavillion]
Public Auditors to join reception</p> |

WEDNESDAY, DECEMBER 5, 2007

- | | |
|-----------------------|----------------------------------|
| 7:00 a.m. – 8:15 a.m. | Breakfast [Honolulu Suite Lanai] |
|-----------------------|----------------------------------|

8:30 a.m. – 8:45 a.m.	Review Results from Tuesday and Overview of Agenda [Honolulu Suite]
8:45 a.m. – 9:00 a.m.	Overview of the Audit Improvement Project and Progress To-Date <ul style="list-style-type: none">• Debbie Milks, CPA
9:00 a.m. – 10:30 a.m.	Island Government Presentations, 10 minutes each <ul style="list-style-type: none">• Area of Greatest Progress• Area of Greatest Challenge• Our Very Best Practice in Audit Improvement Questions and Answers
10:30 a.m. – 10:45 a.m.	Break
10:45 a.m. – 11:15 a.m.	Presentation: The OIA Budget Outlook for FY 2008 <ul style="list-style-type: none">• Thomas Bussanich, Director, Budget and Grants Management Division, Department of the Interior, Office of Insular Affairs Questions and Answers
11:15 a.m. – 12:00 p.m.	Federal Agency Oversight (OMB Circular A-133) Grants Conference Follow-Up <ul style="list-style-type: none">• Marina Tinitali, Audit and Insular Policy Specialist, Department of the Interior, Office of Insular Affairs Poster Session: Governments present their follow-up activities and accomplishments on flip-charts or posters
12:00 p.m. – 1:00 p.m.	Lunch [Honolulu Suite Lanai]
1:00 p.m. – 2:00p.m.	Preparing for SAS-112 and GASB Standards <ul style="list-style-type: none">• Frank Crawford, CPA
1:00 p.m. – 2:00 p.m.	Possible Concurrent Session on Procurement: Planning for a Community of Practice in Procurement [Iolani II] <ul style="list-style-type: none">• Dr. Steve Medlin
2:00 p.m. - 2:45 p.m.	Preparation for Thursday's Meeting with the Public Auditors
2:45 p.m. – 3:00 p.m.	Break
3:00 p.m. – 4:30 p.m.	Breakout Session by Country Groups with Reporting [Iolani II and Iolani III]

- What have you heard the last two days that you can use when you return home?
- How would you use it?
- Develop a brief action plan on the first steps you will need to take to begin to use it.

4:30 p.m. – 4:45 p.m. Conference Evaluations

**JOINT MEETING OF THE
Island Government Finance Officers' Association (IGFOA) &
Association of Pacific Islands Public Auditors (APIPA)**

Hilton Hawaiian Village, Honolulu, Hawaii
December 6, 2007

DRAFT AGENDA

GOALS: The joint meeting of the Island Government Finance Officers and the Pacific Island Public Auditors will be held to:

1. Share information about the strategic direction of the Office of Insular Affairs and the roles of the Finance Offices and Public Auditors in achieving these goals;
2. Continue the dialogue between Finance Officers and Public Auditors on how to improve financial management in the insular areas;
3. Discuss site-specific action plans developed by the Island Government Finance Officers and solicit input from APIPA principals.

THURSDAY, DECEMBER 6, 2007

- | | |
|------------------------|--|
| 7:00 a.m. – 8:15 a.m. | Breakfast [Honolulu Suite Lanai] |
| 8:15 a.m.—8:45 a.m. | Review Results from Tuesday/Wednesday and Overview of Joint Agenda with Public Auditors [Honolulu Suite] <ul style="list-style-type: none"> • Dr. Steve Medlin |
| 8:45 a.m. – 9:30 a.m. | Keynote <ul style="list-style-type: none"> • David Cohen, Deputy Assistant Secretary, United States Department of the Interior, Office of Insular Affairs <p style="margin-left: 40px;">Questions and Answers</p> |
| 9:30 a.m. – 10:00 a.m. | Strategic Planning within the Office of Insular Affairs, and Progress on Developing Performance Measures <ul style="list-style-type: none"> • Tiffany Taylor, Budget Analyst, Department of the Interior, Office of Insular Affairs • Dr. Patricia Keehley |

Questions and Answers

10:00 a.m. – 10:30 a.m.

Strategic Goals and the PITI-VITI Year in Review

- Jack Maykoski, Director, International Institute, Graduate School, USDA

Questions and Answers

10:30 a.m. – 10:45 a.m.

Break

10:45 a.m. – 11:45 a.m.

Performer® Updates: We Know Our Performer® Score, So What Do We Do With It?

- Frank Crawford, CPA

Government Representatives report how they are using the Performer information in their governments, 5 minutes each

- Frank Crawford, CPA

Questions and Answers

11:45 a.m. – 12:00 p.m.

Group Photo

12:00 p.m. – 1:00 p.m.

Lunch [Honolulu Suite Lanai]

Lunch Speaker: "What Finance Offices Can Do to Support Economic Development and Policy Reform"

- Kevin O'Keefe, former Economic Policy Advisor to the Federated States of Micronesia

1:00 p.m. – 2:00 a.m.

Best Practices Panel Discussion: Mixed Presenters From Both Finance & Public Auditors

- SAS 112 and new GASB Standards Implementation
- Component Unit Qualifications
- Procurement Issues

2:00 p.m. – 2:45 p.m.

Facilitated Discussion with the Public Auditors: Insular Corrective Action Plans and Audit Follow-up

- Debbie Milks, CPA

2:45 p.m. – 3:00 p.m.

Break

3:00 p.m. – 4:00 p.m.

Breakout Session: Country Groups: Identify the most important 2-3 issues covered during the conference and list the next steps you will take to begin preparing for and addressing these issues.

[Iolani I and Iolani II]

- Using the Performer®

- Preparing for SAS-112 and other new GASB Standards
- Addressing Audit Issues within Component Units
- Audit Follow-up and Corrective Action Plans
- Preventing Procurement Findings

4:00 p.m. – 4:15 p.m.

Conference Evaluations

Appendix B ‘Getting in the Way of Prosperity: The Seven Deadly Sins,’ Keynote Address by David Cohen

Thank you for inviting me to speak. As always, it is an honor to be here with you. Ever since I took this job in June 2002, we have been consistent in expressing the top two priorities for the Office of Insular Affairs. Priority 1 is helping the insular areas promote private sector economic development. Priority 1-A is promoting accountability, particularly for the Federal financial assistance that we provide for the islands. Normally, when I speak before this group, I speak about Priority 1-A. There is an obvious relationship between Priority 1-A—promoting accountability—and your jobs as government finance officers. Today I would like to speak about Priority 1, because I believe that there is also an important relationship between your jobs and the urgent need to promote private sector economic development in the islands.

Why have we made private sector economic development Priority 1? The reason is that in most of the insular area economies, there is an unsustainable imbalance between the public and private sectors. In a healthy economy, a strong private sector creates jobs and generates income and wealth, which can be taxed at a reasonable rate to fund essential services for the public. The private sector dominates the economy. In many island economies, this model is turned on its head: The economy is dominated by the public sector. Since the public sector generally is a consumer and not a producer of wealth, this type of economy can only be sustained with outside subsidy. I have referred to these island economies as being “upside down in the middle of the ocean”. These economies will have to get right side up in order to get their heads above water.

Many island economies have evolved in this manner for several reasons. For one thing, island communities—and small island communities in particular—face unique barriers to private sector economic development. These communities tend to have small populations, few resources and remote locations. That means that they are heavily dependent upon transportation systems to bring people and goods to and from their islands, and that transportation is likely to be significantly more expensive than it is in more populated areas. This, in turn, tends to make everything else on the island more expensive. The cost of doing business is therefore high.

Many island communities are subject to destructive weather patterns, and in the salty ocean air, the climate often corrodes what it does not destroy.

There are cultural and historical forces in play here as well. Pacific cultures, for example, are sharing cultures. The philosophy is “what we have today, we share today”. Pacific cultures do not have the selfish gene that triggers the generation of wealth in a free market economy. Sharing is a virtue and selfishness a vice, but enlightened self-interest has proven to a useful tool to enable societies to achieve a comfortable standard of living.

Ironically, the Pacific virtue of sharing, when combined with outside financial assistance, has helped to create the bloated public sectors that we see today in many island communities. The island instinct is to share financial assistance from donors in much the same way that food is shared. Since donors generally do not allow island governments to allocate their aid to people in the form of cash, they tend to allocate the aid in the form of public sector jobs. More aid tends to result in more government jobs. Since the Department of the Interior’s

Office of Insular Affairs provides more aid to the Pacific islands than any other U.S. agency by far, we have been, inadvertently, the greatest U.S. contributor to this phenomenon.

The result is not only an oversized public sector, but also a public sector mindset where government jobs are deemed to be provided for the benefit of the recipients rather than for the benefit of the public. The public sector budget is not oriented to provide public service, but rather to provide public jobs. This means that the public as a whole tends not to receive good value for public expenditures, and donors tend to get frustrated when we attempt to measure the performance of our assistance.

In many island communities, outside subsidies and other distortive policies tend to make government jobs significantly higher paying than private sector jobs. This tends to encourage the islands' best and brightest to aspire to public sector employment and look down on private sector employment. In some islands communities, the overwhelming majority of the indigenous workforce is employed by the local government and the lower-paying private sector jobs are filled almost exclusively by foreigners. These communities become two-tiered societies where a largely unproductive local government workforce is kept afloat by outside subsidies and outside labor. This type of arrangement, besides being economically unsustainable, can create tension within the society and give rise to a sense of dependence and helplessness in the indigenous population.

These problems tend to exacerbate themselves in a vicious cycle. A society that cannot sustain itself without outside subsidy generally cannot afford to invest in education, health, infrastructure and other essential building blocks of a strong and prosperous society. This lack of essential investment tends to weaken the private sector, sending the most talented locals overseas in search of opportunity and making the community more and more dependent on imported labor willing to work for lower wages.

These problems do not exist only in the islands. Small island communities are particularly vulnerable to them, however. These problems can be overcome by intelligent policy, strong leadership and a commitment to good governance. Overcoming these problems requires the development and maintenance of a business climate that enables business to create jobs, to foster prosperity and to assume its natural role as the engine that drives the economy.

That is where all of you come in. All of you are responsible for executing policy, and as any sports fan knows, good execution typically is the difference between success and failure. However, most of you also have sufficient stature within your local governments to have an important influence on the formulation of policy, and not merely its execution. When your respective governments consider reforms designed to improve the business climate, you are likely to be involved in the discussion. You might even be the driving force behind the discussion. With so many things beyond your control, it is all the more important for you as government leaders in small island societies to act with wisdom and political courage to address the things that you can control. Small island societies can successfully transcend their limitations, but there is little room for error.

One of the problems that I have observed with the relationship between the public and private sector in insular area economies is an inability of the public sector to get out of the way. That does not mean that island governments should abandon their duty to regulate business in a reasonable manner. It simply means that in some cases, government actions and failures to

act needlessly obstruct economic progress. I have come up with a list of Seven Deadly Sins that could cause island governments needlessly to get in the way of the economic advancement of their own societies.

I will introduce the First Deadly Sin by noting something that most of us love about the islands: the unhurried pace. I remember overhearing a Samoan man and a Mexican man talking to each other about their respective cultures. The Mexican man said, "Mexicans are a hard-working people. New immigrants come to the U.S. and take jobs that Americans won't take. In successive generations, they work themselves up from the working class to the middle class and beyond. Still, with some of my people some of the time, there's this culture of 'mañana'—tomorrow. What needs to get done can wait until tomorrow."

The Samoan guy said, "Yeah, I think I know what you mean. In the islands, we always say 'fai fai lemu'."

The Mexican guy asked: "What's that?"

The Samoan guy responded: "Well, I think it's like your 'mañana', except without the sense of urgency."

I remember hearing Willie Kostka, a Pohnpeian who heads a conservation NGO in Micronesia, poke good-natured at his fellow islanders. He said, "Haoles come to the islands and they see young men standing around and they think that islanders are lazy. We're not lazy. We're just patient."

Well, the First Deadly Sin on my list of seven what I will politely call the Sin of Patience. Patience is indeed a virtue, unless one becomes excessively and discourteously patient with other people's time. In business, time is money, and when government officials fail to act responsively in a timely fashion, it can drive away potential investment. Businesses greatly value a bureaucracy's ability to process permits and licenses expeditiously and to respond quickly to inquiries and requests.

The Second Deadly Sin is the Sin of Complication. Needlessly complicated, protracted, redundant and even contradictory permitting, licensing and other regulatory procedures discourage the formation and retention of businesses.

The Third Deadly Sin is the Sin of Competitiveness. This sin occurs when the government sees a private company succeeding in a new type of business and decides that jumping into that business would be a good way to support its bloated public payroll. This is likely to result in both the private company and the government ultimately failing at the business. The private company is likely to fail because the government will not compete fairly. The government will fail because governments are notoriously bad at running businesses. The best way for a government to generate revenue from a profitable business is for it to get out of its way and tax it—reasonably.

The Fourth Deadly Sin is the Sin of Opacity. Government procedures should be transparent in order to inspire the confidence and full participation of the private sector. If good companies cannot be satisfied that they will be competing on a level playing field, they

will stay away and the community will miss out on the capital, technology, know-how and economic activity that good companies can bring to the islands.

The Fifth Deadly Sin is the Sin of Favoritism. Favoritism comes in many varieties, including nepotism, where one favors one's family; cronyism, where one favors one's friends; xenophobia, where one favors one's countrymen, and self-dealing, where one favors oneself. By creating an uneven playing field, it scares away businesses that can bring good things to the islands.

The Sixth Deadly Sin is the Sin of Fickleness. Businesses value consistency more than anything else. There is nothing more frustrating than policies that constantly lurch back and forth, to and fro, with the political wind.

The Seventh Deadly Sin is the Sin of Arbitrariness. Decisions made by government officials should be based upon objective standards applied consistently. Government leaders who retain too much discretionary power are in a position to benefit themselves at the expense of their constituents. It is best not to leave government leaders with too much discretionary power, as it is a strong invitation to abuse.

These sins are committed by government officials all around the world, not merely in the islands. They are certainly committed all across the United States by Republicans and Democrats alike. As I noted earlier, however, small island communities have a very narrow margin of error, and hence it is all the more imperative to avoid these sins. Those who commit the sins of Lust, Gluttony, Greed, Sloth, Wrath, Envy and Pride should seek forgiveness from God. Government officials who commit the sins of Patience, Complication, Competitiveness, Opaqueness, Favoritism, Fickleness and Arbitrariness should seek forgiveness from their own people.

We all know that island communities face many challenges. It is important to remember that these challenges can be overcome. They can only be overcome, however, if government leaders do everything in their power to discharge their duties with the highest degree of skill, judgment, integrity and vision. Given everything that is at stake for the people of the islands, to do anything less than that would be a sin.

Thank you.

Appendix C ‘How Budgetary Discipline Impacts Economic Development’, Keynote Address by Edward Case

Forgive me, Deputy Assistant Secretary Cohen, for I have sinned. I think I’ve committed every single one of those sins. I don’t think you can get through much government without facing some of those, isn’t that true? Anyway I want to wish all of you a good morning and a very fond aloha. It’s good to be with you. The first and foremost thing that I want to say to everybody is what we are saying and doing here counts for absolutely nothing. All that matters in Hawaii today is what’s going to happen in the Sugar Bowl. And I hope that you are all unofficial or official fans of the University of Hawaii football team. Is that true? Is anybody cheering for anybody else in all of America, all the world right now? I mean I don’t care whatever sport there is, University of Hawaii is football right now. And I take that very seriously because my congressional district, former congressional district, includes rural Oahu and the neighbor islands of Hawaii and also includes Samoa, Guam, Commonwealth of the Northern Mariana Islands, Virgin Islands, Puerto Rico. Of course, here in Hawaii we have all shared a special kinship with our island neighbors in the Pacific and in the Caribbean. That’s certainly been true of my own background both personally and professionally. I practiced law for many years with a law firm which has offices in Guam and Saipan. We did work throughout the Pacific as well. Sorry, I’ve never done any work in the Virgin Islands. I wish I had. Never been there and then certainly of course my own time in public service both here in the Hawaii state legislature for eight years and the U.S. Congress as I’ve already noted we are really known as the unofficial voting member for all of you in the United States Congress, and certainly was very familiar with each and all of your situations, whether the issue center around the Compact, or federal assistance. So it’s for me a little bit of a homecoming to talk to you. It’s good to see David Cohen too. I thought that he did a good job and is doing a really good job in Washington D.C. We worked on many very difficult issues and I always thought that for him it was as much a calling as a profession. And, as I assume, when the administration comes to an end and he goes onto other things, I’m sure it will be with a retention of what he’s been doing on behalf of all of us and you.

Let me start with a little bit of something that I want to just say pretty straight to you and that is that I think you do the most important work in all of government. You do the most important work in all of government and I’m sure that you know that. And I’m sure that you feel very underappreciated all the time. I have never met anybody that worked anywhere close to the budget and finance arm of government, whether it be county government, state government or federal government, who didn’t feel that we’re doing the work that needs to be done, and was fundamentally not particularly appreciated. So I always found that when you’re doing work that nobody appreciates, and somebody tells you, it makes you feel a little bit better. I want to say that up front. What you do is the most important work in government. Where the money comes from and where the money goes and how it comes and how it goes and what processes are used affect every single part of government. You can’t get away from that. And who gives the money and how it is allocated and where it goes, and to whom, and why, and under what circumstances, is incredibly important, and of course it’s very important in terms of how it impacts on the private sector. How you do your job impacts on the private sector, and how the private sector functions in your jurisdictions and elsewhere impacts how you get to do your job. It is an inevitable law of economics that is

always going to be true. It is never going to be the case that a government can simply self sustain itself without the private sector and that's why what you do is so important.

I've already talked about it being pretty unsung, you don't get a lot of credit, but you know, it's not particularly sexy work, for the most part you don't end up on the front page of the paper, you don't want to end up on the front page of the paper because when you end up on the front page of the paper it's usually because something has gone wrong.

You know, I used to do a lot of talk stories: go around into my community and have community meetings and of course people would ask me, 'what do you believe is the most crucial issue that our federal government faces?' And I did this prior when I was in the state legislature, and I would always say it's our budget. And they would look at me kind of weird because they think to themselves, 'why the budget, I mean, you know, let's talk about Iraq, let's talk about China, let's talk about social security! Why the budget?' And I basically said, 'because how that budget goes impacts everything else'. We can talk about whether we should or shouldn't be in Iraq, we can talk about whether we should or shouldn't be paying whom what, we can talk about tax cut, but if it doesn't balance out in the end and make sense financially, it's just a bunch of talk.

And I think another issue that you all appreciate is that budgets in general and finances are tremendously misunderstood. I mean people just don't particularly focus in this area so the expertise that you have is very important, but is misunderstood. And as I alluded to earlier, another key aspect of your work is that it is really key to public confidence in government. Your constituents have to believe. When you're asking somebody for their tax money and when you're saying to somebody, 'well I can pay *you*, but I can't pay *you*', and when you're saying to some potential foreign investor, 'well this is the situation with our finances and this is why we can and can't do that', you are asking them to trust you, and you are asking them to entrust you with their money, and if they don't trust you then things just don't get done, fundamentally. Because people can invest elsewhere if they want. And for the most part people can toss people out of office who are not giving them the truth in terms of taxes and revenues. I think another important issue is that when you look at the scandals that come up in government, scandals always have something to do with money, right? Some misappropriation of funds, some procurement scandals, something about cooking books, something about how we thought the money was going to be there but it wasn't. Those are all issues not just of how you run your money, but public trust and confidence in government. So what you do basically makes or breaks governments and constituents.

I think it's really important and crucial that you're getting together like this. Obviously budget and finance is not rocket science; really it's mostly elemental. It is going to be true, whether you're in Germany, or Guam, or Hawaii, or Montana, or Canada, basically the rules are going to be the same. But we do know, and I do agree with him, and you know it, and I know it from a lifetime in Hawaii, island economies do take the usual rules and apply them differently. We do have problems in critical mass, we do have problems of infrastructure, we do have problems of most part of narrow revenue streams, and the inability to break out and develop a real multitude of diversity of income streams. All of us islands have a different relationship with the United States Federal Government.

And so there are different ways that we have to analyze our budgets and to analyze all of these issues together. It seems to me to make a lot of sense, which is why I wanted to spend

time with you. Not only to hear but also to just listen. Of course, I was trying to figure out how can I help, how can I make this productive from your perspective. After all, nobody likes to be preached to, and I certainly have, in my lifetime in Hawaii, heard enough people from the mainland preach to us about what's right and wrong and what we should do in Hawaii and I certainly don't want to make the same mistake with you. So I figured what I could do rather than sit up here and just, you know, say how the world should and shouldn't be, is share some lessons that I've learned along the way in terms of government budget and finance. Again, eight years in the state legislature and four years in the federal government and to give you a couple of vignettes, I guess I could call them, that would illustrate a couple of points. I've got my own list, which is not the seven deadly sins, but it is ten, I'll tell you that much.

Let me start with Hawaii in the 1990s, a period in which I served from 1995 to 2002, an eight year period. Hawaii, the economy of Hawaii, is very similar to the economies of many of your jurisdictions, if not all. We have a very general revenue base. We have three pillars here. We have the pillar of tourism, we have the pillar of federal and state government spending primarily from a defense perspective, but also from all kinds of other programs, and we have the pillar of construction because we are still considered a developing state. Those have been our pillars for decades now, and we are heavily dependent, as you are, on external factors, exterior factors. We are dependent, as many of you are, as much on the economies of Asia as we are on the economies of the United States. We are dependent upon how those economies function externally and we are dependent on the financial health of our federal government and how it chooses to spend its money. Again, not a case, particularly on the defense side, but not exclusively on the defense side.

And so with that we are very susceptible to kind of a boom and bust cycle that is dependent on what's going on with the rest of the world rather than what we are doing here. But when we bust, if we're not taking care of business at home, we really hurt. And as I came in to the State Legislature in 1995, the first month of 1995, we had been through an incredible boom that we shared with many of you in the late '80s and early '90s: the boom that came out of the Japanese bubble, the imbalances of the international currency. Guam, CNMI, you felt this too, you were there with us, and really anybody else anywhere in the Pacific and beyond, where we are in a resort kind of environment which we all are, were benefiting from that boom.

Well guess what? It busted; it busted in about 1992. We all knew it in the business world here in Hawaii, and we knew it because we were doing business throughout the Pacific. The only problem is government hadn't figured it out. Government just thought, 'well it was just another little thing that's going to go on forever; don't worry about it'. By the time I got into the Hawaii State Legislature in 1995—I never forget that Governor Cayetano was entering at the same time, he gave a speech, basically his first speech to the legislature, which was, 'hey we're deep in the hole.' Everybody threw up their hands in surprise. Why are we so deep in the hole? Well, basically, one of the lessons is that they had put their heads in the sand for a number of years, and they didn't see it coming. We had to go through a very, very tough couple of legislative cycles in which we made every single mistake that people tend to make in these situations. We had heavily spent on capital improvement both in government and in building during the boom time. So when the bust came and we wanted to use government debt to get us through, we didn't have it. Therefore we had to borrow more money, therefore that drove down our bond ratings, drove up our interest rate, therefore driving us into a little

bit bigger puka—hole. Oh, I'm sure you know what I'm talking about. The temptation is always there to spend too much when times are good, not save it for when you really, really need it. I see a lot of people nodding their heads. We made that mistake. We stole money from special funds. It's one of the tricks, isn't it?

We had set up, we have a general fund. We have a general fund. We have set up special funds. Once you get the money in, you think you're insulated from anything that can happen in the down time because we've got a predictable income stream. We were overtaken by our special funds. We had less money in the general fund to direct and we had more money in special funds—thereby reducing our flexibility when we went into a tough time, and that hurt us when we stole money from the special funds. I'm going to talk about one of the greatest theft jobs of a special fund in the history of the world in a few minutes, here. We made that mistake. We didn't cut costs. We found every way to avoid cutting costs. In fact, we were increasing government costs, increasing government operations. Why? Because we had a very entrenched public employee work force that was fearful of change and had not been prepared, and who thought that somehow the state was going to be insulated from an economic downturn. So when the time came, when we needed to be honest with them and get their *kokua*, their help, it was hard because the way had not been paved.

So we made all of those mistakes. And of course we had a significant impact on our private sector. Because as I said earlier when we wanted to jump start that private sector and keep it stable, especially on the construction side, we didn't have the resources to do it. We had already spent it. And we faced the fundamental, practical reality that we all face in government. And that is that we can say whatever we want about the state of our government, the state of our finances, but private capital goes with strong governments and it doesn't like a lot of risk and it doesn't like any of those seven deadly sins. So if you want private capital, whether you like it or not, you have to try to live by a certain set of rules that are going to attract that capital—especially if you're in a competitive environment. And we made all of those mistakes.

Now, I wish I could say there was a good outcome to this story. In fact, had we should still struggling to solve some of those issues in Hawaii state government today, but we have been saved. Saved by whom? We have been saved because tourism came back, low interest rates came back, and frankly, we have been saved because our federal government expenditures increased for various reasons—primarily defense related—and we were saved because tourism came back, because the Asian economy came back, because the California economy came back.

So, you come out of a boom, you've identified all the problems, you're in the bust, you're working through it, you almost get everybody ready to get on the same page and get finances on a sustainable basis, everything's kind of evened out. Then all of a sudden a boom comes along and you kind of say to yourself, 'well, just let it go'.

David Cohen spoke a great deal about the public sector and I think this is really great. Your work needs to be done where all of you remain pretty straight forward about what has to happen with your public employees, your public sector. Issues of public employees can start to overwhelm you if you're not careful. I read somewhere, one of the stats, is that in many of your jurisdictions that the majority of the people are employed by government. That's kind

of a dangerous situation from my perspective.

One of the successes that we had here was the public employees' health plan. We had here in Hawaii in the 1990s a very generous public employees' health fund. It was defined, it was created by statute. The money going into the health plan was determined by statute, the money coming out was statutory. Well guess what? People got older, there wasn't as much support, and we experienced a pretty classic situation. And so we passed reform for the public employee health plan. And what we did was to put all public employees together in one pool, including your retirees—and we had some challenges with our retirees, they're not working anymore, they're on fixed incomes—we put them all together and we said, 'you run your health fund, you make all the decisions; these are some of the ground rules, you make the decisions and you decide how much you need to charge for this plan or this plan, you go out and negotiate rates with the insurance companies for these plans and we're going to negotiate every year how much money is contributed to this health plan and that's gonna be dependent not only what the statute says, but what we can afford.'

We implemented that and I think we stabilized the public employee health plan and we did that by being honest, first of all. We did that by bringing somebody in from the outside who told us, an external auditor, that if we kept going the way we were we were going to bankrupt the state. We had an unfunded liability of about \$90 million for our state. Many of you may have that kind of situation where you have long-term liabilities that are catching up with you. Then I got up to the federal government in '02 and I found one of the worst budgets I'd ever seen anywhere. Incredible deficits every year, \$200, \$500 million deficits, the debt of our country was increasing to record amounts. Nine trillion dollars at last count. It wasn't the overall deficit it was also in relationship to our gross domestic product.

One of the things that was happening at the federal level was social security—the biggest debt of all. What happened to social security? Kind of like the public employee health fund. When it started off we were getting plenty money from the front end, not too much money going out. Now people are living longer, fewer people are working, we have a declining growth rate, declining ZPG rate, zero population growth rate in this country. When you build long term financial capabilities on an increasing growth rate, you better be careful, better be careful. That's one of my lessons.

Social security then is a large budgetary challenge for our country that will impact all of you whether you are directly impacted by social security or not, because as we have to meet the challenge of social security over time that will mean less discretionary income. By the way, also on budgetary issues, I think we're gonna have to get ourselves through a pretty tough time here in the United States this next 10 or 20 years where, you know, where we kick this borrowing habit. I'm sorry to say I don't think it's going to get any better, but I think we've been living on borrowed money nationally for about the last seven years now. But the lessons of social security are straightforward: you increase revenues and/or reduce or stabilize expenses, you balance over time. It's a very tough political fight here in the United States.

So, what are all these kinds of experiences that I've had mean, the experience of the Hawaii economy in the 1990s, social security, public employees' health fund, and what might they

offer to you? Well, probably nothing if you don't already know, but I would give you about ten lessons that I've written down, that I think I get out of these experiences.

I think the first one, which I hope will be a little comforting, is that you're not alone. Every government goes through this, every government faces denial, every government is prone to short term solutions that complicate and worsen the problem in the long term. The tricks have been practiced for a long, long time now. The avoidance is common and frankly the solutions are not complicated—just harder. There's been no system in history in which people over time can spend more than they bring in.

I think sometimes we fail to follow our instincts when it comes to budget and finance because somehow we think that, you know, because of all of these fancy things economists talk about, it's more complicated than we realize. It's not complicated in principle. The problem is not identifying the problem and solutions; the problem is doing something about them.

Which leads me to number three. It's good to have an overall structure, overall set of budget and finance rules, whether it's constitution or statute or whatever. And I don't know enough about all of the jurisdictions, but I'll tell you one thing. In the state of Hawaii, we have a balanced budget requirement in our constitution. Now there's all kind of tricks to get around it, but fundamentally in Hawaii, which is one of the very few states in our whole country that has a balanced budget requirement, we cannot borrow to fix deficits. We can steal from a special fund, we can do a lot of things, but we cannot borrow our way through a deficit. We have to end up with a balanced budget.

Contrast that to the federal government. No balanced budget. If we don't meet the income and expenses, we just borrow the money. Easy. What is the consequence of that though? Diminishing returns over time, increasing interest rates, currency valuations... the consequences are severe. So I don't know whether that would be a useful thing for you to consider if you don't have a balanced budget requirement, but it makes your job a lot easier. I remember President Bush saying at one time that the deficit just didn't matter and I remember him saying that it would work itself out—and most people believed it. Why? Because they wanted to. Because they think these things are all pretty subjective. People are generally not interested in budgets. They're interested in, you know, their jobs, their interests in benefits, but their not interested in budgets.

Things are easier to hide. You get really no credit for balancing the budget and you get a lot of heat for balancing a budget. And that makes your job more important if you're not an elected official because you have to find a way to get them a to comfort level in which there is no option to go ahead do the wrong thing. I think that's one thing that's crucial.

And another lesson that I think I've learned here is that being straight, being transparent, is absolutely essential. You have to have a process that anybody can look at, understand and believe. Why? Because you gotta get them through denial and anger and into the facts and into the options. One of the things that I think worked very well is having somebody else come along from the outside and tell you what you already know. I know that worked very well for us with the public employee health fund. An independent auditor from somewhere else came in, he had no axe to grind, he had nothing to gain. He just came in took a look at it, and said you've got to address the liability of \$9 million and you need to do these things.

And he sat there and said no, that's not gonna work, that's not gonna work and this is what's going to work and we got it done.

Government efficiency and operations; we haven't talked about that at all, but it is in fact key. When you're going through a tight budget time, as you all very well know, you gotta run the government in a way that's gonna produce the most for the buck. We can go on for a long time with that. The impact on the private sector if you don't do it right can be extreme. Fundamentally what will happen is the private sector will take a look at your government and will say, 'hey, we'd love to invest but we're not gonna put our money at risk if we believe that this government doesn't have its act together in terms of finances, if we believe that its inevitable and see here much higher taxes or whatever.'

And then the final lesson I have to offer is to watch your demographics. Now, it's hard for me to believe that I went into government in 1994—thirteen years already. In thirteen years the demographics of Hawaii have changed pretty significantly, as have the demographics of our country, and it can happen to you too. Whether it's from lower birth rates or whatever, pretty soon you don't have an income base to support a long term commitments.

Anyway those are some lessons from my life and some observations that I wanted to share with you. I thank you for listening and thank you for giving me the opportunity to prepare this speech. It helped clear my head a little bit, clean up some of the cobwebs, and I hope it will be of some assistance. I look forward to working with all of you. Thank you.

[Questions and Answers]

Case: Well, tourism in Hawaii is, you know, is a boom and bust. I mean you're so dependent on Japan there that when Japan hiccups, we all feel the impact. We had an incredible boom in the '70s continuing into the '80s, the late '80s, at which point we had a tremendous oversupply of rooms for the amount of tourism we had. We have basically been recovering that oversupply since. It is very expensive to build hotels in general. We had a lot of renovations of hotels over the last five years that were delayed in the 1990s. What will happen, I believe, is that we will continue to see an increase in our visitors and overall percentage of rooms will stay about the same. We'll probably go through a construction cycle starting somewhere in the next couple of years because we just won't have enough hotels to satisfy the demand. Many of our visitors are not coming here on a traditional stay in a hotel kind of trip and so they're affecting other parts of our economy. As everybody knows in the tourism business, visitors are looking for something different. So what is your niche? You know, what can you give them that they haven't gotten in Hawaii, just as an example, or, you know, Australia? You have something else?

Q What happens if your legislature does not pass a balanced budget? Does somebody go to jail?

Well, we never quite got to that point in Hawaii. We probably should at some point, but basically there would have been some kind of court challenge if the legislature said, 'heck with this we're not gonna do it.' Somebody could successfully sue. It's never happened for a couple of reasons. First of all, the legislature and governor actually do comply for the most part with the provisions. Like I said there are many tricks of the trade. That's number one. Number two, we do have a safety valve, and I think that any balanced budget requirement

needs a safety valve of sorts. For example, the governor could say it's in our state's interest to allow for a certain discretionary over-the-budget kind of approach. I proposed a balanced budget in the U.S. Congress along with some of my colleagues there, and basically that balanced budget said it took a supermajority of congress to override a balanced budget restriction, but you could do it.

So for example, if two thirds of the congress came along and said now we need to issue debt this year because we've got a crisis overseas, we got a war, we have an incredible recession, we have a mechanism to address that. You need that safety valve built-in. You never tie your hands all the way down. But wouldn't it be nice to have something there that allows you to say, 'hey, no, you can't go out there and borrow that money'. The worst, of course, is when you do that for normal operating expenses, when you borrow money from five or ten years out, not to build something that's gonna last for 20 years or 50 years, but to carry the budget for a year.

Q. Mr. Case, we've been talking a lot among finance officers over the years about the difficulty of educating our politicians or legislatures, and sometimes they refuse to be approached or don't want to understand what it is we're trying to do when we're trying to do something right. And I was curious if in the Hawaii legislature or congress, if there were any programs built-in to help new legislatures understand the budgetary cycle?

There are, there are definitely programs in both the Hawaii state legislature as well as the federal government for incoming members of the legislature to be briefed and educated on the budgetary workings. And there's other ways about going this. For example, we used to have informational briefings, where people would put on presentations. One of the most effective people is David Walker, the U.S. Comptroller General. By the way, that's another thing that I forgot to put in my top ten list cause if I put it in it'd mess up top ten and it'd be top eleven. Protect the people that are responsible for running your budget, your finance, and take them away from the direct influence of elected officials or politicians. That can really help.

The auditor in Hawaii is appointed for a certain period of time and nobody can kick her out except under basically impeachment-style proceedings. David Walker, the Comptroller General, he's got an appointment of "x" number of years and you can't kick him out except going through some pretty extraordinary mechanisms. He's not subject to be fired by the President and I'm telling you, he uses that. He uses that to tell the truth. And anybody that wants to talk about budget in congress winds him up and he goes. I will tell you that you can set all of these programs up and if you're not doing them you obviously should be doing them, but that's not going to make automatically elected officials somehow magically get it all of a sudden--or want to get it. My experience in government has been those people that most need it sometimes avoid it. You could have and should have educated the governors of Hawaii on budgetary matters. You could and should have educated the President, this president or prior presidents, it doesn't matter whether we're talking about presidents or assembly people, they all need it. The question is, do they want it, and will they take the time? My experience is that roughly 80-90% of elected officials don't really take the time to understand budget issues.

I'm not sure I ever found a financial statement from a government that really told the story. And in fact, we made it a great big deal in congress and in the Hawaii state legislature

because if there's anything that scares a politician more is an unfunded liability. So I'm not sure that I have the answer for you. I think Hawaii does a little better on its financial statements lately. That's cause it's been a long standing effort to produce a statement that's easily understood, one that is accurate, one that gives you a sense of how you're balancing your annual statement, and how you looking over time.

Q. Some of your experience in government, state government, and in the private sector. When I visit all the various territories and meet with officials, many of them have said to me, you know, Nik, you bring down all these experts, like the USDA programs and, year in year out, we have all this training, we are probably the most trained folks around in terms of finances, but we don't share your values in the mainland. Why do you keep expecting us to be smart and have all this training? We just need enough money to give to the minister, some money left to go to bingo, and some money for food, so why do you keep trying to train us, to make us smarter than we necessarily should be. What are your thoughts?

Well, of course, in Hawaii we get told what to do and trained all the time by the mainland so we're kinda used to that. We know we have our own culture. By the way, it's not just Hawaii overall. If I were to go to Hilo, my hometown, which is 200 miles away from here on the Big Island and talk to them they would basically say why are you telling us what to do, you're from Oahu. If I were to go to Waimea, which is where I went to school on the Big Island, which is about 60 miles from Hilo, they would say why you telling us what to do from Hilo. So there's nothing unusual about big government translating down, trying to tell you what to do. But I think it's a good point.

Personally, for example, I'm not here to train you, I'm here to share what I think and you can do what you want with it. I think there's a difference though between policy and good financial practices. I think you can have one of the best run budgets, one of the best run, most transparent, most sustainable budgets and finances of any jurisdiction or country in the world, and still make decisions that preserve your culture. I think it's true on the other hand that if you don't run a good budget, you don't run a good financial situation over time, you will not be able to preserve that culture. I think that the differences that we're talking about are policy differences.

Let me give you one example. You know who has some of the best budget and financial practices? It's the Scandinavian countries. Sweden, Norway, Denmark, Finland. They're always up there at the top of the list. They don't have too many scandals about budget and finance, they have pretty sustainable markets. Now in those countries—Norway is a little weird because Norway's got a little oil so that helps—but Sweden doesn't have any oil for the most part, Finland doesn't have any, Denmark doesn't have any. In those countries they're pretty close to socialist. They have a very high tax rate, they have socialized medicine, they have a culture that's not unlike our island cultures in terms of how we take care of each other. They've made policy judgments that everybody accepts, but they administer them in a way that works. So I don't think that you should listen to somebody, you know, from D.C. or some politician from Hawaii in terms of how to run your culture, how to preserve your culture. I don't think that any jurisdiction should have to be comparable to downtown Los Angeles in order to succeed. But I would say that objectively speaking, if you don't at least follow the basics on budget and finance that would become increasingly problematic, and I would also make a point that no man is an island, so to speak. Nobody in this world, including particularly island economies, can sustain themselves and

their culture without interacting with the rest of the world, without some form of investment interaction.

Q. After hearing you talk, I'm really depressed. I know you didn't mean to do that to me, but it sounds like there are so many issues that need to be overcome. If you had to pick three or five things for us to take back to our islands, what three or five pieces of advice would you give?

I don't mean to leave anybody with a feeling of depression, because I'm not depressed. I woke up this morning, my wife loves me, my son said good morning to me, which is cause for celebration lately, I'm in Hawaii, the U.H. football team is going to the Sugar Bowl. So I don't want to leave you like that. I do think, I think that we're all on the same page as to how human beings can fool themselves and I think it's depressing that human beings let themselves get fooled and rationalize poor behavior. So that's something that has been a little discouraging to me in my years in public service because I think people basically deserve some honesty and sometimes honesty is hard to express.

What would be some of the things that I would especially focus on, bottom lines here? The first I would say is if you're doing your job in terms of auditing, budgeting and finance and something doesn't feel right, it's probably because it's not right. I mean, it's easy to rationalize your way out of some of the problems, but frankly, usually if it's not balancing, penciling, working, making sense to you, it probably needs a little bit of attention, number one. Number two, resist the urge to solve something on the short term. It is always easier to get through one more fiscal year even if you know that the fiscal year after that is gonna be more difficult. I think that's true even if it's the hardest thing to do, even if nobody wants to hear the answers. Getting people through denial and anger is 80 percent of it.

Q. One of the things that you said that I think may be helpful to our island finance operation, you said that in the legislature in Hawaii you have removed people from making decisions that impact the budget, something like that. One of the things I think that affect the job of a finance officer is the governor overriding financial decisions that they need to make in order to have a balanced budget. I'm not sure how it all works in the islands, but it's just a thought that occurred to me—that perhaps the finance officer's position, something for everyone to mull over, should not be a political position and therefore the governor cannot override a decision of finance officer. Just a comment that I wanted everybody to think about and that will make their job easier.

I didn't talk specifically about how we forecast revenue, but that's an instructive point to everybody as well. In the old days, budget revenues would be done by government itself, so when we came into the legislature every year, we'd have the government saying what the revenues were, what the expenses were. Well a government that wants everything without getting depressed is gonna overstate revenues and understate expenses. I mean that's one of the oldest tricks in the book. I hate to use this example, but when I went into Congress in 2003 the projection for the cost of Iraq and Afghanistan was \$150 million, and I said, 'no way is that true,' but everybody wanted to believe it. Why? Because it made the budget look better. We're closing in on a trillion dollars now. So that's an extreme example, but we have all been through this. Your politicians are going to overstate revenues and understate expenses in order to manipulate budgets. Right? That's what they do and you know it and they know it. They may not actually go to you and say, 'hey can you pump these revenues

up a little bit, and, you know, I know this expense is here but can we move it down to the next fiscal year?' Some of them do it properly, some of them do it a little more subtly than that, but it happens.

One thing we did here in Hawaii that I think was a good idea you might consider, is that we took our revenue figures from a Council of Revenues which is an independent body, made up of some private sector economists, and some government people, and some people that are just business people from wherever. Somebody has got to appoint them but they are appointed from a couple of different places and they sit there and about once every quarter they study the economy of Hawaii and they have a revenue projection. The revenue projection is always a six year revenue projection, but it's on two year cycles, for the next two years it's gonna be this much. And for what we call the "out" years—the next four years they're going to be this much—but you can change that projection every three months, or six months or so. When we do our state budget, the rules are we have to accept the Council of Revenues' projections, so we try to take the politics out of projecting the revenues.

We haven't done the same thing with expenses. We're really good at messing around with expenses. And by the way there's nothing perfect about revenue projections. For any of you that follow these things, when you do revenue projections you're in an accelerated economy, your revenue projections will be higher or lower than what actually ends up happening in the short term. And if you have a decelerating or stabilizing economy your revenues can be overstated. That's exactly what happened to us in the early 1990s because we were sitting here with this Council of Revenues that, you know, that was just chasing revenue while our economy was going down. So there's this huge gap. We have that right now, by the way. Again, the revenue figures are not keeping up with the Council of Revenues projection so that creates a budget deficit for the next year.

Appendix D Slides for Palau's Best Practices for Economic Development and Budgetary Discipline Presentation

IGFOA CONFERENCE

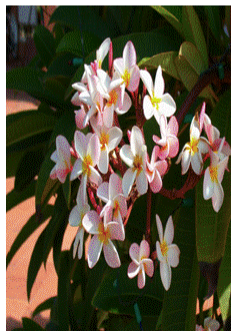
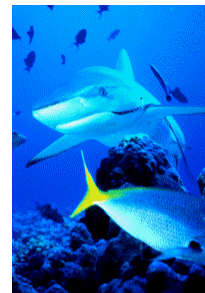
Honolulu, Hawaii

4 December 2007

- Economic Development
- Budgetary Discipline
- Fiscal Accountability

Presented By:

Elbuchel Sadang
Minister of Finance
Republic of Palau



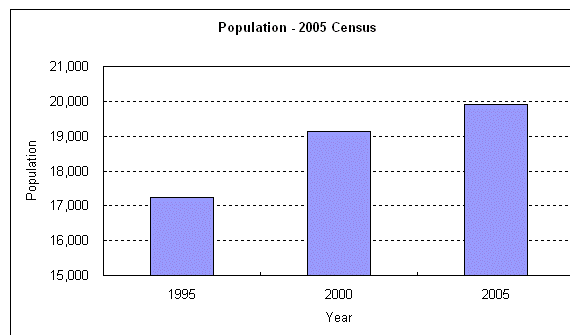
Demographic & Selected Economic Indicators Summary

- Population
- Gross Domestic Product (GDP)
- Employment
- Wages

3

Population

- 2005 Census – 19,907

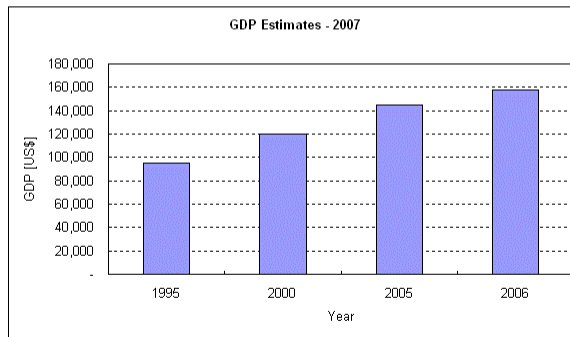


Year	1995	2000	2005
Population	17,225	19,129	19,907
Growth Rate		11%	4%

4

Gross Domestic Product (GDP)

■ 2006 GDP ("000") \$157,685



Year	1995	2000	2005	2006
GDP (Calendar Year)	95,237	119,863	144,865	157,685
Growth Rate		5%	4%	9%

5

EMPLOYMENT

■ 2006 Total Employment –12,071

– Public Sector – 3,465

– Private Sector – 8,605



Year	1995	2000	2005	2006
Employment	8,410	10,350	12,197	12,071
Private Sector	5,370	7,119	8,755	8,606
Public Sector	3,040	3,231	3,442	3,465
Private Sector as a % of Total	64%	69%	72%	71%

6

Wages

■ 2006 Wages ("000") \$94,397

- Public Sector - \$40,793
- Private Sector - \$53,604



Year	1995	2000	2005	2006
Wages ("000")	54,942	77,919	94,267	94,397
Private Sector	25,466	43,070	54,410	53,604
Public Sector	29,476	34,849	39,857	40,793
Private Sector as a % of Total	46%	55%	58%	57%

7

Economic Development Strategy Framework

■ Sustainable Economic Development Strategy:

- Develop and strengthen the private sector while protecting the environment and reduce the extent and involvement of the government in domestic economic activity.
 - Economic Policy – four components
 - Fiscal Policy – two goals

8



Economic Policy – 1st Component

- Develop economic institutions (regulatory environment that facilitate strong private sector growth)
 - Banking
 - Foreign investment
 - Tax
 - Labor
 - Statistics
 - Commerce

9



Economic Policy – 2nd Component

- Develop infrastructure (proper planning framework)
 - Energy
 - Water
 - Sewer
 - Communications
 - Transportation

10



other important aspects of infrastructure planning

- Institutionalization of environmental issues
- Mechanisms for human resource capacity building
- Opportunities for private sector partnership
- Debt instrument financing

11



Economic Policy – 3rd Component

- Develop sectors of the economy that have the potential to support sustainable economic growth (comparative advantage; income potential; conservation; private sector led)
 - Tourism
 - Fisheries
 - Aqua-culture
 - Agriculture

12



Budgetary Discipline:

- **Contain cost of government**
 - balanced budget where actual revenues are equal to or greater than actual expenditures
- **Introduction of Cost Reduction Plan**
 - Enactment of the Budget Reform Act (RPPL No. 6-11) – annual performance reporting
 - Executive Order No. 203 – streamlining government process

13



Fiscal Accountability

- **Expenditure – Keep growth of expenditures less than the rate of growth of revenues**
 - Streamline government structure
 - Personnel restructuring
 - Outsource services
 - Improve accountability and productivity of expenditures


14



Fiscal Policy – 2nd Goal

- Increase revenues
 - Strengthen collection efforts
 - Expand revenue base

15

- 
- Developing the necessary institutional framework such as rules and regulations and proper planning mechanisms are not as 'exciting' as the construction of infrastructure projects where progress is very visible. Nevertheless, it is the foundation in which growth prospects for Palau, and the Pacific Islands community, can be enhanced and where sustainable development may be achieved.

16

Mesulang



Government of Palau

"Preserve the Best, Improve the Rest"

17

Appendix E Slides for Guam's Best Practices for Economic Development and Budgetary Discipline Presentation



BEST PRACTICES

- **Economic Development**

- *Quoting S&P Rating Report (6.20.07) Guam B Rating, Stable Outlook*
- *The stable outlook reflects our expectation that economic growth will occur throughout the term of the U.S. military buildup and beyond benefiting GovGuam and providing it with opportunities to improve its financial position.*
- Recent conferences :
- **2007 Guam Industry Forum**, August 23 – 24, 2007 sponsored by the Joint Guam Program Office, Naval Facilities Engineering Command, the Government of Guam and local industry specialists.
- **2007 Port of Guam Development Conference**, September 13 – 14, 2007, sponsored by the Guam Chamber of Commerce and the Guam Port Authority of Guam.
- **2007 Conference on Business Opportunities in the Islands**, October 8 – 9, 2007 was sponsored by the Department of Interior.

Role of Finance Office in Encouraging Economic Development

- **DRT's study** points to revenue losses through exemptions. DOI report states same, as well as S&P rating report.
- **DOI Funded Report** – *“While the challenges faced are significant, with timely action and careful management they can be successfully addressed. We believe that Guam can offer an attractive environment for private sector activity and we are optimistic about the island's future growth prospects.”*
- Recent **Asia Pacific Fiduciary Studies Conference** – and Steve Potts presentation – makes the argument that good, stable and accountable government is good for healthy business environment and development.
- Legislature recently convened **Legislative Tax Review** Commission
- GEDCA has a number of QC programs to encourage new business development.

3

BEST PRACTICES

- **Budgetary Discipline**
- **Governor's powers** eroded over the last few years, resulting in limited control over spending.
- **Governor introduced legislation** to restore allotment control and transfer authority. Was successful in getting almost 100% control except for few entities.
- Up to 15% transfer authorized from the educational institutions and Department of Law.
- **The Governor previously did not have these powers over the GPSS.**
- **Governor ordered Budget Director** to impose up to 10% reserve over allotments.
- **Result Desired:** *Control spending government-wide to stay within realized revenues; and not grow & reduce the deficit.*

4

Role of Finance Office in Establishing Budgetary Discipline

- **Timely, accurate, relevant financial statements** point to urgency of & necessity for budgetary discipline (FMIP Primary GOAL).
- **Financial statements point to** the necessity for development of a Deficit Elimination/Fiscal Recovery Plan in the FY 2008 Budget.
- **Rate of expenditure growth** to be kept lower (not equal) to the **rate of revenue growth**. (addresses structural imbalance).
- Establishment of a **rainy day/budget stabilization fund**.
- Executive orders are in place on travel, overtime, etc. to try and keep expenditure levels below or at budget.
- Also, previously unappropriated/unfunded items will be budgeted for.
- **PERFORMETER** only confirms urgent to take these actions as well as recent S&P rating reports.

5

BEST PRACTICES

- **Fiscal Accountability**

- Government of Guam annual audits completed on time, with qualifications down to 2.
- New requirements to post on websites staffing patterns, and financial status reports within 30 days of the end of the quarter – penalty of 20% reduction to Director/Deputy Director and Chief Financial Officer' salary if not complied with.
- GovGuam to begin PBB in FY 2009, to be effective with 9 agencies. Already, training in preparation of that has begun – with Graduate School sponsoring training recently.

Desired Result:

Renewed Public Trust in the Finance Office.

6

References, Additional Information

- **Excerpts from the S&P Credit Report for Guam (March 9, 2007 & June 20, 2007)**
- *"Despite the cited risks, the economy of Guam (estimated population 172,000) has done well in recent years, following declines associated with the events of Sept. 11, 2001, Typhoon Chata'an, Super Typhoon Pongosa, the SARS outbreak, and the United States' conflict with Iraq. Air travel to the 212-square-mile island continues to increase, although it may still be several more years before it reaches pre-Sept. 11 levels. Most of the major resort hotels are currently doing, or have announced plans to do, major expansions or renovations to continue to attract tourist traffic. In addition, because of its location as a forward base in Asia, Guam serves as a strategic military installation for the U.S. About one-third of the island's area of 71 square miles is occupied by Andersen Air Force Base and Naval Base Guam. Despite a 100-person reduction in military and civilian personnel from the 2005 Base Realignment and Closure process, Guam stands to gain as many as 8,000 marines and 9,000 dependents from Okinawa to Guam by 2014; the U.S. and Japanese governments have made a \$10.3 billion commitment to this end."*
- **The stable outlook reflects our expectation that economic growth will occur throughout the term of the U.S. military buildup and beyond benefiting GovGuam and providing it with opportunities to improve its financial position.**
- *While uncertainty remains as to both political willingness and whether any fiscal recovery plan -- once identified and implemented -- will address the annual budget imbalance as well as the significant long-term liabilities, we assume that the government will at least maintain marginal cash flows that allow it to operate and maintain service levels. At a 'B' rating, Guam's credit can fluctuate within the highly speculative band while still meeting debt service payments."*

7

Recent Conferences

- **2007 Guam Industry Forum**, August 23 – 24, 2007 was sponsored by the Joint Guam Program Office, Naval Facilities Engineering Command, the Government of Guam and local industry specialists. Information can be found at <https://www.guamindustryforum.com/index.html>
- **2007 Port of Guam Development Conference**, September 13 – 14, 2007, was sponsored by the Guam Chamber of Commerce and the Guam Port Authority of Guam. Information can be found at <http://www.portofguam.com/>. You will need to click on the conference icon.
- **2007 Conference on Business Opportunities in the Islands**, October 8 – 9, 2007 was sponsored by the Department of Interior. Information on this conference can be found at <http://www.islandbusinessopportunities.com/index.htm>

8

Other References

UNITED STATES DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
A Private Sector Assessment for Guam
2006 Island Fellows Prepared by: Hilla Talati Tikvah Weiner
August 2006

XI. Conclusions

- The most significant issues we feel that the Government of Guam faces are in the areas of infrastructure, labor and taxation. The Government has many options we feel it could consider, all of which would help improve the local business climate, including:
 - Privatizing key components of infrastructure;
 - Adopting creative solutions to address future labor shortages; and
 - Reforming taxes by eliminating incentives and lowering tax rates across the board.
- While the challenges faced are significant, with timely action and careful management they can be successfully addressed. We believe that Guam can offer an attractive environment for private sector activity and we are optimistic about the island's future growth prospects.

**Appendix F Slides for RMI's Best Practices for Economic
Development and Budgetary Discipline Presentation**

***IGFOA 2007 Meeting
Honolulu, HI
Dec 4-6, 2007***

**Jefferson Barton
Secretary of Finance**

**Government of Republic of the Marshall Islands
(RMI)**

**To talk about RMI Revenue Structure, Progress To
Date and Way Forward**

1

**Yokwe (greetings) to all of
you and thanks again to
DOI and USDA Graduate
School for this wonderful
annual opportunity**

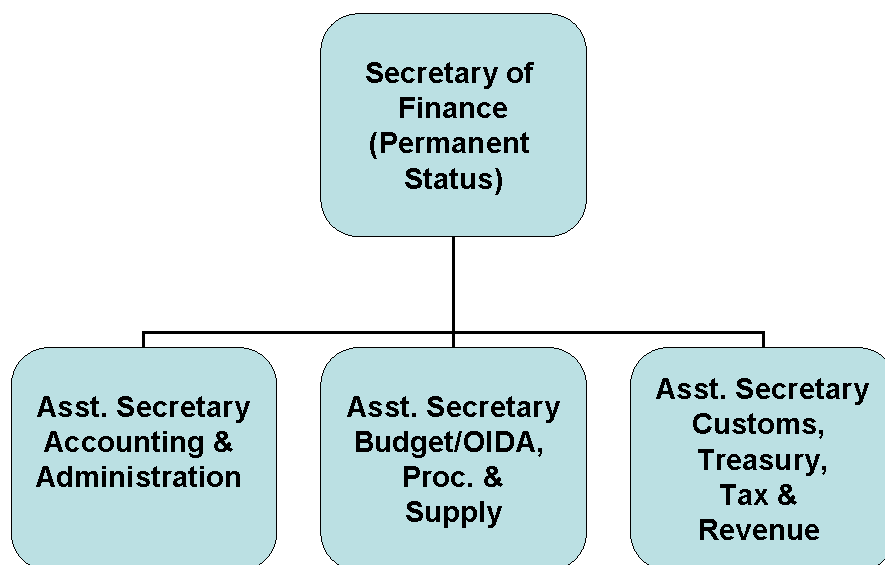
2

Presentation Outline:

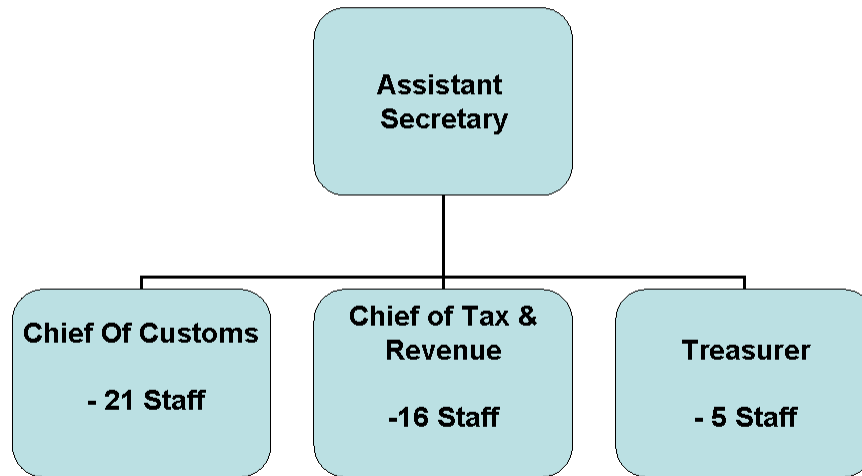
- I. Organizational Structure**
- II. Tax Structure**
- III. Reforms and Changes since 2004**
- IV. 2008 Work Plan**
- V. Challenges**
- VI. THANK YOU**

3

Organizational Structure (Basic)



Customs, Treasury, Tax and Revenue Division



5

Tax Structure

- **Wages and Salaries Tax**
- **Gross Revenue Tax**
- **Immovable Property Tax**
- **Non Resident Income Tax**
- **Tax Holidays**

6

What have we done since 2004?

- **In 2004, an assistant secretary was designated to oversee the division.**
- *In 2005, a Tax Management Automated System (EZ tax system) was installed.*
- **In 2005, establishment of the Tax Audit Unit. Note: about \$1.3 million in findings.**
- *Transfer of Foreign Investment Registry to Tax and Revenue Unit.*

7

Continue:

- Passages of Customs Legislations (amendment)
 1. Waiving of exemptions to Gov. entities.
 2. Increase amount of monetary penalties for import act violators.
- MoU on Information Sharing (MISSA & Local Governments).
- VAT Legislation introduced in mid 1990 failed.

8

What are we doing to strengthen Compliance?

- ***WORK PLAN 2008 (June 2007)***

Side Note: Strategic Concept: Strengthen understanding of our role, organize ourselves, and ensure vital tools are in place before undertaking macro reform measures.

Vision: To achieve 100% compliance with RMI relevant Laws and to develop the Division of Customs, Treasury, Tax and Revenue into a Professional, Respected, and Honest Entity.

9

Work Plan 2008 – Missions

- **Customs Mission:** To ensure inspection and assessment of importing goods and payment of duties comply with RMI Laws.
- **Treasury Mission:** To simplify and expedite tax payment and disbursement services.
- **Revenue and Tax Mission:** to ensure all entities obligated to pay tax are paying taxes on a timely manner, and to recover tax receivables

10

Work Plan 2008 Initiatives Undertaken

1. *Every other week meeting with the Office of the Attorney General.*
2. Weekly meeting for Division Management Team.
3. *Non-Compliant Memo “manifest” From Tax Unit to Treasury and Customs.*
4. Increase from two to four tax auditors.
5. Hotline for Division

11

Work Plan 2008 Initiatives

- **Past two months, we have established the following legal notices:**
 1. Notice of Demand to Pay Tax – *Taxpayers file but not pay tax.*
 2. *Notice of Assessment and Pay tax – underpayment is found.*
 3. Notice of Demand to file and pay tax (30 days) – *doing business w/o filing.*

12

Work Plan 2008

4. Notice of Assessment and pay tax (10 days). *Still not complying.*
5. Notice of Demand to Pay Tax (5 days).

13

Work Plan 2008 – Work Ahead

- Form a Tax Review Commission
- Establish an informational booklet.
- To conduct a Public Awareness Program about Taxes.
- Continuous auditing of Businesses – small to large businesses

14

Work Plan 2008

- Devise an internal staff training program.
- Write Up regulations for Income Tax Act and Import Tax Act.
- Code of Ethics for Division Staff

15

Challenges:

- Human Resource Capacity
 1. Manpower
 2. Basic Skills

Financial Resource Constraint

16

**Kommol tata (thank
you) for your attention.**

mhcustoms@ntamar.net

customsfin@ntamar.net

www.rmigovernment.org

Appendix G Breakout Session Notes: Economic Development and Budgetary Discipline

GROUP 1

Economic Development Key Issues

- Weak institutional framework

How to facilitate economic development

- Banking laws need to be strengthened to include bankruptcy act
- Investment laws need to be revised (red, yellow, green)
- Taxes need to be broad based and have room for incentives
- Labor laws must provide fair compensation, employment security and benefits, training

Budgetary Discipline Key Issues

- Revenue vs. expenditure law

How to establish budgetary discipline

- Contain costs of government expenditures
- Introduction of cost reduction plan

GROUP 2

Economic development key Issues

- Current legislation(s) (i.e. Sin Tax Act)
 - Import dropped for related products (alcohol, cigs)
- Geographical disadvantage
 - Freight

How to facilitate economic development

- Creating an environment that is conducive to private sector development

Budgetary Discipline Key Issues

- Decentralization issues with budgetary discipline
 - Resistance to change
 - Poor Planning
 - High Expectations

How to establish budgetary discipline

- Improve consultation/communication

- Continue to adhere to quarterly allotment

GROUP 3

Economic Development Key Issues

- Diversification of economy
- Labor training development
- Geographic isolation
- Government credibility (?)
- Application of federal statutes (minimum wage)

How to facilitate Economic Development

- EN impact study
- Labor force study
- Trade missions
- Improve government credibility

Budgetary Discipline Key Issues

- Discipline→

How to establish budgetary discipline

- Internal controls
- Compliance

GROUP 4

Economic Development Key Issues

- Transportation availability and cost
- Foreign Investment Permits Process
- Land

Corrective Measures

- Timely Payment of vendors
- Timely and Accurate Financial Reports

Budgetary Discipline Key Issues

- Declining revenue
- Increasing expenditures

Corrective Measures

- Provide accurate financial data
- Control expenditures

GROUP 5

Economic Development Key Issues

- Expansion of the military base (Expecting addition of 17000 persons)
- Revising and updating economic development laws and regulations

How to facilitate economic development

- Develop the local workforce to build up the infrastructure necessary to support the expansion of the military base.
- Develop a business retention program

Budgetary Discipline Key Issues

- The Legislature and Executive branches need to work together to control expenditures and to establish contingencies.

How to establish budgetary discipline

- Establish performance based budgeting to ensure quality outcomes and to effectively utilize scarce resources

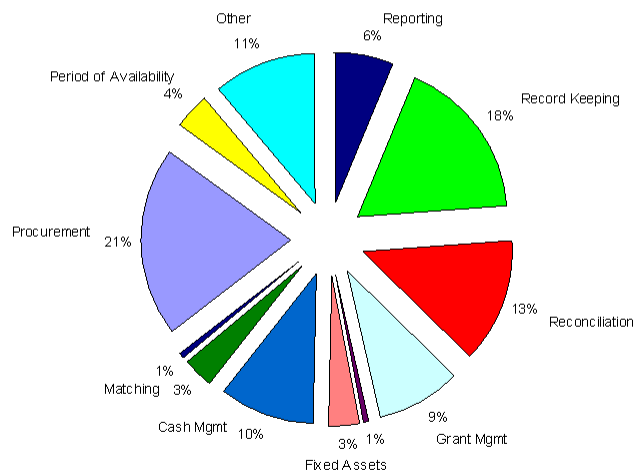
Appendix H Slides for Audit Improvement Project presentation (Ms. Debbie Milks, CPA)

Audit Improvement Update

Honolulu, Hawaii
December 2007

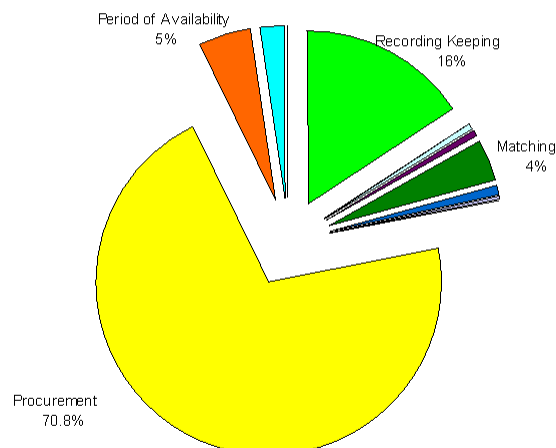
1

**U.S. Insular Governments
Audit Finding Category by Number of Findings
Total Findings: 288
FY2006 Audits
(Virgin Islands-based upon draft FY2005)**



2

**U.S. Insular Governments
Audit Finding Category by Questioned Costs
Total Q.C. \$9.3M
FY2006 Audits
(no data available for the Virgin Islands)**



3

Why Procurement?

- Circular A-133 2006 Compliance Supplement
- More stringent requirements for Compact Funds
- Greater attention & pressure from Federal Agencies

4

Has there been progress?

FY 2002

364 findings & \$23.3 questioned costs

Reconciliation

Record keeping

Subgrantee monitoring

Procurement

FY 2006

288 findings & \$9.3 questioned costs

Procurement

Record keeping

Reconciliation

Grants management

5

Has there been progress?

FY 2005

269 findings & \$7.3 questioned costs

Record keeping

Reconciliation

Procurement

Grants management

FY 2006

288 findings & \$9.3 questioned costs

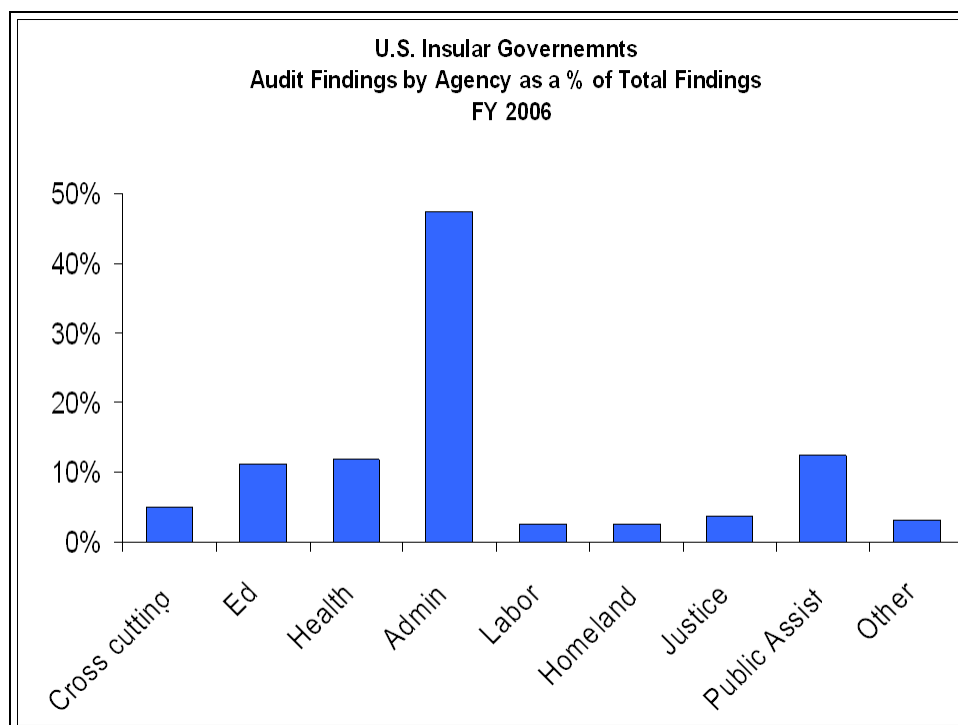
Procurement

Record keeping

Reconciliation

Grants management

6



CAPs vs Audit Improvement Plan

- Don't duplicate---elaborate
- Address overarching problems in the audit improvement plan
- Opportunity for systematic, collaborative solutions
- Include a way to measure progress

Cash Management

- Must have a written, documented plan
- You might have time to support the plan for FY2007 audit
- Monitor the receipt of drawdowns from federal agencies
- Accept that the government may owe interest

9

Where do we go from here?

- Maintain the momentum
- Manage the process
- Measure progress on corrective actions
- Review your management letter carefully

10

To facilitate the conduct of the 2007 audit of the Republic of Palau, we are requesting that Deloitte & Touche provide, within 4 working days of the end of each month, a detailed status report that details the audit's estimated percentage of completion and contains a list of all information requests submitted to the Republic, which information has yet to be delivered to you.

This request also assumes that you will provide all detailed requests in writing, that such will be prenumbered, and that you will track outstanding information requests in your files.

If you agree with this request, will you please so indicate by signing hereunder and returning this to our offices?

Very truly yours,


11

Best Practice Resources

- State of Hawaii standard audit contract and contractor evaluation
- UCSB key control checklist and template for preparing for SAS112
- GFOA Recommended practice on SAS112
- Procurement training example for departments
- GFOA recommended practice for audit committees
- A-133 Audit Compliance matrix
- Examples of MoU with departments and with the external auditor regarding the audit process

12


Appendix I Slides for RMI's Audit Improvement Project Presentation



REPUBLIC OF THE MARSHALL ISLANDS

SUMMARY OF FY2006 AUDIT RESULTS

RMI Audit Improvement Plan 1



REPUBLIC OF THE MARSHALL ISLANDS

- ❑ Area of Greatest Progress
- ❑ Area of Greatest Challenge
- ❑ Our Very Best Practice

RMI Audit Improvement Plan 2

Greatest Progress



- Fixed Asset Qualification removal
- Increased number of Audited Component Units

Greatest Progress



Fixed Asset Qualification removal

For the first time in many years, Fixed Asset qualification was resolved

What we did?

- Conducted a nationwide physical inventory count of fixed assets (\$50,000.00 and >)
- RMI established \$50,000.00 threshold for audit
- Concentrated on high dollar value assets first.
 - Team led by the Chief of Procurement and Supply
 - 5 Categories
 - Building
 - Infrastructure
 - Ships
 - Heavy Equipment
 - CWIP (presented separately- ongoing school constructions, dispensaries, etc)
- Compiled Fixed Asset Register for \$50,000.00
- Audit Finding remains

Greatest Progress (cont'd)



□ Moving forward

- Designate Property Coordinators in each Ministry/Agency
 - Regular meetings
- Create Fixed Asset standard accountability to be maintained in each Ministry/Agency
- Maintaining & updating the current list (\$50,000.00 and > dollar value assets)
- In the process of accounting for all \$5,000.00 and > dollar value assets to satisfy the Federal audit requirements
- Conduct training on Fixed Asset Module
- Complete Fixed Assets Register by December 2007.

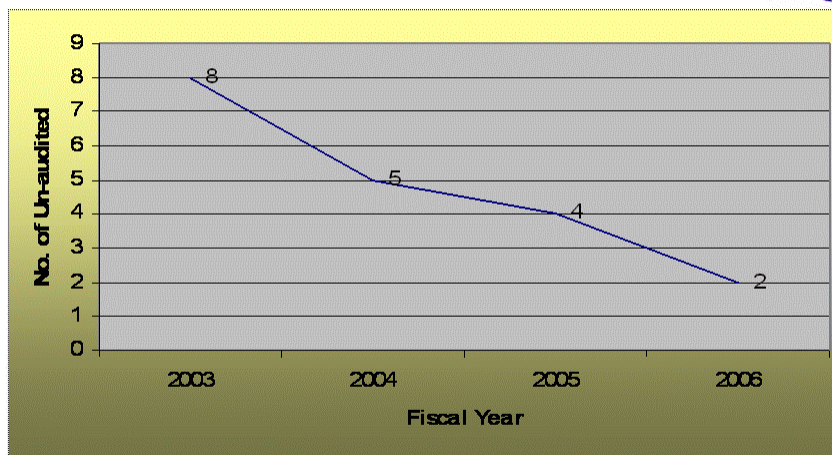
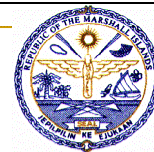
Greatest Progress (cont'd)



Increased Audited Component Units

- A repeated audit qualification/finding
- From 8 un-auditable component units in 2003 down to 2 in 2006
- Remaining 2 Component Units are working on their audits:
 - KAJUR – Commenced audit for FY2005 & FY2006 (80% complete)
 - AMI – FY2006 Audit completed. Pending issuance of audit reports from auditors
 - Expectation – Audits to be completed for inclusion in Primary Government

No. of Un-audited Component Units: A comparison with prior years



RMI Audit Improvement Plan

7

What we did?...



- Applied for a grant to fund an accounting Consultant to aid component units.
- Engaged the services of a Consultant to assist component units in rectifying their accounting books and records, having them ready for audit.

RMI Audit Improvement Plan

8



What we did? ...

- Consultant is required to submit a monthly progress report on the status of the accounting books of these component units.
- Consultant is required to provide training to Component units' staffs
- Payments made to the Consultant is based on progress billing.



Greatest Challenge

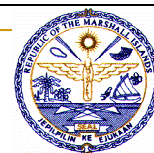
- Component units
 - Inability of Component Units to produce audited financial statements on time for inclusion in the Primary Government's audit
 - Results in Qualification on the audit of Primary Government

Greatest Challenge (cont'd)

■ Problems identified:

- RMI has too many Component units
 - RMI has more Component Units than many insular governments
- Lack capacity in Component Units
- Maintaining the auditable condition is a challenge
- Lack of understanding of audit requirement & consequences

Greatest challenge (cont'd)



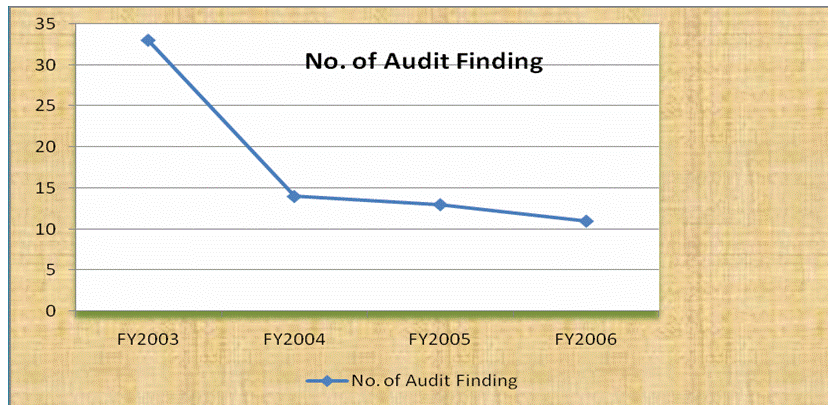
□ Moving forward

- Continue to engage services of accounting Consultant to assist component units
- Seek additional funding for Consultant
- Regular consultation with Consultant to identify weaknesses & areas for improvement
- Consolidation of books that are small in size – planning in progress (supported by Cabinet)

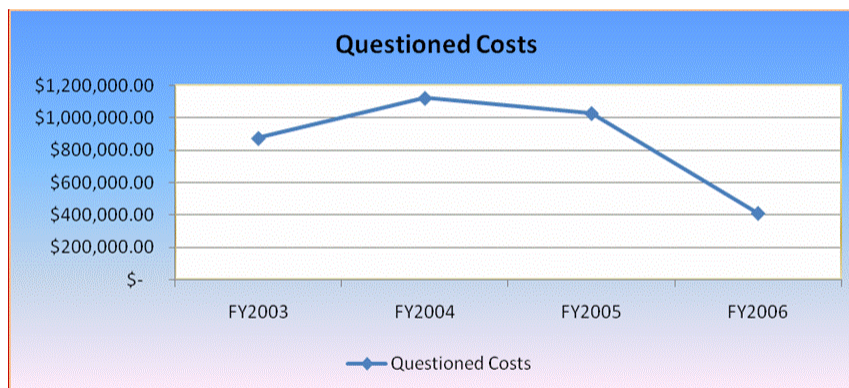
OVERALL ADMINISTRATION OF FINANCIAL RESOURCES

- The FY2006 Audit of RMI reported some improvement in the overall administration of financial resources:
 - Reduce Questioned expenditures
 - Increasingly complying with fiscal regulations (RMI, U.S Federal Agencies, or Specific requirements under the Amended Compact)

FY2006 Audit Finding: A comparison with prior years



FY2006 Questioned Costs: A Comparison with prior years



RMI Audit Improvement Plan

15

Best Practice



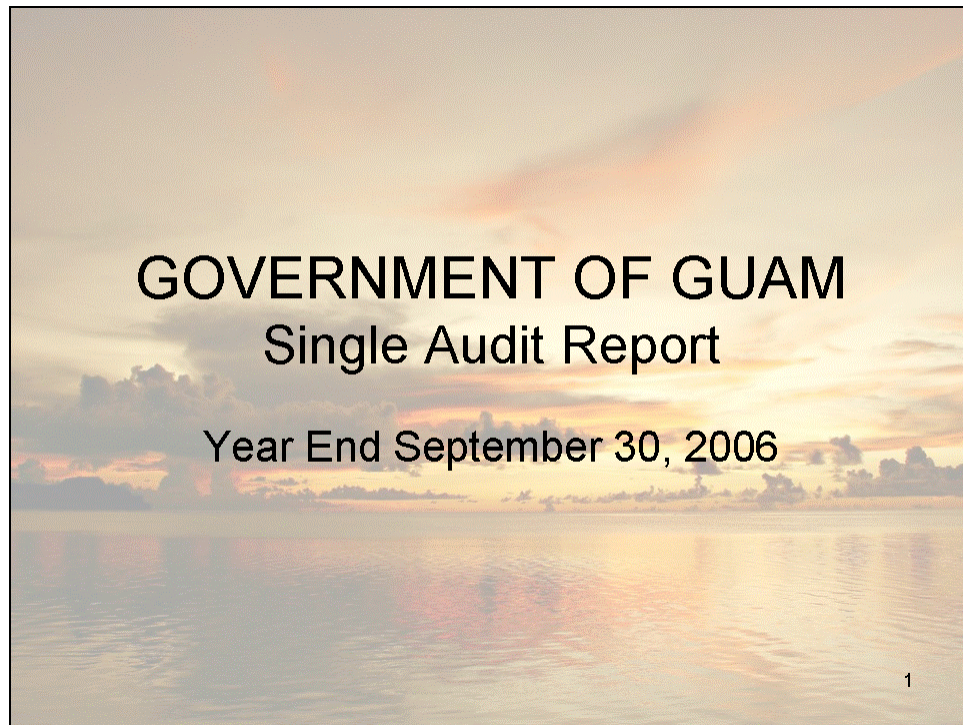
- Working together as a team
 - Dedicated colleagues
 - Motivated colleagues
 - Team has a sense of mission

RMI Audit Improvement Plan

16

**KOMOLTATA (THANK YOU VERY
MUCH)FOR YOUR TIME !!!**

Appendix J Slides for Guam's Audit Improvement Project Presentation



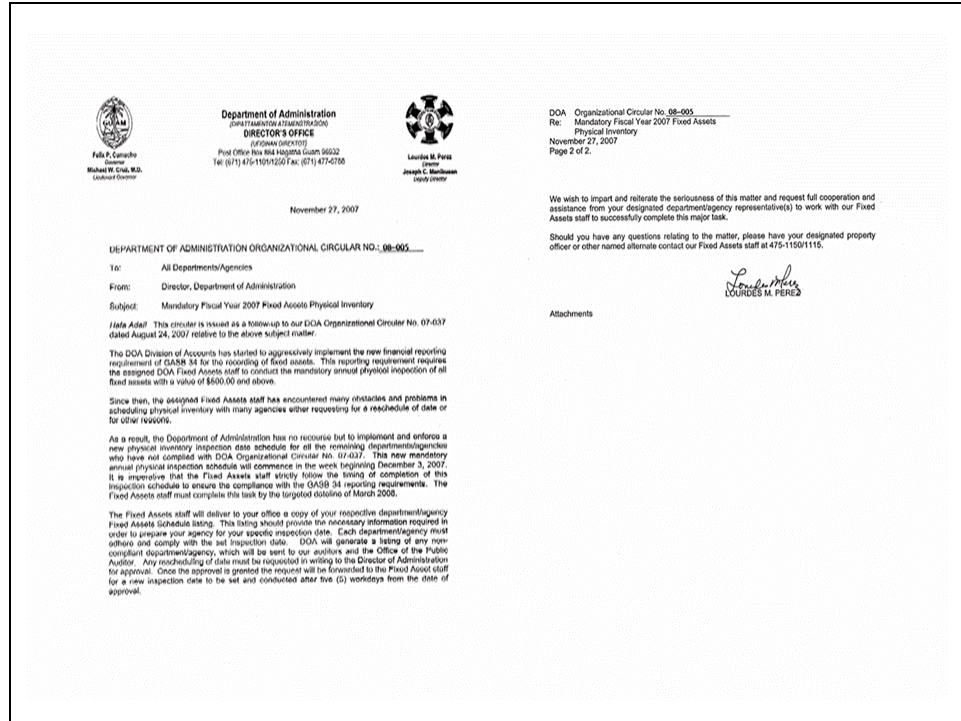
BEST PROGRESS

- **Audit Finding #06-35, Equipment Management, Fixed Assets Physical Inventory.**

- Out of 38 agencies:

	FY2005	FY2006
Completed	12	14
Partial	0	9
Scheduled to start	0	15

2



BEST PRACTICE

- Audit Finding #06-01; 06-03; 06-06; 06-10; 06-18; 06-20; 06-23; 06-27; 06-32; Cash Management.
 - Revised clearance pattern in the CMIA Treasury Agreement period 10.01.06 to 09.30.07
 - Established and implemented Standard Operating Procedure for federal cash drawdown and disbursement

Dollar-Weighted Average

- Sample:

Chk#	Amount	check date	clear date	number of days o/s	o/s days x amount
200132	494.00	05.09.07	05.22.07	13	6,422.00
183773	183.00	02.01.07	02.26.07	25	4,575.00
195576	5,685.92	04.24.07	05.03.07	9	51,173.28
189690	9.90	02.27.07	03.12.07	13	128.70
195581	182.73	04.24.07	05.03.07	9	1,644.57
	6,555.55				63,943.55

$$\text{dollar weighted average} = \frac{63,943.55}{6,555.55} = 9.75 \text{ days}$$

5

DEPARTMENT OF ADMINISTRATION Drawdown and Disbursement Operating Standard Procedure

	Monday	Tuesday	Wednesday	Thursday
Federal	*Analyze Acct		*request	*acquire copy
Branch	under smartlink & ASAP *Give tran summary to payable branch		drawdown	of bankstatement
Payable				
Branch	*process checks based on tran summary received *Give Treasury completed checks			
Treasury	*receive checks	*mails check to vendors		*receive funds from drawdown *process EFT
Office				

6

Period of Availability

- In September 2005, at the request of the Department of Administration, Data Management Resource made a system change on the BACIS to resolve "period of availability" audit findings. The system will automatically transfer the amount of funds unavailable in reserved status after the federal grant period expires. The funds will be reclassified after the month-end processing is completed on the BACIS system. When the grantor approves a "No Cost Grant Extension," the grantee will need to prepare the necessary documents to have the reserved funds released.

7

Reversion of Funds

- Grant expires 09-30-07
 - August 31, 2007
 - Appropriation Allotment Exp. Funds Avail.
- | | | | |
|--------------------|---------|--------|--------|
| 100,000 | 100,000 | 80,000 | 20,000 |
| September 30, 2007 | | | |
| 100,000 | 80,000 | 80,000 | 0 |

8

CHALLENGES

Audit Finding # 06-30, procurement

Situation:

- **The purchase of the Motorola USFGMD's GovGuam Interoperability Interface Equipment is likewise proprietary and can only be bought from Motorola. It was prudent and in the best interest of the GovGuam to purchase this equipment for the following reasons:**

9

Audit Finding # 06-30, procurement

- **Because Motorola currently services the E911 system, it was logical for GovGuam to procure the equipment so that they can provide continued service and maintenance to the new system**

10

Audit Finding # 06-30, procurement

- **The purchase of this equipment allows seamless and real time interoperable communications between GovGuam, the Navy, the Air Force, the US Coast Guard and the Guam National Guard. These entities previously had disparate systems that did not allow them to talk to each other.**

11

Audit Finding # 06-30, procurement

- **Motorola holds a Fed-GSA contract that allows the local Guam GSA to procure from them based on Guam Procurement Law Chapter 5, Section 5122.**

12

Audit Finding # 06-30, procurement

- **Justification**

- The existing emergency communication system (E911) is a proprietary equipment that was purchased and has been maintained by Motorola. Since the existence of the E911 System, Motorola has been working with the Government of Guam, in both daily and emergency mode, to ensure that the system provides seamless communications between and amongst emergency managers and first responders.

13

Audit Finding # 06-30, procurement

- **Criteria:**

- Sole source procurement was used based on capability of equipment, accessories, or replacement parts; however, there is no documentation on file to indicate how the grantee determined that no other vendor could provide such goods or services .

14

Audit Finding # 06-30, procurement

- Disagreement with independent auditor regarding interpretation of 5 GSA Section 5122
- Seeking Attorney General's opinion

**Appendix K Slides for ASG's Audit Improvement Project
Presentation**



**American Samoa Government
Treasury Department**

**IGFOA
December 2007**

1

Areas of Greatest Progress

- Accounts Payable Documentation
- Timely Bank Reconciliations
- Monthly closing of GL

2

What we did:

- **AP**- tighter controls with 3-way matching and accuracy checks. No 3-way, no pay.
- **BR** – Identified personnel responsible for timely reviews and approvals. Tighter controls re bank recon deadlines...from quarterly to monthly.
- **Monthly closing** – Thanks to better BR controls, able to close GL monthly.

3

Areas of Greatest Challenge

- Payroll
- Internal Control Compliance from other ASG agencies.

4

PY & IC:

- **What we did –**
 - Policies and procedures in place. Agencies informed.
- **What more we need to do –**
 - Continue monitoring to ensure compliance
 - Create a policy & procedures manual as reference guide.
- **What we expect –**
 - Help from Territorial Auditor's Office
 - COMPLIANCE!

5

Area of Greatest Practice


- **Communication! Communication! Communication! with...**
 - Departments (front line managers)
 - Public auditors
 - Governor & Cabinet


6

Appendix L Slides for OIA Budget Outlook for Fiscal Year 2008 Presentation (Mr. Thomas Bussanich)


					
Total 2008 Budget Request					
Budget Authority	2006 Enacted	2007 President's Budget	2007 CR	2008 Request	2008 Request Change from 2007 CR
Discretionary	81,473	79,223	80,208	79,783	-425
Mandatory	330,925	321,649	321,649	324,060	+2,411
Total	412,398	400,872	401,857	403,843	+1,986
FTEs	36	39	39	39	0

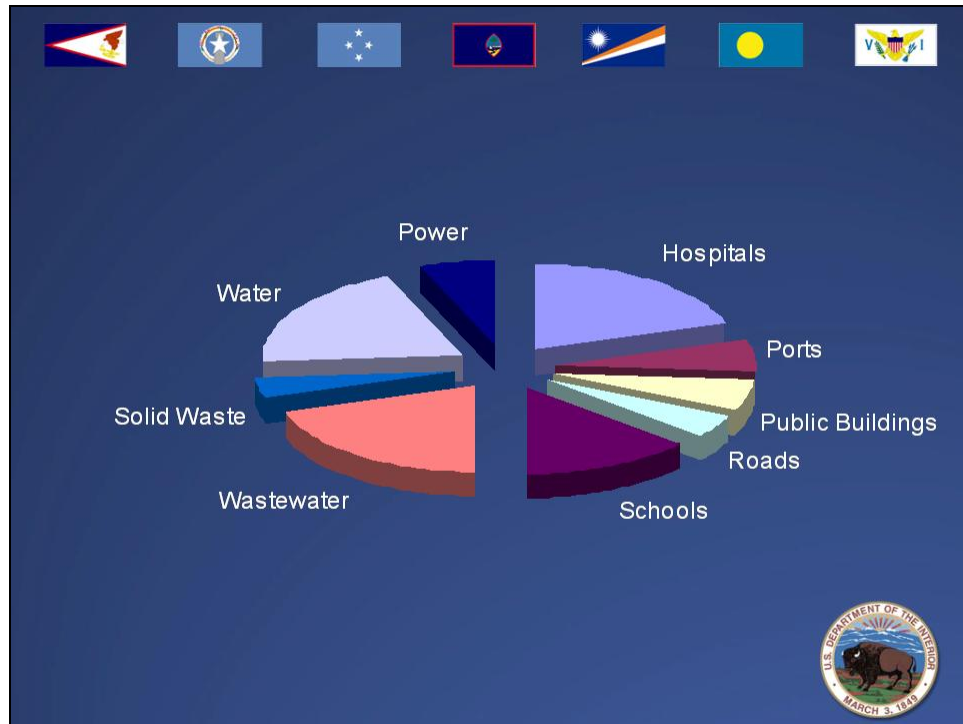


						
	2006 Enacted	2007 President's Budget	2007 CR	Fixed Costs Changes	Program Changes	2008 President's Budget
<u>Assistance to Territories</u>						
Office of Insular Affairs	7,273	7,624		+352	+208	8,184
Water & Wastewater	985	990				990
Brown Treesnake	2,660	2,673				2,673
Coral Reef	493	495				495
Maintenance Assistance	2,266	2,277				2,277
Insular Management Controls	1,469	1,476				1,476
Technical Assistance	8,436	8,226				8,226
American Samoa Operations	22,770	22,880				22,880
Covenant Grants	27,720	27,720				27,720
Technical Assistance						
Judicial Training US Territories	315	0				0
Four Atoll Health Care	985	0				0
Prior Service Benefits Trust Fund	788	0				0
Total, Assistance to Territories	76,160	74,361	74,846	352	208	74,921
Total Compact (Current)	5,313	4,862	5,362			4,862
Impact of the CR			[985]		[-985]	-
Total Current Discretionary/Mandatory	81,473	79,223	80,208	352	208	79,783



	2006 Enacted	2007 President's Budget	2007 CR	Fixed Costs Changes	Program Changes	2008 President's Budget
Federated States of Micronesia Compact	96,157	97,577			+2,434	100,011
Palau Compact	10,717	10,902			+184	11,086
Compact Impact	30,000	30,000				30,000
Judicial Training	308	316			+8	324
Total Compact (Permanent)	199,557	202,649	202,649		+2,411	205,060
Guam Section 30 Income Taxes	51,909	40,000				40,000
VI Rum Excise Taxes	79,459	79,000				79,000
Total, Fiscal Payments (Permanent)	131,368	119,000	119,000			119,000
Grand Total - Office of Insular Affairs	412,398	400,872	401,857	+352	+2,619	403,843



SUMMARY TABLE						
	2006 Actual	2007 Estimate	2008			Change From 2007 (+/-)
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
CNMI Construction	11,208	10,629	0	-343	10,286	-343
American Samoa Construction	9,542	10,543	0	-114	10,429	-114
Guam Construction	3,402	3,331	0	+838	4,169	+838
Virgin Islands Construction	3,568	3,217	0	-381	2,836	-381
Totals	27,720	27,720	0	0	27,720	0
FTEs	0	0	0	0	0	0

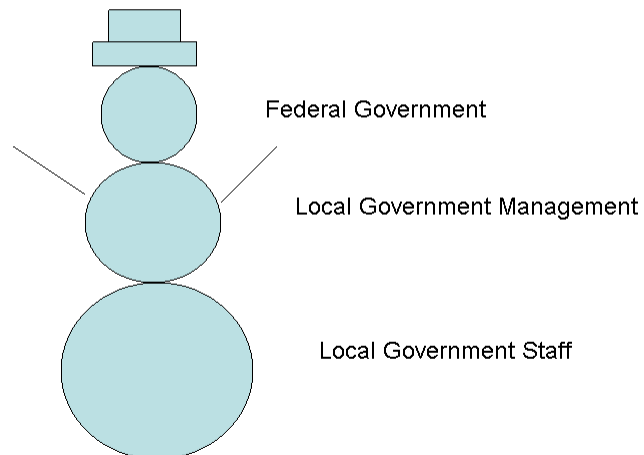
Appendix M Slides for Federal Agency Oversight (OMB Circular A-133) Presentation (Ms. Marina Tinitali)

Federal Grants

Responsibilities of Governments

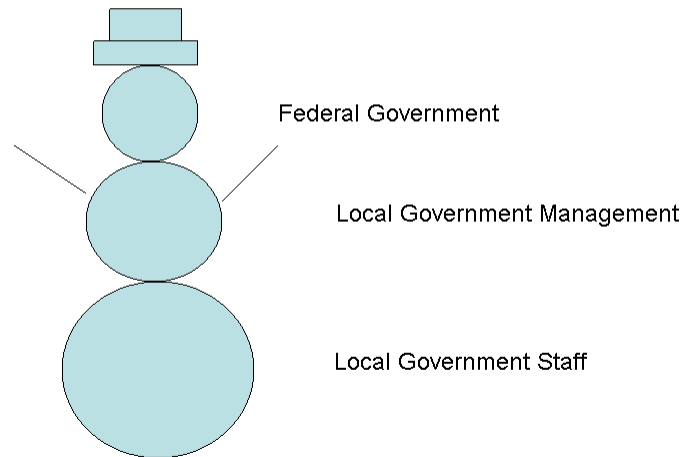
1

Levels of Interaction – the “Government Snowman”

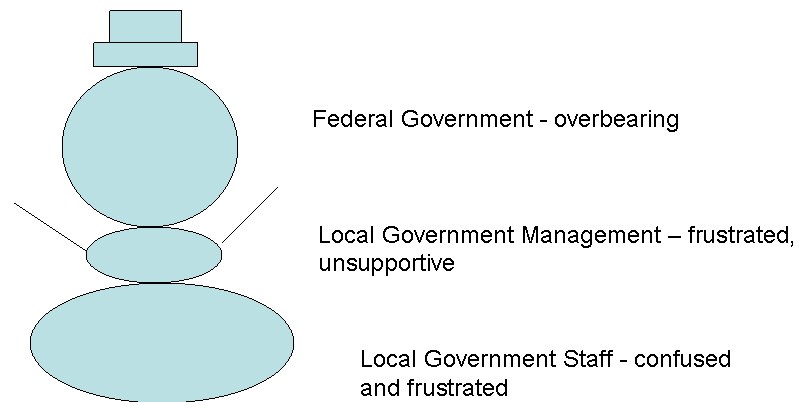


2

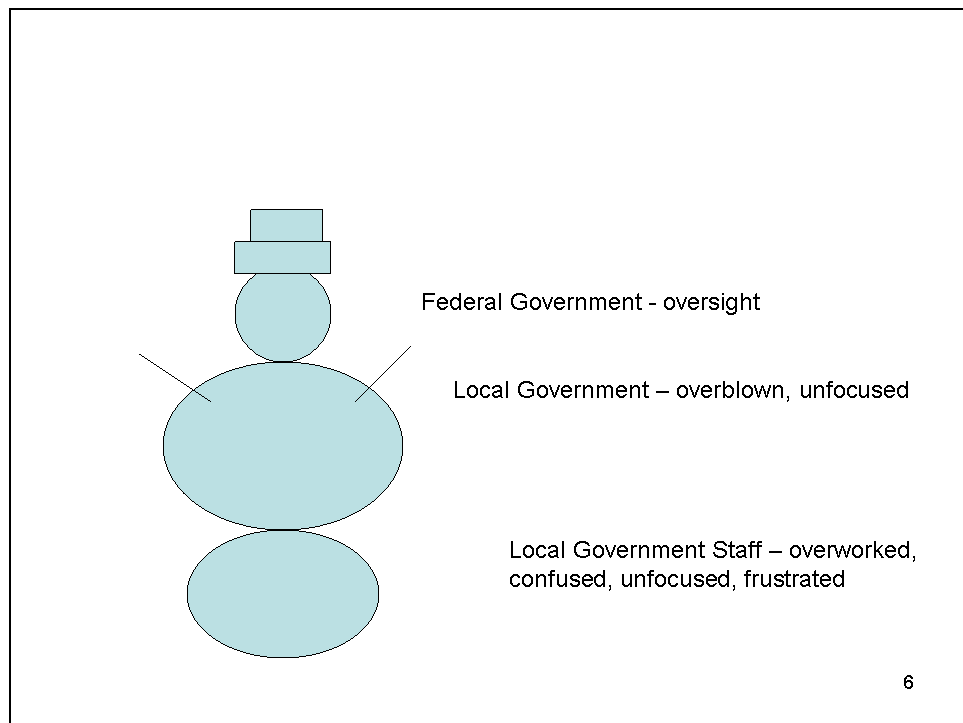
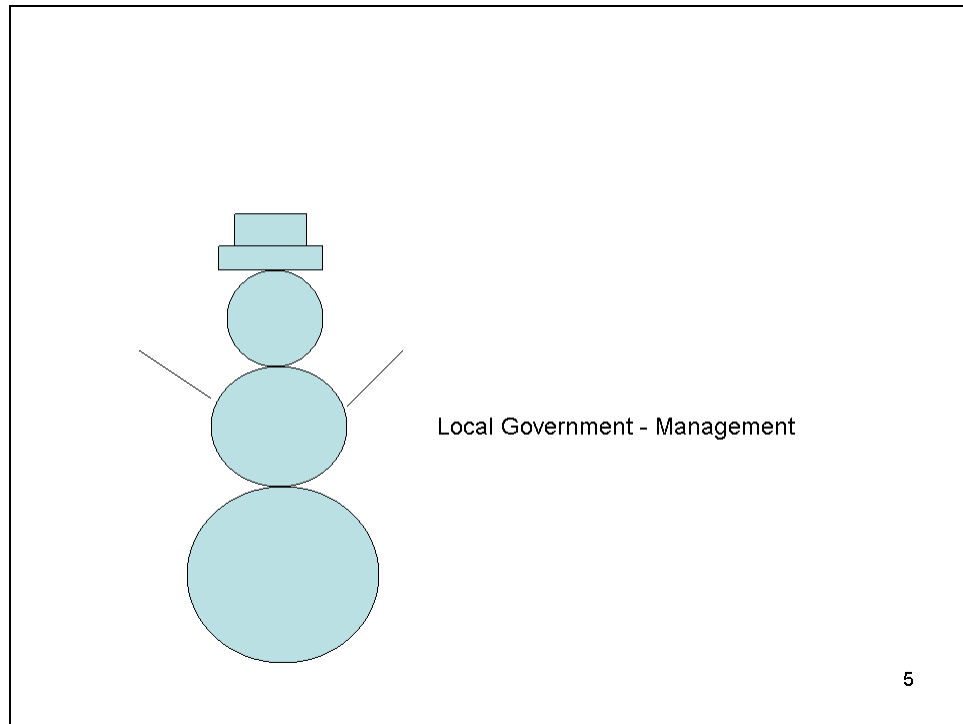
Effects of Imbalances in Roles



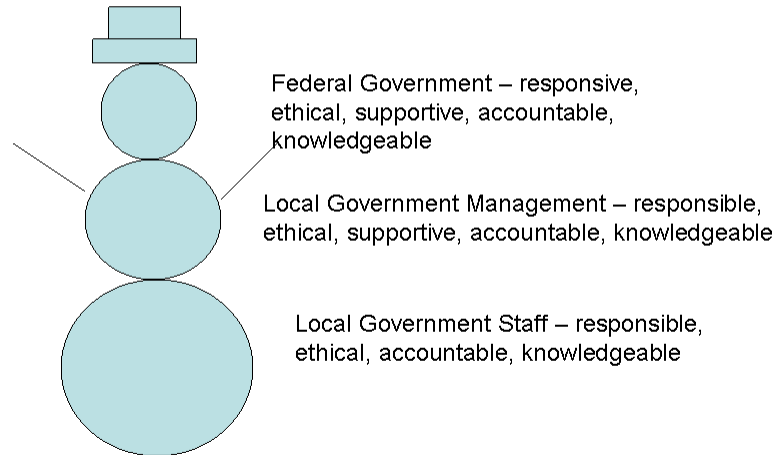
3



4



Balanced Roles of Governments



7

Results of Balanced Roles:

Management and Staff more likely to:

- Be Knowledgeable
- Have Superior Work Ethics
- Be Fully Accountable (time and work)
- Accurate and timely outputs
- Higher level of work satisfaction

8

Effect on Audits:

- Timely and Accurate Daily Detailed Work
- Timely and Accurate Reports and Summaries
- More Reliable Financial Statements
- Better quality audit opinions – annually
- Fewer audit findings
- Better able to resolve issues

9

Responsibilities of Governments – Single Audits

- State (Local) Governments
- Independent Auditors
- Federal Governments

Implementing Regs: www.whitehouse.gov/omb

OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations)

OMB Circular A-50 (Audit Follow-up)

OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments)

10

Local Government Responsibilities under OMB Circular A-133

Sec. 300 – Auditee Responsibilities

Include: (b) – Maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

(d) – prepare appropriate financial statements, including the schedule of Expenditures of Federal awards in accordance with sec. 310.

(e) – ensure audits required are properly performed and submitted when due (within 9 months of fiscal year end), or within authorized extension approval periods.

(f) – Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with sec 315(b) and 315(c), respectively.

11

Highlights of sec 315(b) and (c):

The auditee is responsible for follow-up and corrective action on all audit findings, Includes findings with and without questioned costs.

When an audit finding is fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken (dropped from the list In the following year).

When not fully corrected, summary schedule shall describe the planned corrective action as well as any partial corrective action taken – also explain any significant departures from original corrective action plan.

When the auditee believes the audit finding is no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule (justifications listed in circular).

12

Federal Government Responsibilities – OIA as cognizant agency for audits

Included under OMB Circular A-133, Subpart D, sec 400:

Provide technical audit advice and liaison to auditees and auditors.

Consider auditee requests for extensions to the report submission due date of within nine months of the end of the fiscal year under audit.

Obtain or conduct quality control reviews of selected audits made by non-Federal Auditors, and provide the results, when appropriate, to other interested organizations.

Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any shared issues of concern (e.g., noncompliance with Federal regulations, irregularities and illegal acts).

Coordinate / issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

13

OIA Federal / Territory June 2007 Conference

Management Decisions as identified under OMB Circular A-133, sec .405:

- Shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action.

- Prior to issuing the management decision, the Federal agency may request additional information or documentation from the auditee.

- If the auditee has not completed corrective action, a timetable for follow-up should be given.

- Time requirements: Federal agency shall make the determination within 6 months of receipt of the audit report.

Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

14

Federal Government Coordination

Management Decisions – whether corrective actions are sufficient to resolve the finding (findings determined on an individual basis).

Additional actions that may be required to consider the finding resolved
– local government should review and consider / appeal if justified.

Possible adjustments to questioned costs

Consequences for not taking timely action to fully resolve the finding:

- Withholding funds

- Suspension of the program(s)

- Ineligible for future program(s)

KEYS: COMMUNICATION WITH YOUR FEDERAL PROGRAM COUNTERPARTS
AND GOOD FAITH EFFORTS BY LOCAL AND FEDERAL GOVERNMENTS

15

COMMUNICATION

Document all communication – letter, email, memo to follow-up on phone conversations

Request Federal counterparts to do the same – follow up with written instructions/ recommendations

Ask Federal counterpart to cite Federal criteria – statute, CFR, OMB, Agency Policy

Have local written standard operating procedures (internal controls) and periodically test, evaluate and amend as necessary.

Ask for technical advice (and program funding if substantial) whenever applicable to improving the administration of Federal grant programs.

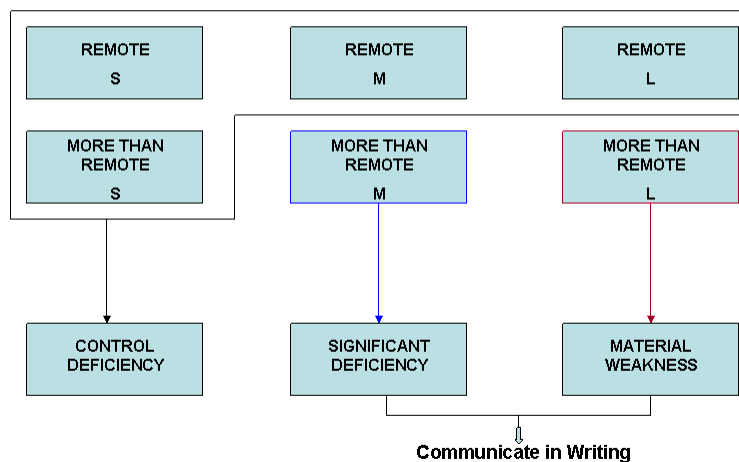
16

**Appendix N Preparing for SAS-112 and GASB Standard Changes
Slides (Mr. Frank Crawford, CPA)**

Preparing for SAS 112
And GASB Standards

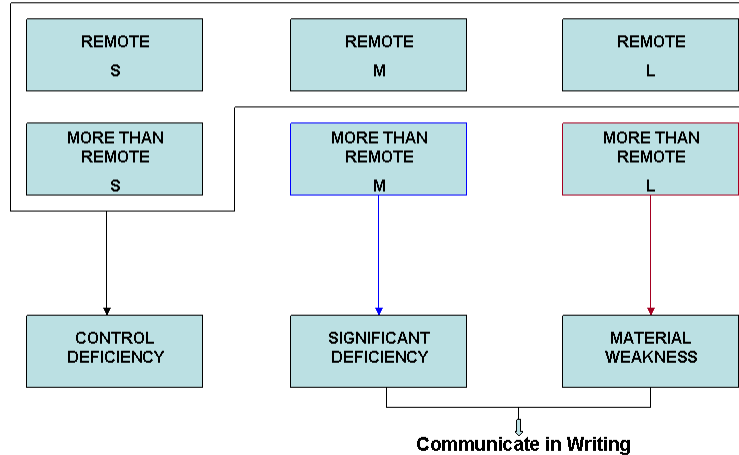
1

Pocket Guide to SAS 112 for Financial Statements:
What is the **Likelihood** of a potential misstatement, and what
is the **Magnitude** of the potential misstatement?



2

Pocket Guide to SAS 112 for Single Audit (A-133):
What is the **Likelihood** of potential noncompliance with a type of compliance requirement of a federal program, and what is the **Magnitude** of the potential noncompliance?



3

Major points of SAS 112

- The financial statement auditor cannot be part of the auditee's internal control
- What the financial statement auditor does on behalf of or for the auditee (drafting financial statements and notes, calculating depreciation, etc...) is not considered a substitute for management's internal control, and doesn't count in the auditor's evaluation of the severity of the internal control deficiency
- Prudent official test could overrule the financial statement auditor's judgment about the severity of a control deficiency or significant deficiency

4

GASB Update

- **New accounting principles applicable to the September 30, 2007 fiscal year:**
 - GASB 43 (reporting OPEB plans)
 - GASB 50 (new pension note disclosures)
- **Others to be concerned about**
 - GASB 45 (employer reporting of OPEB expense)

Appendix O Planning for a Community of Practice in Procurement Session Notes

Participants

- Anita Cruz, Acting Assistant Chief Procurement Officer
- Lynn Millin, Commissioner, Department of Property and Procurement

Session Notes

- Need to attend IGFOA conference
- Need special sessions just on procurement
- Need training on procurement issues
- Want to share procurement problems, solutions and best practices

Agreements

- Do not want formal organizational structure like IGFOA (officers, by-laws, etc.)
- Each member will take a turn at serving as the coordinator for the group
- Coordinator's role is to serve as communication link between OIA, PITI-VITI and the group's members

Recommended topic for next IGFOA

- 'Best value' procurements vs. lowest cost procurements

Commitments

- Guam will serve as the first coordinator
- Members will exchange procurement-related findings from their audits and how they were resolved
- Members will exchange information on the current bid evaluation process, what the problems with the process are, and ideas on how the process can be improved
- The Virgin Islands will send a copy of its revised procurement code to all members as soon as they can legally

Appendix P David Cohen's IGFOA-APIPA Keynote Address

[Acknowledgements.]

Good morning. When I spoke before the Island Government Finance Officers' Association on Tuesday, I noted that Priority 1 for the Department of the Interior's Office of Insular Affairs is promoting private sector economic development in the islands, and Priority 1-A is ensuring accountability for public funds—particularly the Federal financial assistance provided to the islands by my office and others. On Tuesday, I spoke about Priority 1. Today, I will speak about Priority 1-A.

We say over and over again that accountability is one of OIA's two top priorities, and we have backed up our words with deeds. For example:

- We worked with our colleagues in the Marshall Islands and the Federated States of Micronesia to negotiate a detailed, comprehensive accountability program for funds provided under the Compacts of Free Association.
- As part of our effort to implement the Compacts, we have established an office here in Honolulu dedicated to ensuring that there is accountability for Compact funds. We have also added personnel in the freely associated states for that purpose.
- We have revamped the way that we allocate Capital Improvement Project funds, instituting a competitive process that rewards good fiscal management.
- We have established the position of Accountability Policy Specialist at our headquarters in Washington, D.C.
- We have a longstanding contract with the USDA Graduate School to provide training for island officials, with an emphasis on financial management and improving compliance with the Single Audit Act.
- We have sponsored numerous conferences, workshops and training programs involving officials from the islands and our colleagues at other Federal agencies.
- We fund training for public auditors, including programs that enable personnel from the islands to work and train at various Interior Inspector General offices.
- We have revised our criteria for granting technical assistance to focus primarily on our top two priorities, including promoting accountability.
- We have greatly increased coordination with other Federal agencies to focus on improving the administration of Federal grant programs in the territories and freely associated states.
- We completely revamped OIA's Financial Assistance Manual for the first time in a decade.

Our efforts, together with the hard work of our colleagues from the islands and our Federal colleagues, have yielded positive results. When I took office in 2002, not a single one of the 11 nations, states and territories that we serve was submitting timely or clean Single Audits. Today, the record on timeliness is almost exactly the opposite: only one of our 11 jurisdictions is not current with its Single Audits. In addition, Palau's Single Audits have

been timely and clean for the past three years, Pohnpei's have been timely and clean for the past two years, and Kosrae became the newest member of the "Timely and Clean Club" this past year. Pohnpei is in a club of its own, having completed Single Audits for the past two years that were timely, clean and with no questioned costs. Pohnpei will soon be the rule and not the exception, and just as we all worked together to turn the situation around with regard to timeliness of audits, we will do the same with regard to cleanliness.

Although we very much value our positive relationships with our colleagues in the islands, we have taken tough action when tough action was called for. We have been forced to withhold grant assistance on a number of occasions. We hate to do that, because our grants fund important programs in health, education and other crucial areas. We recognize, however, that it is better to withhold funds and preserve them for future use than to release funds into an insecure environment, risking that they will never be properly used to address the needs of the people.

We have excellent working relationships with the governments of almost all of our island communities. This enables us to work through some very difficult issues. A while back, we made the very difficult decision to put American Samoa on high risk status. We imposed a very high bar to have that status lifted: Two consecutive timely and clean Single Audits, two consecutive balanced budgets, and sufficient progress on American Samoa's fiscal reform plan. The plan was adopted pursuant to a Memorandum of Agreement for fiscal reform that I signed with the late Governor Tauese Sunia. Governor Togiola Tulafono has embraced these conditions as a challenge and an opportunity for his government to greatly improve its ability to serve the people of American Samoa. He wants American Samoa to meet those conditions and in so doing become a model for fiscal management in the islands. For our part, we have responded with substantial technical assistance to help American Samoa develop the tools and skills necessary to effectively manage its government finances.

In Kosrae, we have supported a process, involving the new government of Kosrae, the new government of the Federated States of Micronesia and the USDA Graduate School, to address an urgent fiscal crisis. With financial assistance from our office and the FSM National Government, Governor Robert Weilbacher, his team and the Kosrae legislature have taken painful and courageous steps to restore that state to fiscal health.

We are working with FSM President Manny Mori and Governor Wesley Simina to support a similar fiscal recovery plan that is being developed for Chuuk. We had previously worked with the Chuuk State Government and the FSM National Government to establish the Chuuk Financial Control Commission to review and certify all transactions involving Compact funds. OIA has placed a full time accountant in Chuuk to ensure compliance.

All of us working together have made significant progress to improve accountability and fiscal management in the islands. We have a tremendous way to go, however, before the overall performance of the islands in fiscal management could be called acceptable.

I am proud of the progress that we have made together to improve accountability because we have done so in the face of daunting challenges. Each of our insular areas has small populations and educational systems that range from significantly below to very far below mainland standards. The best and brightest often have to leave the islands to find decent job opportunities. As a result of all of these factors, each of the insular areas has a severe

shortage of the type of educated talent that is necessary to ensure good fiscal management. As you can tell by looking around this room, there are many educated and talented people in the islands. There just are not yet enough of them.

In the islands, talent pool shortages cannot be solved by attracting people over from the next town or the next county. The islands have to shore up deficiencies in critical skill areas by enticing people to travel thousands of miles from home. The islands typically do not have the resources to provide a sufficient financial incentive to entice talented people to do this.

Almost all of the insular areas are made up of multiple islands, in some cases in the hundreds or thousands. This creates the additional challenge of providing essential government services to people on several islands, some of them remote. It requires duplication and makes it harder to achieve economies of scale. All of this further drains resources that are needed to attract good talent.

I do not offer these observations as excuses. However, we cannot do our jobs effectively if we do not have a proper understanding of the challenges that we face.

Are some of the islands' fiscal management problems caused by corruption? Of course, but there is corruption all over the world, including on the U.S. mainland. The corruption that exists in the islands only makes it harder for the islands to address the challenges that I have just described.

For all of these reasons, it has taken a great deal of work by all of us to achieve the accountability gains that we have achieved in recent years, and it will take a tremendous amount of additional work to raise ourselves up collectively to an acceptable level. We are committed to doing that work.

One thing is clear: Our efforts cannot succeed unless each of our island communities has a strong, active, independent, conscientious, properly staffed and properly funded public auditor's office. The management of public funds is a complicated business, and regular, impartial review of our work is essential to ensure that good value is received for the people's money.

OIA has taken steps to encourage each of the island governments to strengthen their public auditor's offices. For example, we rate each of your public auditor's offices and use that in our determination of the amount of grant funding that various jurisdictions will receive.

To be frank, however, I am not satisfied. None of us should be satisfied. We still have jurisdictions that have not had a qualified public auditor in place for an unacceptably long period of time. We still have public auditor's offices that do not have the staff or budget to do an effective job. We still have public auditor's offices that are too vulnerable to political retaliation.

Protecting the auditors is always a challenge. The problem is that auditors routinely have to be critical of those who have control over their budgets, personnel decisions and other important matters. And, speaking for the finance officers' side of the room, there is not one of us, myself included, that has not been ticked off from time to time by the work of an auditor. The problem is that each of us has a tendency to believe that we are perfect, and that

anyone with the gall to suggest otherwise obviously does not know what they are talking about. Or perhaps they are criticizing us out of irrational hatred or jealousy. Why would they be jealous of us? Because, as noted earlier, we are perfect. Most of us, however, are able to take a deep breath and get beyond those sentiments. Once we do so, it becomes easier to appreciate the way in which the auditors keep us on our toes and help us to do a better job of serving the people. And just as we are not really perfect, auditors are not perfect either. However, their imperfect attempts to do their job are essential to our ability to improve in our imperfect attempts to do our job.


Earlier, we notified each of your governments that the failure to have a public auditor's office meeting minimal standards would eventually result in a loss of eligibility for OIA technical assistance funds. Today, I would like to start a process where we all work together to flesh out that concept. I would like all of us—finance offices, public auditor's offices, the USDA Graduate School, Interior's Inspector General's Office, OIA—to work together to craft clear, objective and reasonable standards that must be met in order to ensure continued eligibility for technical assistance funds. The objective will be to ensure that public auditor's offices are protected in their independence and are properly funded and properly staffed with qualified people, starting from the very top. We will work together to establish reasonable time frames and reasonable procedures. We have no desire to cut off technical assistance funds simply because a public auditor's office is not perfect, or does not meet the "gold standard" in terms of budget and staffing. We simply want to ensure that public auditor's offices are not allowed to fall so far as to become irrelevant, unable to perform their role in any significant fashion. Sadly, that has occurred in at least some of our jurisdictions, and that is the problem that we must work together to address.

We are about to spend an entire day together, and hopefully I have given us something to talk about. To the extent that our agenda is too crowded to make significant progress on this topic today, let us resolve to carry on this conversation by email and other means as we work toward our objective.

The process that I have proposed today will be an important step in our effort to improve accountability for public funds in the islands. We should be proud of the progress that we have made to date, and continue to be committed to making progress in the future. We will definitely continue to make progress as long as we remember why we are here: To make life better for the people of the islands.

Thank you.


Appendix Q Slides for Strategic Planning in OIA and Progress on Developing Performance Measures (Dr. Patricia Keehley and Ms. Tiffany Taylor)



Performance Measurement Project

draft

Tiffany Taylor, OIA
Pat Keehley, Graduate School, USDA



12/18/2007 1

Background

- Government Performance Results Act of 1993 (GPRA).
- Department of Interior's (DOI) Strategic Plan.
- Office of Insular Affairs (OIA) contribution to the DOI plan.
- Meeting the GPRA and DOI requirements.

12/18/2007 2

Performance Measurement Project Goals – Phase I

1. Develop an integrated measurement model for the programs and activities of the Office of Insular Affairs.
2. Link the budget and expenditures to OIA's programs, activities and measures.
3. Provide information to better manage program and activities.

12/18/2007

3

Good Measures

Criteria for Good **Output** Measures

- Represents work completed by OIA staff
- Has a logical or empirical link to outcome measures
- Collectable
- Useful
- Valid
- Reliable

12/18/2007

Criteria for Good **Outcome** Measures

- Represents the desired long term result or outcome of the work completed by OIA staff
- Has a logical or empirical link to output measures
- Collectable
- Useful
- Valid
- Reliable

4

DOI/OIA Strategic Goal

Increase economic self-sufficiency of insular areas.

Measure: Ratio of Federal revenue to total revenues in insular areas

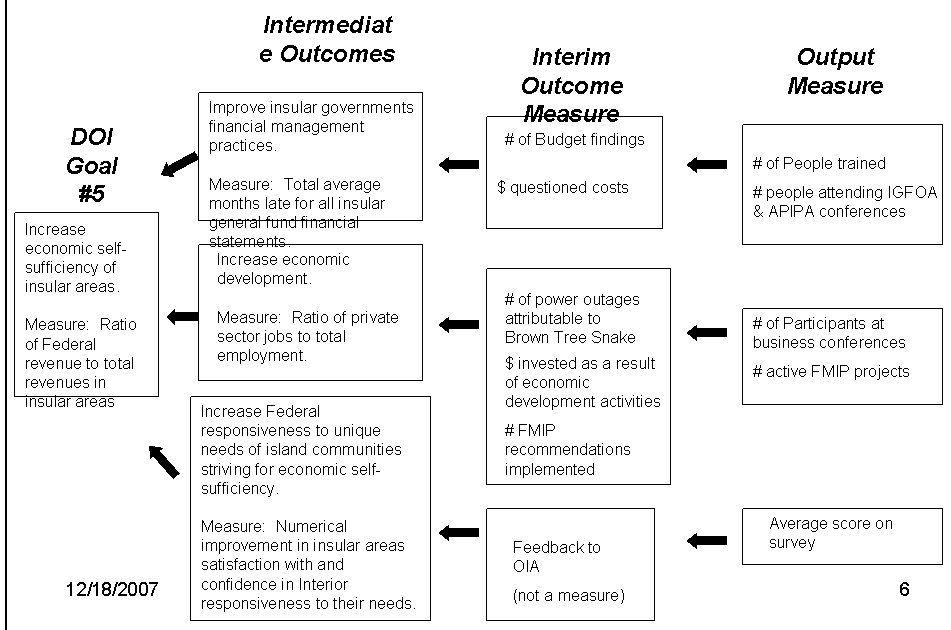
Intermediate Outcomes:

1. **Improve insular governments financial management practices. Measure: Total average months late for all insular general fund financial statements.**
2. **Increase economic development. Measure: Ratio of private sector jobs to total employment.**
3. **Increase Federal responsiveness to unique needs of island communities striving for economic self-sufficiency. Measure: Numerical improvement in insular areas satisfaction with and confidence in Interior responsiveness to their needs.**

12/18/2007

5

Performance Measurement Project Goals



Phase II Steps

1. Institutionalize the performance measurement and reporting process.
2. Use the performance measurement model to implement an activity-based-cost system.
3. Evaluate the grants management process for possible gains in efficiency and consistency in awarding grants.
4. Research, test, and institutionalize the index.
5. Share with the insular areas how the performance measures will be used to monitor their performance and award grants.
6. Solicit comments and feedback on OIA's performance measures.
7. Engage the insular areas in regularly collecting and reporting performance data.

12/18/2007

7

LET'S TALK

- Understand requirements facing OIA?
- Appropriateness of OIA's goals?
- Clarify roles and responsibilities of insular areas?
- What support is needed?
- Ready to align measures to goals in some agencies?
- Collect and report measures such as GDP?

12/18/2007

8

Appendix R Chart of OIA Performance Measures

	Inputs (budget allocated)	Outputs	Interim Outcome Measure	Intermediate Outcomes (DOI Plan)	End Outcome Goal #5
OIA - Adm	\$ Liaison & Constituent services	# constituent contacts # press releases and media contacts	Average score and feedback on customer surveys for all major OIA programs	Increase economic development	
Water & Wastewater	\$	# grant applications received and reviewed # grants awarded # grant drawdowns # of grants monitored # financial status reports reviewed # grant amendments processed # grants closed % grants closed within 12 months	# people with access to potable water % landfills that are EPA compliant % population with waste water treatment	Measure: ratio of private sector jobs to total employment	Increase economic self sufficiency of insular areas
Brown Tree Snake	\$	# traps # snakes caught on Guam # snakes caught in CNMI and Hawaii	# power outages attributable to BTS		Measure: ratio of federal revenue to total revenues in insular areas

	Inputs (budget allocated)	Outputs	Interim Outcome Measure	Intermediate Outcomes (DOI Plan)
Coral Reef Project	\$	hectares of reef managed # managers hired # fishing violation prosecutions # grants monitored	% coral reef regions with improved condition of shallow coral reef resources by 2015 (water quality, habitat condition, living marine resources) # of key coral reef fishery indicator species recovering % of insular areas with coordinated coral reef management programs # insular areas with 5 new or enhanced initiatives to improve management of coral reef eco systems % of Local Action Strategy projects implemented % Micronesia Challenge goals achieved by 2012	Improve insular government financial management practices Measure: average months late submitting financial statements Perfrometer: financial index
Maintenance Assistance	\$	# people trained \$ specialized equipment purchased	% of performance goals achieved	
Insular Management Controls	\$	# active FMIP implementation projects	\$ increased revenues \$ decreased costs # FMIP recommendations implemented Documented improvements in operational efficiency or effectiveness	Increase federal responsiveness to unique needs of island communities Measure: change in survey results

	Inputs (budget allocated)	Outputs	Interim Outcome Measure	Intermediate Outcomes (DOI Plan)
Technical Assistance	Economic Development	# business conferences held	Perfometer	
	\$	# participants in business conferences # people & businesses actively pursuing business opportunities in the IAs	# private sector jobs created \$ invested as a result of economic development activities	
	Grants Management	# grant applications received and reviewed # grants awarded # grant drawdowns # of grants monitored # financial status reports reviewed # grant amendments processed # grants closed	% grants closed within 15 months % grants meeting measurable deliverables	
	Capacity Building and Accountability	# attendees at IGFOA and APIPA conferences # attendees at special conferences # participants in training sessions	# unqualified audits issued on time \$ amount of questioned costs (in dollars) # audits issued on time # repeat findings # budget related findings # procurement related findings	
			Average score on 'strength of territorial audit office' criterion from the competitive criteria for CIP allocation	

	Inputs (budget allocated)	Outputs	Interim Outcome Measure	Intermediate Outcomes (DOI Plan)
American Samoa Operations	\$	% allocated to LBJ Hospital % allocated to education		
Covenant Grants	\$	# grant applications received and reviewed # grants awarded # grant drawdowns # of grants monitored # financial status reports reviewed # grant amendments processed # grants closed % grants closed within 5 years	# of K - 12 classrooms per student capita % households receiving potable water % of waste water treatment facilities that are EPA compliant % households with access to waste water treatment % of EPA compliant landfills % time with uninterrupted power % CIP completed on time & within budget Average age of school buildings	

Appendix S Slides for the PITI-VITI Strategic Goals and the PITI-VITI Year in Review presentation (John Maykoski)



Overview

- Revise and update goals, strategies and services
- Align the plan with OIA's Strategic Plan and insular government needs
- More directly tie project reporting to OIA reporting requirements
- Responsiveness to current and emerging needs

Process

- **Surveys**
 - Key insular officials
 - Consultants
- **Review of Reports**
 - Audits
 - Conferences
- **Discussions with OIA**

Some Key Issues

- **Pipelines for Succession**
 - Accountants
 - Managerial Accountants
 - Mid-level Managers
- **Effectiveness (in light of resources)**
- **Compiling Financial Statements and Follow-on Analysis**
- **Risk and Controls Assessment**

Some Key Issues

- Federal Grant Compliance
 - Performance and Impact
 - Financial Management

What Has Worked Well

- Focused Efforts - Audit Improvement Project
- FMIP Model - Flexible, Responsive, Inclusive, Demands Ownership
- Focus on Financial Management, Accounting and Budget Issues

Do More Of

- Peer Learning (like IGFOA)
- Communities of Practice
- Benchmarking – using COPs to ID goals and measure progress
- Assessments

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 to help manage Federal islands' relations by promoting appropriate Federal policies.

PITI-VITI VISION

Insular governments will use resources efficiently and effectively to promote economic growth, achieve fiscal stability, and fulfill citizens' needs.

PITI-VITI MISSION

PITI-VITI provides customized, results-oriented professional and organizational development services that enable insular governments to strengthen financial and program performance and accountability, achieve fiscal stability, and promote economic growth.

PITI-VITI STRATEGIC GOALS

1. Improve leadership and management capacity to effectively perform.
2. Improve financial management systems and practices.
3. Increase effectiveness of program results
4. Strengthen regional professional organizations and communities of practice.
5. Improve capacity and capabilities of public sector work force in critical positions and functions

Program Areas

- Accounting and Finance
- Audit
- Budget and PBB
- Procurement
- Human Resources
- Leadership and Management
- Economic Analysis and Policy

Program Services

- Customized Training
- Organizational Development and Capacity Building
- Conference Management
- Utilization of Information Technology
- Support to Communities of Practice
- Project Website

1. Improve leadership and management capacity to effectively perform.
 - Performer[®] Development
 - Strategic Planning
 - Leadership Conferences

2. Improve financial management systems and practices

- Financial Management Improvement Programs (FMIPs)
- Financial Management Information Systems Installation and Support
- Finance and Accounting Training
- Procurement training

3. Increase effectiveness of program results

- Performance-Based Budgeting and Development of Performance Measures
- Financial Management Improvement Programs (FMIPs)
- Accounting Process Consultation
- Grants Management Training
- Indirect Cost Training & Development

4. Strengthen regional professional organizations and communities of practice
 - Island Government Finance Officers' Association (IGFOA) Conferences
 - Association of Pacific Islands Public Auditors (APIPA) Conferences
 - Onsite Public Auditor Training—Professional Development and CPE credit Requirements

5. Improve capacity and capabilities of public sector work force in critical positions and functions
 - Personnel and Human Resource Consultancies and Trainings
 - Pay classification and wage structuring

Representative Recent Contributions of PITI/VITI

- Timely Issuance of FY 2006 Single Audits by 90+% of insular governments.
- Three Audits with Unqualified Opinions
- Increased Revenues of \$11M for GMHA as result of FMIP recommendations
- Classification and Compensation analysis for implementation of a performance pay system

Representative Recent Contributions of PITI/VITI

- Implemented budgetary and fiscal compression in Kosrae totaling \$1.6 million
- Statistical and Economic Reports completed for Freely Associated States for use by FAS and US in compact policy discussions
- 2,844 participants participated in over 70 classroom training and consult-training activities.

NEXT STEPS

- Incorporate discussions from this IGFOA Meeting
- Assessments
- Adapt and Incorporate Relevant Models
 - Maturation Scales
- Advance Strategic Planning
 - Output and Outcome Measures
- Reporting Model aligned to OIA Plan

**Appendix T Slides for Performer Updates: We Know Our Score, So
What Do We Do With It? (Frank Crawford, CPA)**

Performer Updates

Prepared and Presented by Frank Crawford, CPA
Crawford & Associates, P.C.
www.crawfordcpas.com
frank@crawfordcpas.com

1

Topics for today

- A brief review of what the *Performer* is (and what it is not...)
- Update the most recent *Performer* evaluations
- How governments use the *Performer* results to assist in managing or influencing the decision-making process

2

A brief review...

- The *Perfometer* measures the **financial health and success** of a government using a scale that all users (including decision makers) can understand, 0-10, with 0 = extremely poor, 5 = satisfactory, and 10 = excellent
- Uses financial ratios for the evaluation
- The evaluation is only as **reliable** as the information found in the annual audited financial statements, and most **relevant** when the information can be used in a timely manner
- Relevance and reliability are the key concepts in accountability

3

Update...

- Most of the governments that are here today are now current with the issuance of the 2006 financial statements, and therefore have a current *Perfometer* with at least four comparative years
- Let's look at the most recent *Perfometer* score for each

4

Update...

- Guam
 - 2002 = **2.04**; 2003 = **2.21**; 2004 = **2.86**;
 - 2005 = **1.70**; 2006 = **1.32**
- VI
 - 2002 = **2.58**; 2003 = **3.63**; 2004 = **4.36**
- CNMI
 - 2002 = **3.18**; 2003 = **3.11**; 2004 = **2.24**;
 - 2005 = **2.25**; 2006 = **2.44**
- American Samoa
 - 2002 = **5.07**; 2003 = **6.93**; 2004 = **6.41**;
 - 2005 = **5.57**; 2006 = **5.67**

5

Update...

- Marshall Islands
 - 2003 = **4.18**; 2004 = **4.20**; 2005 = **4.11**; 2006 = **4.40**
- Palau
 - 2003 = **4.58**; 2004 = **4.54**; 2005 = **4.66**; 2006 = **4.68**
- Pohnpei State
 - 2003 = **5.37**; 2004 = **6.74**; 2005 = **6.84**; 2006 = **6.72**
- Yap State
 - 2003 = **8.05**; 2004 = **7.83**; 2005 = **8.04**; 2006 = **7.79**

6

Update...

- Kosrae
 - 2003 = **5.04**; 2004 = **3.58**; 2005 = **3.24**; 2006 = **2.88**
- Chuuk
 - 2003 = **4.79**; 2004 = **3.37**; 2005 = **3.50**; 2006 = **3.31**
- FSM National Government
 - 2003 = **5.21**; 2004 = **6.20**; 2005 = **6.57**; 2006 = **5.11**

7

Use the *Performer* to...

- Educate the decision-makers
- Measure the impact on financial health and performance before making significant financial decisions, such as
 - Issuing debt and/or raising taxes
 - What do our tax and debt burdens per capita look like?
 - Would our citizens be willing to pay more taxes?
 - Would our creditors be willing to allow us to issue more debt?
 - Can we increase fees of our charges for services activities and increase our revenue dispersion control and not be so reliant on revenues not under our direct control?
 - How should we address long-term pension obligations that are most-likely unfunded at the current time?
 - Pension funding bonds?
 - Changes to the plan(s)?

8

Use the *Performer* to...

- Determine the need for, or amount of cash to keep aside for operational purposes
 - General Fund fund balance
 - Investments, short or long-term
- Measuring future cash flows that might be necessary for capital asset replacement or needed for operations if federal funding diminishes

9

Lastly, use the *Performer* to...

- Do the obvious.....
 - Track your financial health and performance over the years
 - Review the A.F.T.E.R analysis to track progress on the elimination of audit findings and questioned costs, timeliness of the release of the financial statements, and component unit related issues

10

Comments/Questions???

Appendix U 'What Finance Offices Can Do to Support Economic Development and Policy Reform', Keynote Address by Kevin O'Keefe

Thank you all for inviting me to speak.

Firstly I am going to talk about the key role that the finance officials, inclusive of the public audit officials, play in supporting economic reform. Then I'm going to talk about the four steps of the process of policy reform. Again, not the particulars or the specifics, but the process. And then I'm going to give just a few lessons from the trenches: some of those more difficult crisis oriented reform programs that I've been involved in and that have been--unfortunately all too common throughout the islands--where periods of fiscal imbalance lead to significant often crisis oriented reform.

So starting with the piece about being team players. Of course, you tend to know this, but within the executive, the finance officials are the ones that have a lot of influence. They influence the budget, they influence the flow of funds, they have a lot of influence in the process, and, therefore, they tend to be the front line in dealing with the legislatures as well. And in some of the entities they end up being the front line in inter-governmental, dealing with other levels of government.

Finance individuals tend to be also key in policy deliberations, with the technical line agencies involved often times on the expert level, with finance often having a seat at the table. And here I want to talk about the difference between controlling and influence. We can take it as a given that finance officials cannot control as much as they would like to control. We have a lot of influence though. You can influence, you can put issues on the table, and you can deal with finance matters. And that means you have to keep at it. I'm going to talk about that in a little bit in policy limitation. So in policy deliberation you need to keep your seat at the table. And finance officials can be either enablers or spoilers, and neither one of those is necessarily good or necessarily bad. Finance officials can be enablers of good policy, they can also be enablers of the continuation or the persistence of poor policies. On the other hand, finance officials can be *spoilers* of good policies, perhaps by looking without taking a longer term vision, and similarly finance officials can sometimes come to the rescue. Sometimes they're the last line of defense in avoiding the implementation of bad policy.

When it comes down to it, what I'm going to recommend is that finance officials be not just *involved* in policy reform, not just *involved* in economic reform, but committed to it. And since you're all there at your plates, I'm going to pretend that this is brunch and not lunch.

So focus on the difference between committed and involved. Think about what some of you may have had for breakfast this morning. Think of the classic American breakfast, bacon and eggs. The chicken was *involved* in that breakfast, the pig was *committed*.

Okay. What I want finance officials to think about is being always at the table, being committed, and being the bacon part of the brunch. It's important because a lot of times finance officials are back there in the trenches thinking about how to make that payroll, how to pay those vendors, how to do the multitude of reports that are almost past their deadlines, and they sometimes excuse themselves, by default in some cases, or just by having that

tyranny of the urgency of matters, to keep them out of the policy debate. So I would urge you to be very much committed to policy reform.

Now in a lot of cases financial officials are the lead contact point for the donor agencies, international, federal. You're the lead contact point for making sure grants are sustained, purely on a reporting and compliance basis. It gives you a special role in the process of external assistance and I would argue that you need to exert a sense of coherence, you need to have your policy voice in that process and you should never let, and this happens all too often, you should never let free money or grant money or concessional loans drive the process in your own governments. You always have to keep the policy coherence and the objectives of the government foremost.

Now, once you've decided that your partners, with assistance in the form of grants or concessional loans, could actually contribute to that, then you become the enablers, then you become facilitators to make sure that flow of funds can get to where it needs to get. But don't let line agencies, don't let yourselves get caught up in that process of, 'well we've got to do it because it's grant money, we've got to do it because it's free money.' You got to do it when it makes sense, when it fits into the coherent policy framework.

Lastly, in terms of the role of finance officials, and public audit institutions in particular, not just your officials of the institutions, the finance activity and the outcome that you achieve through measures such as the Performer, or ratings from credit agencies, the outcomes that you achieve really are the most visible and quite possibly the most important signals of the quality of governance in your governments. There's nothing that's more visible, that's a given, and there can be very little that could be more important than saying I'm working for an entity, for a government, for a nation, that is actually is improving its quality of governance and is proud of that face that you put on from a financial standpoint. Here we're talking about accountability and we're talking about fiscal responsibility.

Let me talk about the four steps in the reform process. You all probably know them: policy formulation, policy review, policy advocacy—and I'm going to talk quite a bit more about that—and then finally policy implementation, which I'm going to focus the most about. Now in terms of policy formulation, policy design, this often times happens in a vacuum. Often times finance officials, and certainly public audit individuals, tend to see this happening often in seminars, meetings, and planning functions that are happening in the line agencies. I'm going try to add a couple of things to your to do list. So this is one of the things that I'd like to see you put on your to do list, and that is that I would like to see you put a dollar figure or a finance aspect to put an envelope around all policy formulation exercises. Whether an education planning exercise or health, or any of the other line agencies. Through all my years working in developing countries, I don't know how many times I've come in after a big seminar, or a sector summit, or even an economic summit, and found out that there really was no financial constraint that was taken into account when you have all those great minds there ready to act. So if you've got an education meeting, for example, thinking about how they're going to improve student outcomes, how they're going to improve or reduce the ratio of students to teachers, or whatever aspect that they want to do, the challenge for them has to be either set or put forward by the finance officials, they have to do that within some kind of financing constraint. They have to taken into account how they're going to finance or what share of incremental tax revenue they're going to call on by doing that exercise.

If they don't have that financial envelope that you task yourselves to put around it, it's really an unconstrained brainstorming exercise. It's destined for the shelves to have them blow the dust off the next time they want it. Because they always come up with good ideas but they're very frequently unfinancable, unsupportable, when the next budget round comes around. And, of course, finance officials tend to know where these things are happening because there are TAs being processed, and there are requests for payment for conference facilities and all that. So you really do have, again, I know this is something that I'm adding to your to do list which is very long, but I really think through the policy formulation process there should always be a financing constraint.

Similarly with policy review, I hope you're at the table when those policies that are being put forward to the decision makers and reviewed, but again, it's all about checking it for the impact on the bottom line, on the financial sustainability of whatever entities you're working with. I've seen many instances where the timing of reform measures were not taken into account. Sometimes the reform measures can even be revenue reform measures, when money is being spent, or money is being budgeted to be spent, before the revenues will ever be realized. And also think about opportunity costs. I said I wasn't going to talk much about economics, but this is one of those things that we always talk about. What could they be doing differently if they didn't do what they were doing? What is the opportunity cost in terms of human resources and financial resources? That should be used as the guideline.

On the part of the process called policy advocacy, I'm going to talk a little bit about how I see you being effective in your roles over time. And some of these are going to sound real simple, but the most important thing is to be at the table, to be involved in the policy advocacy process. Policy advocacy here could be with the legislature, and again, could be putting up a new initiative forward, or it could have something to do with expenditures or revenues.

First of all, as finance officials, I recommend that you play everything totally straight. There will always be politics on the periphery, there will always be politics involved, but play the numbers straight, put forward accurate and comprehensive numbers. Get those numbers out timely, hopefully during the policy formulation and policy review process, but certainly during the policy advocacy process, so that those decision makers are basing their decisions on not only accurate, but timely numbers.

Build credibility with the decision makers. This sometimes puts you at odds with your own administrations. I've seen it in many instances where a finance official is asked to support something that an administration is putting forward and when they go for hearings before the legislature, they end up losing their credibility if they fudge the numbers. So you have to stick with the numbers. I would argue that if you can't support the policy, beg the administrator, or if there's a governor whoever, to not let you be forced to go in and support a program that cannot be supported by the numbers. Or simply provide the numbers without comment.

The best way to fight bad ideas is with good data and remember you're not alone. I think that was one of the messages from former representative Case. You are not alone in the process. You don't have to carry the day on every aspect of the policy advocacy process. You can bring in third parties, you can bring in interested parties, you can bring in people to support the case—in particular to keep bad policies from being implemented. One of the ways to do

that, and then one of the ways to build a good policy advocacy track record, is to not only provide the data to the decision makers, but to provide it publicly, more widely, and allow some of those other interested groups, allow other parties, to come in. Provide the data to the public, private sector, non-governmental organizations, so they will come and weigh. It's not about *winning* the policy debate, it's about the integrity in the policy debate.

And finally because all too often, I know during my period as a policy advisor—I probably had a batting average that wouldn't get me into the baseball Hall of Fame, I probably had less than a 300 batting average—you're constantly going to be recommending things that are not necessarily going to be done in that time frame. You're going to lose a lot of those policy advocacy debates. So the message is, as Colin Powell said, get mad, and then get over it, and get back on the process of getting ready to do it the next time, while maintaining your credibility. You got to get people through the hard times, you got to get them to understand the policies you're advocating, but you can't beat a dead horse. Once the debate is over, get ready for the next one.

The fourth step in the policy reform process is policy implementation. I guess I have one message here. It may sound funny coming from a policy advisor who always wants to get things done in a timely fashion, but that is when it comes to policy limitation, you should hasten slowly. There are lots of examples of policy reforms that were introduced, implemented, and then very quickly rejected. I've heard some of them talked about already, such as the gross revenue tax. I know the Marshall Islands had a value-added tax that was ready to go and then thrown out. In most of those instances where you see policy implementation getting out ahead of either public awareness, public acceptance, or, in most cases, legislative willingness, you end up with one step forward and two steps back and that's why I say hasten slowly. Don't try to get too many things done too fast and never go forward with a policy reform unless you've clearly got the momentum going forward. That doesn't mean you have to be afraid to act, but you've got to do it in a slow and deliberate fashion. Once those reforms get rejected, as sensible as they may have been, as helpful as they may have been to improving long-term performance, it will be very difficult to reintroduce them. Human nature says, when you try and go back with that reform, all you're gonna get from the people that didn't want it in the first place is we don't want it. And all you're gonna get from the people who would otherwise be champions is that "ah, we tried that". So pace them slowly when it comes to policy implementation.

On the tax side I talked a little bit about introducing taxes. On the revenue side we're going to just talk briefly about an example, with the minister's approval, getting into the process of imaginative revenue forecasting. In the case of Palau back in 2003, they had a legislature that wanted to increase the revenue ceiling. They wanted to spend more money, they wanted to budget more money, so they looked at the sin taxes and they said ok, 'what's a way to increase revenues?' You would think that they would look at raising the sin taxes, right? Sin taxes, beer, liquor, cigarettes, they fall in that category that economists call inelastic. There's an inelastic demand for those items. People will pay quite a bit of money to smoke and drink, and if you raise the price they'll still smoke and drink almost as much, up to a certain limit. So typically if you wanted to raise revenues and you're thinking about sin taxes, and there's an economist involved in the process, you're looking at *raising* rates. The legislature did it the other way. They said let's *lower* the rates on alcohol, cigarettes. Let's *lower* our sin taxes. Presumably they were committing more sin, thinking that revenues would actually go up.

Not that they were doing this on purpose but the intuition behind their numbers was that, suddenly, if they had the sin taxes, the sins would go up and more than double. And, in fact, that didn't happen, of course. I mean, every once in a while economists get it right. As hard as they may have tried, they didn't drink that much more beer, they didn't smoke that much more cigarettes. And, of course, there's a huge revenue shortfall. And to a certain extent, I can assure you, that absent that short period of time, less than a year, when that was in place, they put themselves in a little bit, a deep enough hole to where they're still suffering in on their Performer measures. Absent that, their measures would almost certainly be above the satisfactory level. That was a big policy mistake and I don't know exactly how it happened, I wasn't a party to it. But I've seen those things happen when I was a party to it. Sometimes the logic of legislatures use unassailable.

Let me talk a little bit about implementing policy reform on the payment side. You all know, and David Cohen did a great job, actually we sort of lost on the economic profession, but his talk was more economic in nature than is mine. So I'm thinking about your impact on the private sector. And you really impact the private sector at two windows. You impact them at the tax collection window and you impact them at the payments window. In both cases, it's not always a happy experience. On the payment side, again, hasten slowly. I would argue that most of the entities that are having trouble paying their vendors are aging their payments beyond 60 days, 90 days, 7 years. They're not doing it out of a lack of fairness, they're not doing it out of a lack of understanding that it has a negative impact, they're doing it out of having gotten themselves in that situation. And typically the finance officials who may have been at the table, but they certainly weren't the most guilty parties.

But when you get to the point where through your incredibly brilliant policy advocacies, that you actually get the fiscal room, you actually get that 10 percent of annual revenues as your little rainy day fund, and you actually whittle down your aging of payments below the 30 day mark, that's good enough. In fact, that's plenty good. What you really want to do is have a very consistent policy. If you want to age everything in 30 days, the private sector would bow down and do whatever it took to lock that in. Even if you wanted to set the bar a little bit higher. The point is you want to get to the point where it's very consistent, to where the private sector knows how much liquidity they need to be in transactions with the government rather than having that horrible uncertainty and also have them having to go and borrow to finance their inventory when they've got outstanding payments coming from the government. So if the human resource and if the paper processing process require you to go longer, make sure the paper processing process can be done consistently.

If the delays are all about cash flow, as typically they are rather than about the ability to process the paperwork, then of course you need to fall back on that policy advocacy to try to get that fiscal space available to you. And another thing that I'd like to put on your to do list, and this is related to, but it's a more internal measure than what we'll see in the Performer. And what I'd like the other finance office to at least try to do, whether technical assistance is required or not, I'm not sure, is to actually report, to measure and report the average aging of all their payments over every month, every quarter, and every fiscal year. So that it's not a Performer because a Performer is based on fully-audited financial statements. This is something that you're doing on a rolling basis. But whoever is issuing those checks, when that payment is being processed, that should go into one of several categories. You can either do it on number of days from papers being presented by the vendor, or you can just do it in categories: 30 days, 60 days, 90 days, depending on the entity. Actually use that as an

internal measure, and I would even go so far as to say, share that in your cabinet meetings. 'Sorry folks, we just went over the 90 day average, we're gonna freeze allotments for the next quarter until we get it back down.' Or something literally that serious. Because it's not measured because it's only this kind of complaint from the private sector, it doesn't actually enter into the what you actually do on a daily basis or what does your administration whose dictating flow of payments due and I would argue or I would hope that if any of the entities are able to measure that and report it you will raise the heat on the decision makers before they go putting you back in the hot water yourselves. So that's another thing for the to do list. In fact, if you could measure anything that would be the best signal of your ability to support private sector development: timely payments.

Private sector might not like it but the converse or the obvious parallel to that is timely collection. But again, even there, lots of effort, in fact, it's one of the few areas where finance officers can actually exert more effort and get a positive result and it's all too often that that effort doesn't get exerted on the tax collection side. Because no matter how much effort you exert on the payment side, if you don't have the cash, you're going to be aging somebody's payments.

Lessons from the trenches. The first and biggest lesson would be to first do no harm. As the finance office, all too often, and I believe Ed Case mentioned this, it's very easy to hide problems. It's very easy to get caught in the process of 'we'll figure that out later, we'll borrow from this special account or we'll move some money around between funds or even grants or even Compact funds to the point where eventually we'll sort it all out, we'll pay it all back.' It never happens. I mean it's just really a triumph of hope over experience. Every finance officer that has ever gotten into that process of borrowing from Peter to pay Paul: Paul's happy, but Peter comes calling. It just never works. If you ever get in that process where you're attempting to solve your short term problems by going to those other places, it just doesn't work. And the first thing you need to do is you need to blow the whistle, send out the signals, and, I would probably add to the seven deadly sins something called Stein's Law.

Herb Stein is a great economist, he was Presidential Council of Economic Advisors Chairman, his son is kind of famous, his son is Ben Stein, involved in investment, he's got a TV show talking about investment. But his father said, "if something cannot go on forever, it won't". Sometimes it's also quoted cause that "unsustainable trends will not be sustained". This is really what you're getting at when you're starting to borrow. When you have a structural deficit, not enough money coming in, too much money going out. As soon as you start playing those borrowing games, it just leads to worse problems. It deepens the underlying fund deficit problem, particularly if there's borrowing involved, and the costs just continue to mount. And if they're hidden, not only is it a threat to your own jobs if they're hidden by you, not even in a legal way, but if they're hidden just without bringing it to the policy table, there's a tremendous loss of transparency. Sometimes it does get into the realm of legal infractions, and that's of course where the public auditors come in and usually find those things. So it's always a bad thing sometimes it's a worse thing because there may be legal infractions involved.

But even if a downward spiral is avoided, even if somehow that trend is reversed, as it was in Hawaii where suddenly the boom days reappeared, even if that downward spiral is avoided, tremendous damage has been done to transparency, to basic credibility. And if it was done

because of political pressures—even to meet a payroll—ultimately the next time you get in that situation the political pressures just get stronger. It actually just compounds the problem. So that if the political pressure is successful in getting that payroll out from some supposedly untouchable source, that's actually worse, because even if you're able to repay that, because it wasn't as much of a structural deficit—or maybe it was cyclical—the next time when it is a structural deficit that political pressure will be twice as powerful. And the loss of credibility and collateral damage that occurs, and in some cases the loss of partnership or the loss of reliability with your donor partners, ends up putting you in a worse situation in the future. And I know these are hard things to avoid, but that's the time when the finance official first gets to that point where they're thinking about doing it, they just need to raise the flag, and say we can't do it, which other things do we want to cut so it doesn't get worse?

Of course, aging of vendor debt has lots of collateral damage, it has lots of extra double whammy effects. When you're not paying your vendors, at a minimum, the taxes owed on those invoices are going to be uncollected. But more likely, the fact that you're not paying those payments is gonna cause, in many instances, vendors to withhold their actual tax payments. And then you get into a situation of is it the chicken or is it the egg. If the government pays, then they're gonna get a whole bunch of revenues coming in because the private sector will be suddenly liquid again, and those particular vendors will be able to pay their other taxes. If the government doesn't pay then their revenue stream doesn't materialize, so their next round of tax collections is badly hit. So when they don't pay, bad news. But of course they may be doing things that are illegal by not paying, but it's kind of hard for the government, you sort of lose that credibility if they are owed tremendous amounts of money.

Also in policy implementation I recommend that you look very much at the numbers, look at long term trends, and use some snapshot measures. I think Frank has done a tremendous job with the Performeters. I would agree with him that the relevance of those measures of cross entities is not very much, but the relevance within each entity is extremely small. And I know from having visited Kosrae in May and Chuuk in September, I know exactly where their Performeter numbers were in '07, and I know they were that much worse, but that trend in those two entities was perfectly visible—with some time lag unfortunately—but was perfectly visible using those big measures, which means they're very good measures for each entity to track.

And I agree that they need to be used to educate decision makers to track trends and to make decisions at the margin. I actually recommend that you become one with those measurements, that you live with those measures, that you be those measurements, as finance officials. Literally, you guys know, including the public auditors, where those numbers are going. You don't have to wait until nine months after the closing of the financial year when the audits are finalized, or some several months later when the Performeter numbers are number crunched. You could even just pick one or two of those numbers. Remember to add, though, number of days of aging of payments. And there are other ratios that you can look at. I think probably most of the entities have an issue where personnel as a share of total operations is a good signal, and something that you'd like to see go down over time, and it's pretty decent to track.

An idea for the auditors. I think it would be fabulous if the auditors added to their real time job not just their ex-post audit job, but to their real time job. I think it would be fabulous if

you wrote into your job an audit of the revenue forecasting performance of your entities. Literally go in there and audit it, going to the back years. This is not budget versus actual on a department-by-department basis cause we see that, budget versus actual, budget versus actual. This is actually just looking at the revenue forecast be it the executive or the legislature. In some cases it's called the revenue ceiling; just tracking that on past performance and building your own little model so that you too can blow the whistle when the revenue forecast is nonsensical, unsupported. And I think that's something in which the public audit function could actually do the finance officers a favor. The finance officers are tasked with trying to collect that which is forecasted. It's a pretty daunting task if that which is forecasted is unachievable. There may be other points where the audit offices can come in not through their financial audit, but through their performance audit. And here, really on the revenue forecasting check that I'm proposing, that's not a financial audit, that's a performance audit. That is, 'is that function of government, be it executive or legislative, being done competently, is there improvement, are they getting better at it, and is it being done in a coherent manner. Similarly for tax collections, for collections of arrears, possibly even whether the collections actually made sense. So there are other points, and also statistics. I know a lot of money is spent on statistic offices and not a lot of statistics are evaluated so a performance audit of that function—timeliness—might also be useful.

Finally, in terms of policy implementation, try not to make it complicated. This was also said earlier, the solutions to most of the problems you face are not particularly complicated. In fact, often times they're particularly simple. And it's probably not an accident that the numbers on the Performer for Yap are that much higher. They don't spend a lot of time trying to figure out how much more they can forecast for revenue. They just figure, okay, we get a dollar, we make sure we spend a dollar—or less. That, again, is easy to say, but hard to do. Once that pattern of decision making is in place, it actually gets a lot easier. But to get to that pattern of decision making it is tremendously difficult. But do try not to make it complicated and do fall on your allies and third parties. The policy reform process, sadly, often requires external agents to come in to help nudge things along. To the extent that the credibility of the finance officers is fully in place, and to the extent that you follow those rules for policy advocacy, over time that should become less and less necessary. But given the nature of legislatures, given the nature of the kinds of economic policy and fiscal policy reforms we're talking about, sometimes it does take that extra effort of someone outside to come in and add a little extra weight. But not only can they add extra weight, remember also they can add extra resources. And this was the case particularly for Kosrae, hopefully it will be the case for Chuuk in their recent fiscal adjustments.

These are massive fiscal adjustments they're undertaking, horribly painful for the community, based on lots of bad decisions that mounted over time. But to come in and fix it, fortunately, the donor partners, in particular, the Department of the Interior and the U.S. Government at large, are willing to come in there and help finance the transition from bad policy regime to good policy regime and to mitigate, reducing some way the negative effects of biting the bullet and getting on track. So it is possible to get reform done using some of these outside entities, but also to make that reform easier to do, to build in some carrots rather than just sticks, to build in some extra rewards to smooth out the painful, negative impacts including reforms.

Jeffrey Sacks is a very well known economist, he's now in the realm of the most active economist working in developing countries and he's gotten, what I would call, religion. He

is now focusing on AIDS, and poverty, and global issues. When he became famous when he was called the economic “shock doctor”. He went around to places like Russia and the former Russian entities and several Latin American countries, and he was famous basically for being the architect of shock therapy: “do everything at once, you got bad policies, fix everything at once, take all the pain, get through it and then go on from there.”

Now imagine how painful this was, you think it’s bad when I get off the plan in a small island country, Jeffrey Sacks was really painful in countries that he worked. But after his years of doing that, he has basically has changed his approach. He basically says that the real truth of good economic doctrine is to first know the general principles—and fortunately that’s usually known by the client as well. Second, know all the specifics of the client country. Understand the context, national and cultural. Understand that economy and know that in addition to tough love, sometimes it needs tender loving care and I think you’ve got partners working with the entities represented here who may from time to time be on the tough-love side, but deep down they’re basically on the tender-loving care side. And I think that’s the way you ultimately get good policy regimes. You don’t get there by shock therapy, you get there by having good economic doctrine, good financial practices. So, I’ll close with that and open it up to any questions.

Q. You were the former economic policy advisor to Federated States of Micronesia. Did you find that, after you left, there was a lot of support there to keep some of those policies in place? Or did some of them fall apart because you were no longer there to make sure that they stayed in the forefront?

That’s a good question. The question is after we left after some eight or nine years, did the policies remain, the good policies, or was there a short fall? Actually the policies started collapsing while we were still there. So, sad to say. And a lot of times this is the nature of the economic policy career. Politics, political administrations, those in power and the things that they want to do, tend to influence at least if not more than the actual ideas that I present to them. But I will say that in the current round of reforms which FSM is now addressing—two of the states are in perfectly good shape, the other two states are not, but are heading now again in the right direction. In those reforms, our counterparts who we trained were part of the process, and were extremely upfront and center in the processes. So the values are still there, it has to be a combination of willingness and receptiveness, as well as good ideas and implantation capacity.

Q. In the earlier policy development, it can be very difficult in the islands for finance officers and government to get together and do that. Do you find that bringing in an outside person is helpful in that regard? Cause it’s something that’s not really done back home in American Samoa.

My sense is that it is generally helpful, if only because the finance officials have about two minutes a day to think about big ideas. They tend to spend the rest of their time really locked into tyranny of the urgent. And so sometimes bringing in an outside team and doing sort of a retreat, gets them out of that mode and allows them to address issues. Again, the people brought in are not just thinking about shock therapy or not understanding the context, they’re gonna draw out that which the finance officers would do of their own accord, but won’t do because they’re just tied up. So I think it’s useful as an information sources and as an initiative to do that.

Q. I was curious you were talking about not allowing some of these donors that are giving you loans or grantors to drive your process or your fiscal policy. Do you have any examples of how that works in a negative way against the government that you would feel comfortable sharing.

Generally speaking I can talk about it with respect to concessional loans, where it's the most dangerous, because I don't feel as though concessional lending agencies—this could be within the U.S. government or multilateral banks—I've worked with them for many, many years and in fact have funded most of my activities for most of my career from them. I think they have nothing but good intentions, but they do a lot of bad projects that don't end up performing as they had hoped. And many times the local officials already knew that and I know of very specific examples where the local officials ended up taking out loans in which they knew darn well were not well suited for success. But the train was running, the money looked free, the repayments were many years down the road, and there's this very low interest rate, and they just never stopped the train. They never say let's stop this train, take a look and see if this makes sense. That same thing happens with respect to grants. Now the danger of accepting grants is less from a financial standpoint, but it's just as much from an opportunity cost standpoint, and perhaps even more so from a long term sustainability standpoint. The most specific examples are bad loans, not just loans gone bad, that's gonna happen, but bad loans undertaken. And again, I don't think it's done with mal-intent, it's done because the local officials who felt like blowing the whistle, and almost blew the whistle, and decided not to blow the whistle, didn't blow the whistle.

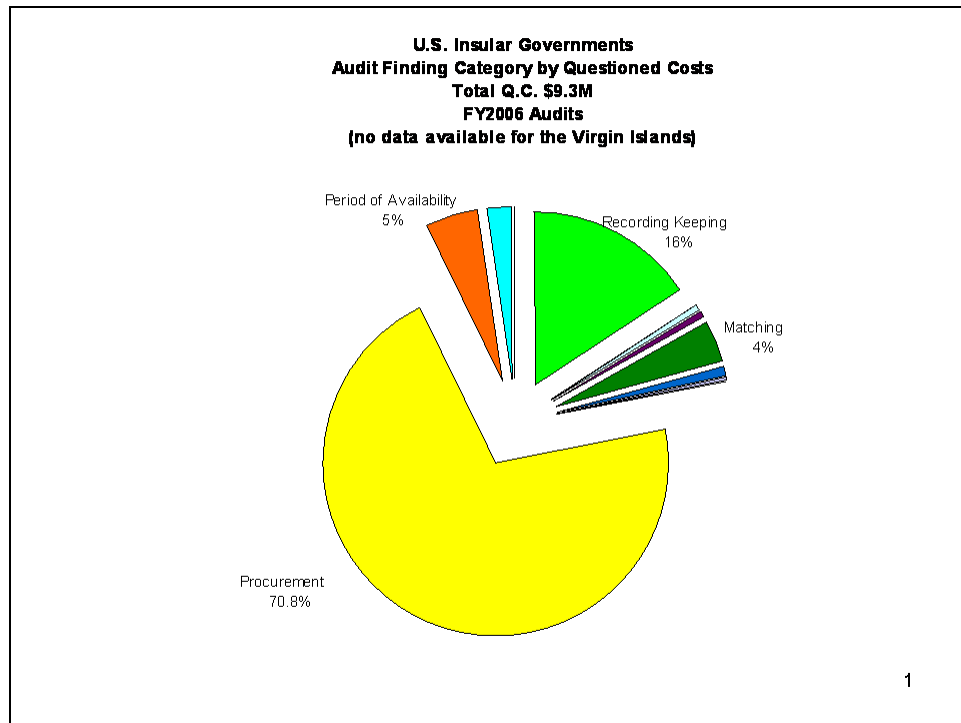
Q. David Cohen within the Department of Interior has really raised the level of economic, private sector economic development. When you look at businesses, the bottom line is profit, so they do what they do to get profit. In the public sector they basically get a budget and they are not traditionally out there to make profit. So the balance, and I really like the idea that Cohen brought that in many of our areas private sector are small, but the public sector is growing, and we are trying to invert that ratio. So my question to you is, in your experience, in doing policy advocacy not only in the Pacific but other areas, how do you bring a balance of trying to educate governments that are resource poor not to do bad management. All these financial folks deal with their daily jobs and their focus on it and in the big picture you don't have much time. So, what kind of experience have you had maybe some ideas that can help all of us kind of focus on going forward.

Thank you, Nik, that's a hard questions and I think we're out of time.

That's really *the* question of economics development in the islands, but I'll try to take a stab at it. With respect to government, yes, there is no profit motive for government, and yes, as David mentioned, there has been a sort of a wealth sharing or income distribution approach to hiring workers in government. I see that changing already in the Pacific. And I think meetings like this, measures like the Performer, and the AFTER Analysis—which is fabulous, right? There's a score card there. I actually, this is my core belief as an economist, I believe that people respond to incentives. On many occasions, going back to that economic doctrine analogy, on many occasions the patients have to take responsibility for their own health and their doctor has to stand off and stop giving too much medicines, stop giving too many treatments. That's where the tough love part comes in from the donor side. But incentives really matter and governments are beginning, and some of them are well advanced, but they're all in the process where they think this idea that the islands are so

different that they're not performing well is eventually on less than a glacial, but a long time horizon, is eventually going to end. Because ultimately islands of course are really great at sustaining themselves within their own resources. So we're actually just getting them back through a period of sort of somewhat of an addictive behavior, addicted to grants, addicted to public spending, but that incentive motive is going to come from internal leadership and from the partnership that they have with the donors. And I would say in doing your job it's all about incentives, both positive and negative. I think the results are actually apparent. I first went out to the Pacific in 1981, so I see the progress, again, not rapidly, but it is very much progress.

Appendix V Slides for Panel Discussion: Best Practices in How Public Auditors and Finance Offices Can Work Together



Procurement Issues

- Given the large number of findings and questioned costs in procurement, what is your government's plan to resolve long standing problems with this area?
- Has decentralizing procurement functions helped or hindered your government's ability to comply with procurement regulations?
- What are some best practices that you have implemented to correct procurement problems?

2

SAS112

- Is your governing body, the chief executive and legislative branch aware of the change in measurement of a material weakness or significant deficiency over financial reporting?
- Do you think it may affect the number of findings in your current audit?
- How have you (or will you) prepare users for the change in your audit reports?

3

Audit Committees

- Does your government have an Audit Committee or similar functioning body?
- In your opinion, would an Audit Committee aid in overall audit improvement and accountability in your government?

4

Audit Findings in Departments & CUs

- Over 50% of the audit findings and questioned costs are not under the direct control of the Finance officer. How does your government resolve audit related problems in agencies outside of finance?
- Do you have certain agencies which year after year do not attempt to resolve audit problems?
- Are there negative consequences for non-conforming directors or departments?
- How could an audit committee or the Public Auditor₅ assist?

Appendix W Minutes from IGFOA Executive Meetings

Monday, 12/3/07 (Members Present):

- Lourdes Perez, Government of Guam
- Elbuchel Sadang, Republic of Palau
- Debra Gottlieb, U. S. Virgin Islands
- Bob Schrack, Commonwealth of Northern Marianas Islands
- Savali Savali, Jr., American Samoa (12/3/07)
- Levis Resse, American Samoa (12/5/07)
- Maria Laaw, Federated States of Micronesia

Additional Participants:

- Pat Keehley, Graduate School, USDA (Facilitator)
- Debbie Milks, Graduate School, USDA
- Stephen Latimer, Graduate School, USDA

Things that are currently working well within IGFOA include:

- Support from OIA for IGFOA and Audit Improvement Project
- Participation of high level finance officers
- Sharing resources and information
- Common goals and objectives
- Catching up on audits
- Tapping resources outside immediate organization
- Audit improvement project
- Sharing best practices

Current challenges include:

- Sometimes send substitutes
- Political appointees are short term
- Things not always shared to lower levels in the organization, such as IGFOA mission, objectives, and minutes
- Travel regulations
- Maintaining web page
- Moving away from finance officer primary responsibilities such as economic development

- Day-to-day structure for IGFOA is not staffed
- Sustaining the momentum
- Upcoming retirements

Future possibilities include:

- Establish mentoring program
- Clarify and post by-laws including professional standards, ethics standards, and best practices
- Address succession planning
- Identify scholarships and internships
- Establish certificate program
- Reward with additional technical assistance
- Create extended incentives for continued employment
- Research best practices in succession planning
- Rotate responsibility for IGFOA infrastructure, web site, etc. (6 months)
- Create orientation for new appointees and politicians similar to briefing given to the VI
- Drive the agenda for IGFOA conferences
- Include public auditors in the front end to help in areas such as resolution of findings
- Use Performer and other measures (bond rating) to make comparisons, get buy-in to changes, etc.

Possible Support from OIA:

- Support to maintain and use web page more effectively (would like to add by-laws, annual meeting minutes, travel and procurement regulations, chat rooms, etc.)
- Expand IGFOA to budget officers

Possible Agenda Items for Next Meeting

- IGFOA organizational structure – leave as is, change to Board with only a rotating Chair, operate as an Executive Board with no officers.

Wednesday December 6, 2007

Notes from flip charts posted in general session:

Ideas or Suggestions for IGFOA Web Page

- Establish links between the IGFOA web page and governments' web pages.

- Travel policies
- Procurement policies and procedures
- Best practices
- Post IGFOA by-laws, mission statement
- Post best practices related to budgets, revenue projections, etc.
- Post standard information on all governments, such as location, population, current governor, etc.
- Post reports of all kinds
- Establish issue-related forums or chat rooms

Action Item for Current President

Draft letter to OIA:

- Express appreciation for including the procurement and budget officers in the GFOA and IGFOA meetings and request their participation continue at both meetings.
- Request support for the IGFOA web page. Once most of the links have been established and the information uploaded, the maintenance should be less resource intensive.
- Redirect funds to scholarships. Because the departments are organized differently, each government may need to write specific follow-up requests.
- Help with succession planning. Succession planning encompasses two aspects of insular operations. First, the insular areas would like to strengthen and professionalize the accounting, procurement and budget staff. A Certificate of Accomplishment or similar program could help with this. Second, the insular areas would like to find best practices on how to retain entry level staff and reduce turnover.

Additional Agenda Items for Next IGFOA Meeting

- Possibly meet prior to GFOA
- Budget related issues that could be discussed in a panel format
- Best practices of revenue projections
- How to implement mid-year corrections
- Best practices of allotment process
- Resolution of common audit findings
- CMIA, procurement, etc.
- Sustain momentum from IGFOA activities in previous years
- How to improve reporting

- Compact requirements
- Grants
- Reporting at the policy level
- Performance management
- Performance based budgeting and the various stages of implementation for each government
- Use of performance measures
- Reporting and managing performance
- Procurement related issues (December 2008)
- Sole source
- 3 quote justification
- Prepayment before receipt of goods
- Best value versus lowest cost
- Local laws versus federal laws; which one supersedes the other
- Succession planning
- Discuss and define the problem
- Find ways to retain younger staff
- Find ways to professionalize staff
- Consider some type of certificate program
- Research what other governments have done
- Federal and territorial laws interplay
- Indirect cost

Appendix X Summary of Conference Evaluations (31 Evaluations Returned)

To ensure that conferences and meetings that the Graduate School, USDA conducts for the PITI and VITI programs are as responsive as possible, please take a few minutes to fill out this evaluation. Your input and comments will be very useful to us in planning future events.

On a scale of 1 - 5, with 5 being the highest score and 1 being the lowest score, please rate the IGFOA Meeting by circling the appropriate number.

1) The IGFOA meeting sessions were relevant and timely.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
33%	67%	0%	0%	0%

Score: 4.67

2) The meeting's objectives were substantially met.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
54%	38%	8%	0%	0%

Score: 4.46

3) Logistics for bringing participants to and from Honolulu were handled satisfactorily.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
50%	42%	8%	0%	0%

Score: 4.42

4) The conference site (hotel) was comfortable and conducive to the meeting.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
71%	29%	0%	0%	0%

Score: 4.71

5) Support services by the Graduate School, USDA staff during the meeting were handled well and in a timely manner.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
83%	17%	0%	0%	0%

Score: 4.83

6) Overall, this meeting of the Island Government Finance Officers' Association (IGFOA) was:

Excellent	Very Good	Average	Fair	Disappointing
54%	46%	0%	0%	0%

Score: 4.54

7) The joint meeting of the Island Government Finance Officers' Association (IGFOA) and Association of Pacific Island Public Auditors (APIPA) on Thursday, December 6 was:

Excellent	Very Good	Average	Fair	Disappointing
36%	45%	16%	3%	0%

Score: 4.13

(8) What sessions of the IGFOA Meeting and/or the IGFOA/APIPA joint meeting were the most relevant and meaningful to you?

- The joint meeting was a great opportunity for finance personnel and public auditors to meet and discuss important issues. This opportunity should be available to encourage cooperation among our government personnel to meet common goals.
- All topics discussed were very relevant although I found the panelist discussion very informative.
- The mixed presenters from both Finance and the Public Auditors.
- The best practices discussions regarding procurement issues and outstanding audit recommendations.
- Procurement finding and audit finding resolution
- IGFOA Meeting
- Developing Performance Measures

- David Cohen keynote and answering questions
- Facilitated discussion with the Public Auditors: Insular Corrective Action Plans and Audit Follow-up.
- Performer updates – clarification on usefulness of tool
- Audit Resolutions
- Finance Officers role in economic development and policy reform
- The guest presentations and panelist presentations and the follow-up questions and answers.
- Island government presentations – hearing what other areas are doing. Provided an opportunity to adopt practices.
- Federal agency oversight – provided understanding.
- SAS 112/GASB Standards
- Panel discussions
- Performer
- Presentations/Panel on Economic Development/Budget Discipline/ Accountability
- Panel discussions were very informative
- The procurement issues
- Best practices on procurement
- Audit Improvement Reviews
- Performer Analysis for each area
- Performer/Audit Improvement Project
- Marina Tinitali's Federal Agency oversight
- The panel discussion
- The Economist's discussion
- Taylor's presentation on the plan
- Economic Development
- Keynote speakers – Former Senator
- SAS 112
- Guest speakers – practical advice from Kevin O'Keefe
- OIA strategic plan
- Performer session by Frank Crawford
- Panel discussions on the Best Practices from the insular governments
- IGFOA: All the sessions were relevant and meaningful

- IGFOA/APIPA: Panel discussion was very helpful most especially where we discussed on procurement issues. It was relevant and meaningful.
- Audit Improvement/Compliance
- Performer/AFTER Analysis
- OIA Planning & aims
- Grants Management and Accountability
- Procurement/Records Keeping/Reporting
- Lunch keynote speaker Kevin O'Keefe
- Overview of the Audit Improvement Project and progress to date. Panel discussions.
- Preparing for SAS-112 and GASB Standards.

(9) What are the two most important items that you learned during the week, and how will you apply each when you return home?

- SAS 112 Requirements
- Keynote addresses by David Cohen and Edward e. Case
- I will work to ensure my government gets ready for SAS-112 requirements
- Performer / After Analysis – a) use to track progress b) use to determine financial health and make sound decisions
- Procurement and Audit Findings
- Performer – upon returning home, we will brief the Governor on the importance of audits being completed timely
- David Cohen's 7 Deadly Sins
- SAS 112 and its' potential impact – meet with auditors
- GASB 45
- Audit and Procurement issues
- Performer – management decisions, this can be used as one measure
- The variation in the islands procurement regulations
- Most important – learned from Kosrae that with political will, fiscal reform can occur
- OIA recognizes the need to support private sector development
- Best practices on procurement
- To be more timely on response to resolutions
- Key note addressed by Edward and O'Keefe on financial issues and Cohen's 7 sins
- Budget discipline
- Performer Report – communicate to non finance people on the status of government

- Public auditors session – Hearing the roles of the PA in the other insular areas...will try to utilize our own local PA in the same way
- Some of the audit resolutions from other entity like Guam's cash management and action plan. This is one action plan, I still need to implement fully at home
- Audit Resolutions
- Finance Officers role in economic development and policy reform
- Guam and other auditors are about to issue a report on open recommendations. I will use the reports to help determine the strength of the audit offices
- Agenda of APIPA Conference – will review to help determine whether factors for evaluating should be developed
- Presenting Procurement Findings
- The adoption and implementation of SAS 112. We need to discuss it with other government agencies
- The use of the Performer
- Performance topic presented by OIA
- Performer Update by Frank Crawford
- Discussion on procurement
- Discussion on audit committee – Since we have a lot of findings on procurement, it is very true that procurement people as well as finance people need to understand procurement regulations, need to have control on procurement to avoid more procurement findings. Must have the committee to deal with the findings, to resolve and the performer to know your status

(10) What sessions or aspects during the week were the least relevant and meaningful to you?

- Fill the sessions
- I did not find any of the sessions or presentations to be not relevant or meaningful. The agenda was great. My only complaint is that some sessions required more time.
- Economic development
- Performance Based Budgeting
- Public Auditor
- All were meaningful on different levels
- SAS 112
- Audit committees
- OIA Performance Budget
- All has its own relevance to us

(11) Please provide any other comments concerning the IGFOA Meeting and/or the IGFOA/APIPA joint meeting that will make future conferences and meetings more meaningful and enjoyable.

- Need more topics to cover
- The inclusion of a procurement track will be helpful
- It was all enjoyable
- Conduct more workshops / shorter sessions
- More outside expertise to conduct
- Setup a committee to monitor progress of issues discussed at the conferences
- Having more conferences on auditing and financing as well
- Enjoyed the meetings
- Good lunch speakers
- Good facilitators
- Valuable advisors and consultants
- Again, thanks to DOI/OIA and USDA Graduate School for the opportunity and a great conference!
- Did APIPA members contribute to the agenda? If not, they should for future joint sessions. Maybe one day together is not enough. More DOI/OIA should attend since they are on island.
- Excellent forum
- There should be an advance notice about the joint panel discussions
- Efforts should continue for a joint conference with APIPA members
- Increase the number of group discussions between auditors and finance.
- Some are too long

Appendix Y Participant List and Contact Information

American Samoa

Velega Savali, Jr., Treasurer
American Samoa Government
Department of Treasury
Executive Office Building, Third Floor
Pago Pago, American Samoa 96799
Phone: (684) 633-4155 Ext. 242
Fax: (684) 633-4100
Email: vsavali@asg.as

Levis Resse, Chief Accountant, Department of Treasury
American Samoa Government
Department of Treasury
Executive Office Building, Third Floor
Pago Pago, American Samoa 96799
Phone: (684) 633-4155 Ext. 242
Fax: (684) 633-4100

Carrie-Lee Magalei, Senior Accountant, Department of Treasury
American Samoa Government
Department of Treasury
Executive Office Building, Third Floor
Pago Pago, American Samoa 96799
Phone: (684) 633-4155 Ext. 242
Fax: (684) 633-4100

Pat Galea'i
ASG Federal Programs Coordinator
Office of Federal Programs
P.O. Box 998168
Pago Pago, American Samoa 96799
Phone: 684-733-5137
Fax: 684-633-4195
Email : pmgaleai@yahoo.com

Faumuina Frances Sefo
American Samoa Government
Office of the Territorial Auditor
Pago Pago, American Samoa 96799
Phone: (684) 633-5191 /2/3/4
Fax: (684) 633-1039

Loia Gutu, Staff Auditor
Office of the Territorial Auditor
Pago Pago, American Samoa 96799
Phone: (684) 633-5191 /2/3/4
Fax: (684) 633-1039

CNMI

Robert Schrack
Special Assistant to the Secretary of Finance
Department of Finance
P. O. Box 5234 CHRB
Saipan, MP 96950
Phone: (670) 664-1186
Fax: (670) 664-1115
Email: bobschrack@yahoo.com

Michael Sablan
Public Auditor
P.O. Box 501399
Commonwealth of the Northern Mariana Islands
Saipan, MP 96950
Phone: (670) 234-6481
Fax: (670) 234-7812
Email: mssablan@opacnmi.com

Rosauro Zapanta
Analyst Manager, Office of the Public Auditor
P.O. Box 501399
Commonwealth of the Northern Mariana Islands
Saipan, MP 96950
Phone: (670) 234-6481
Fax: (670) 234-7812

Donnalyn Castro
Analyst, Office of the Public Auditor
P.O. Box 501399
Commonwealth of the Northern Mariana Islands
Saipan, MP 96950
Phone: (670) 234-6481
Fax: (670) 234-7812

Sheila Trianni
Legal Council, Office of the Public Auditor
P.O. Box 501399
Commonwealth of the Northern Mariana Islands
Saipan, MP 96950
Phone: (670) 234-6481
Fax: (670) 234-7812

Guam

Lourdes Perez
Director, Department of Administration
Government of Guam
P. O. Box 884
Agana, Guam 96910
Phone: (671) 475-1234
Fax: (671) 477-6788
Email: doadir@mail.gov.gu

Kathy Kakigi
Department of Administration
P.O. Box 884
Agana, Guam 96910
Phone: (671) 475-1211
Fax: (671) 472-8483
Email: kbkakigi@yahoo.com

Anita Cruz
Acting Assistant Chief Procurement Officer
P.O. Box 884
Agana, Guam 96910
Phone: (671) 475-1713
Fax: (671) 475-1716

Doris Flores Brooks
Guam Public Auditor
238 Archbishop Flores Streed, Suite 401
Pacific News Building
Hagatna, Guam 96910
Phone: 671-475-0390
Fax: 671-472-7951
dfbrooks@guamopa.org

Yuka Cabrera
Audit Supervisor, Office of the Public Auditor (Guam)
238 Archbishop Flores Streed, Suite 401
Pacific News Building
Hagatna, Guam 96910
Phone: 671-475-0390
Fax: 671-472-7951

Federated States of Micronesia

Haser Hainrick
National Public Auditor
P.O. Box PS-05
Federated States of Micronesia
Pohnpei, FM 96941
(691) 320-2863 /2
Fax: (691) 320-5482
hhainrick@fsmpublicauditor.fm

Eric Elias
Auditor, FSM Office of the Public Auditor
P.O. Box PS-05
Federated States of Micronesia
Pohnpei, FM 96941
(691) 320-2863 /2
Fax: (691) 320-5482
eelias@fsmpublicauditor.fm

Kelly Samuel
Investigative Auditor, FSM Office of the Public Auditor
P.O. Box PS-05
Federated States of Micronesia
Pohnpei, FM 96941
(691) 320-2863 /2
Fax: (691) 320-5482

Chuuk State

Kathy Sound
Deputy Director, Office of Administrative Services
Chuuk State Government
Weno, Chuuk
Chuuk State, FM 96942
Phone: (691) 330-2480
Fax: (691) 330-3735

Pohnpei State

Andrew Joseph
Acting Director, Department of Treasury and Administration
Pohnpei State Government
Phone: (691) 320-2631
Fax: (691) 320-5505
cofpohnpei@mail.fm

Semensin James
Budget Director
Department of Treasury and Administration
Post Office Box 34
Pohnpei, FM 96941
Phone: (691) 320-2631
Fax: (691) 320-5505

Yap State

Maria Laaw, Director
Office of Administrative Services
P. O. Box 610, Yap, FM 96943
Phone: (691) 350-2307
Fax: (691) 350-2107
Email: oasyap@mail.fm

Kosrae State

Tiser Reynold
Director
Office of Administration and Finance
Kosrae State Government
Post Office Box 878
Kosrae, FM 96944
Phone: (691) 370-3400
Fax: (691) 370-2004
Email: kosraedoa@mail.fm

Mr. Switson Robert
Chief Accountant
Office of Administration and Finance
Kosrae State Government
Post Office Box 878
Kosrae, FM 96944
Phone: (691) 370-3400
Fax: (691) 370-2004

Mr. Nimos Salik
Procurement Officer, Kosrae State
Office of Administration and Finance
Kosrae State Government
Post Office Box 878
Kosrae, FM 96944
Phone: (691) 370-3400
Fax: (691) 370-2004

Mr. Shiro Sigrah
Office of Administration and Finance
Kosrae State Government
Post Office Box 878
Kosrae, FM 96944
Phone: (691) 370-3400
Fax: (691) 370-2004

Republic of the Marshall Islands

Jefferson Barton
Secretary of Finance
Ministry of Finance
RMI Government
P. O. Box D
Majuro, MH 96960
Phone: (692) 625-7420
Fax: (692) 625-3607
Email: secfin@ntamar.net

Junior Patrick
Assistant Secretary for Accounting and Administration
Ministry of Finance
RMI Government
P. O. Box D
Majuro, MH 96960
Phone: (692) 625-2710
Fax: (692) 625-3607
Email: patrjun@hotmail.com

Mr. Clarence Samuel
Director of Budget
Division of Budget, Ministry of Finance
RMI Government
P. O. Box D
Majuro, MH 96960
Phone: (692) 625-2710
Fax: (692) 625-3607

Mr. Jemi Nasion
Assistant Secretary
Budget, OIDA and Supply and Procurement
RMI Government
P. O. Box D
Majuro, MH 96960
Phone: (692) 625-2710
Fax: (692) 625-3607

Kamolol Alik, Procurement Officer
Ministry of Finance
RMI Government
P. O. Box D
Majuro, MH 96960
Phone: (692) 625-2710
Fax: (692) 625-3607

Atmita Jonathan
Assistant Auditor-General
Office of the Auditor-General
Post Office Box 245
Majuro, MH 96960
Phone: (692) 625-3192
Fax: (692) 625-5135
Email: tonyokwe@ntamar.net

Terry Nemra, Associate Auditor
Office of the Auditor-General
Post Office Box 245
Majuro, MH 96960
Phone: (692) 625-3192
Fax: (692) 625-5135

Republic of Palau

Elbuchel Sadang
Minister of Finance
Republic of Palau Government
Ministry of Finance
P. O. Box 6011
Koror, Palau 96940
Phone: (680) 488-2561
Fax: (680) 488-1016
Email: esadang@paluagov.net

Ruth Wong
Comptroller
Ministry of Finance
Republic of Palau
P. O. Box 6011
Koror, Palau 96940
Phone: (680) 488-2501
Fax: (680) 488-1016
Email: wong@palaugov.net

Millan Isack
Procurement Officer
Ministry of Finance
P. O. Box 6011
Koror, Palau 96940
Phone: (680) 488-4626
Fax: (680) 488-1016
Email: ropproperty@palaugov.net

Hermana Idip
COFA/Systems Accountant, Ministry of Finance
P. O. Box 6011
Koror, Palau 96940
Phone: (680) 488-4626
Fax: (680) 488-1016

Satrunino Tewid
Acting Public Auditor
Republic of Palau
P.O.Box 850
Koror, Republic of Palau 96940
Phone: (680) 488-2889 / 5687
Fax: (680) 488-2194
palau.public.auditor@palaunet.com

Jowas Wasisang
Senior Auditor
Republic of Palau
P.O.Box 850
Koror, Republic of Palau 96940
Phone: (680) 488-2889 / 5687
Fax: (680) 488-2194

Kazuo Uraziri
Investigator
Republic of Palau
P.O.Box 850
Koror, Republic of Palau 96940
Phone: (680) 488-2889 / 5687
Fax: (680) 488-2194

U.S. Virgin Islands

Claudette Anderson
Commissioner of Finance
Department of Finance
2413 Kronprindsens Gade
Charlotte Amalie, Virgin Islands 00803
Phone: (340) 774-4750
Fax: (340) 776-4028
Email: candercpa@msn.com

Debra Gottlieb
Director
Office of Management and Budget
41 Norre Gade
Charlotte Alalie, Virgin Islands 00802
Phone: (340) 774-0750
Fax: (340) 776-0069
Email: degottlieb@hotmail.com

Lynn Millin
Commissioner
Department of Property and Procurement
Buildiing No. 1 Subbase
St. Thomas, Virgin Islands 00802
Phone: (340) 774-0828
Fax: (340) 777-9587
Email: lmillin@pnpvi.org

Steven van Beverhoudt, Virgin Islands Inspector General
Office of the Inspector General
75 Kronprindsens Gade
St. Thomas, V. I. 00802
Phone: 340-774-3388
Fax: 340-774-6431
info@viig.org

Glenville Thompson
Supervisory Auditor
Office of the Inspector General
75 Kronprindsens Gade
St. Thomas, V. I. 00802
Phone: 340-774-3388
Fax: 340-774-6431

Charles Allen
Chief of Investigations
Office of the Inspector General
75 Kronprindsens Gade
St. Thomas, V. I. 00802
Phone: 340-774-3388
Fax: 340-774-6431

U.S. Department of the Interior/Office of Insular Affairs

David Cohen
Deputy Assistant Secretary
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
1849 C Street, N. W.
Washington, D. C. 20240
Phone: (202) 208-4707
Fax: (202) 208-1494
Email: david_cohen@ios.doi.gov

Nikolao Pula
Director
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
1849 C Street, N. W.
Washington, D. C. 20240
Phone: (202) 208-4707
Fax: (202) 208-1494
Email: nikolao_pula@ios.doi.gov

Edgar Johnson
Director, Technical Assistance
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
1849 C Street, N. W.
Washington, D. C. 20240
Phone: (202) 208-4707
Fax: (202) 208-1494
Email: edgar_johnson@ios.doi.gov

Tom Bussanich, Director, Budget and Grants Division
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
MS4311A
1849 C Street, N. W.
Washington, D. C. 20204
Phone: (202) 208-6971
Fax: (202) 208-7585
Email: tom_bussanich@ios.doi.gov

Marina Tinitali, Accountability and Insular Policy Specialist
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
1849 C Street, N. W.
Washington, D. C. 20240
Phone: (202) 208-4707
Fax: (202) 208-1494
Email: marina_tinitali@ios.doi.gov

Gerald Shea, Fiscal Specialist, Honolulu Field Office
U. S. Department of Interior
733 Bishop St.
Suite 2530
Honolulu, HI 96813
Phone: (808) 525-5307
Fax: (808) 525-5399
Email: gerald Shea@uscompact.org

Lydia Faleafine-Nomura, Field Representative
American Samoa
P.O. Box 1725
Pago Pago, American Samoa 96799
Phone: (684) 633-2800
Fax: (684) 633-2415
Email: doioia@blueskynet.as

Stephen Savage, Grants Manager
Honolulu Field Office
U. S. Department of Interior
733 Bishop St.
Suite 2530
Honolulu, HI 96813
Phone: (808) 525-5305
Fax: (808) 525-5399
E-Mail: steve@uscompact.org

Tiffany Taylor, Budget Analyst
U. S. Department of Interior
Office of Insular Affairs—Office of the Secretary
1849 C Street, N. W.
Washington, D. C. 20240
Phone: (202) 208-4707
Fax: (202) 208-1494
Email: tiffany_taylor@ios.doi.gov

Graduate School, USDA

Jack Maykoski, Director, International Institute
Graduate School, USDA—Suite 320
600 Maryland Avenue SW
Washington, D. C. 20024
Phone: (202) 314-3510
Fax: (202) 479-6803
Email: john_maykoski@grad.usda.gov

Jason Aubuchon, Program Manager
Pacific Islands Training Initiative
Graduate School, USDA
900 Fort Street, Suite 1540
Honolulu, HI 96813-3717
Phone: (808) 523-1650
Fax: (808) 523-7634
Email: jason_aubuchon@grad.usda.gov

Stephen Latimer, Program Manager
Pacific Islands Training Initiative
Graduate School, USDA
900 Fort Street, Suite 1540
Honolulu, HI 96813-3717
Phone: (808) 523-1650
Fax: (808) 523-7634
Email: stephen_latimer@grad.usda.gov

Darlene Young, Project Manager
Graduate School, USDA—Suite 320
600 Maryland Avenue SW
Washington, D. C. 20024
Phone: (202) 314-3434
Fax: (202) 479-6803
Email: darlene_young@grad.usda.gov

Judith Perry, Training Specialist
Pacific Islands Training Initiative
Graduate School, USDA
900 Fort Street, Suite 1540
Honolulu, HI 96813-3717
Phone: (808) 523-1650
Fax: (808) 523-7634
Email: Judith_perry@grad.usda.gov

Resource Consultants

Deborah Milks, Consultant
Box 1166
Lawrence KS 66044
Phone: (785) 841-8505
Fax: (785) 832-9465
Email: milksdeb@aol.com

Frank Crawford, Consultant
10308 Greenbriar Place
Oklahoma City, OK 73159
Cell: 405-229-9084
Phone: (405) 691-5550
Fax: (405) 691-5646
Email: frank@crawfordcpas.com

Steve Medlin, Facilitator
1931 West 775 South
Cedar City, UT 84720
Phone: (435) 867-4597
Fax: (435) 867-4597
Email: ikonsm@aol.com

Dr. Patricia Keehley
1931 West 775 South
Cedar City, UT 84720
Phone: (435) 867-4597
Fax: (435) 867-4597
Email: ikonpk@aol.com

Keynote Speakers

Mr. Edward (Ed) Case
Bays, Deaver, Lung, Rose & Holma
Alii Place, 16th Floor
1099 Alakea Street
Honolulu, HI 96813
Phone: (808) 523-9000
Email: edcase@edcase.com

Mr. Kevin O'Keefe
92-1236 Palahia St #202
Kapolei, HI 96707
Phone: (808) 230-7333
Email: kmokeefe@gmail.com