

Island Government Finance Officers' Association

**Internal Meeting between
Federated States of Micronesia Finance Delegation
and**

**United States Department of the Interior
Office of Insular Affairs**

Friday, December 5, 2008

Table of Contents

1.	Meeting Agenda	1
2.	FSM-OIA Joint Meeting Notes (Morning Session).....	2
3.	FSM Internal-Only Meeting Notes (Afternoon Session)	4
4.	Slides from OIA Presentation	6
5.	Meeting Participants	12

Meeting Agenda

GOALS: To discuss and resolve FSM & OIA grant management & reporting issues

8:30 a.m to 12:00 p.m. Discussions with OIA officials

1. First dollar in, first dollar out procedures Sector grant expenditures
2. Grant close-out procedures; liquidation of encumbrances
3. Grant cash management and forecasting
4. Budget allotment allocations
5. Program structure for the Health & Education Sector grants
6. Quarterly grant reporting

12:00 p.m. to 1:00 p.m. Lunch

1:00 p.m. to 5:00 pm Discussions with FSM group

1. Chart of Accounts maintenance procedures
2. Accounting for budgets—appropriations & allotments
3. Bank reconciliation system
4. Systems maintenance procedures
 - a. IT problems
 - b. Accounting issues & problems
5. Fiscal and calendar year end issues
6. Post core planning

FSM-OIA Joint Meeting Notes (Morning Session)

(1) First Dollar In; First Dollar Out

OIA confirmed that the Amended Compact law does not bind the JEMCO to recognizing the FSM's internal distribution formula. However, if a distribution formula is tracked and maintained internally by the FSM, JEMCO will respect it to the extent possible.

The concept of "First Dollar In; First Dollar Out" is that any carryover unspent in the prior year will be the "first dollars" spent in the sector from which it originated during the following year. In this way, any remaining unallocated amounts can then be spent within any of the Compact sectors, according to state priorities.

(2) Grant Close-Out Procedures; Liquidation of Encumbrances

Operational grants are available for one year, with a liquidation period of ninety (90) days. Final liquidations must be disbursed within 90 days after the end of the funding period. Since the liquidation period end-date and final cash transactions reporting deadline coincides, a mutual agreement among the FSM and OIA was reached that the final cash transactions reports (SF272 reports) are due on January 30. Travel and vendor advances need to be closed out within this period.

Off-island purchases of goods to be shipped, or services that require an extended advertisement period need to be ordered by a date which would result in receiving and paying for the goods or services prior to the December 31 liquidation deadline.

(3) Grant Cash Management and Budget Forecasting

Sector payments are intended to fund financial requirements of the governments during the month in which they're made. Large cash balances in Compact accounts are not allowable. Large consumable purchases like textbooks, or equipment should be planned for early in the fiscal year.

Programmatically we can review non-personnel expenditures by division, and work with division heads, to make sure that large purchases are made early in the year and that cash is forecasted and requested to be available in the period when the payment is due.

It was agreed that monthly sector cash requests should be rounded to the nearest \$10,000. Cash reporting on the SF272 will continue to be reported to the actual dollar.

OIA expressed a preference that Compact payments continue to go to a single account at the FSM National Government, and not directly to the States. OIA committed to making sure the states are copied on e-mail messages outlining the timing and amounts of those payments.

(4) Budget Allotment Allocations

There is a primary need to make sure that allocations are matching the actual budgets, as passed by state legislatures, at the beginning of each year. OIA needs to see an appropriation summary by each governmental fund type—by prime object class, within each sector. The group agreed to produce this report at the beginning of each year—one from each government.

Allotments for equipment and fixed assets should be given up-front, at the beginning of each year, to allow for purchases. Many states have appropriation laws that require quarterly allotments, but it was noted at the meeting that those allotments do not need to be evenly distributed. The practice of 30-30-20-20 allotments does not allow for large fixed asset purchases, and needs to be tailored to the individual needs of divisions.

Finally, it was noted that the states need to start realistically estimating utilities and communication costs. OIA has been tracking actual expenditures during the annual budget consultation to help ensure that reprogramming late in the year—usually from non-personnel—does not continue to happen.

(5) Program Structure for Health and Education Sector Grants

A level of standardization needs to be obtained across governments in how expended sector grants are reported. Within health and education, for example, it's not possible to tell how much money is being spent on primary vs. secondary education, scholarships, etc. This will mean that changes and standardization needs to happen within the chart of accounts.

Debbie Milks, in consultation with Tim Donahue and Roylinne Wada are going to develop a template as a starting discussion point to standardize these codes with the Chart of Accounts. The goal is to have the standardized programs set up for the FY2010 budget cycle.

(6) Quarterly Grant Reporting

An additional SF272 report, by state (cumulative of all sectors), should be prepared to summarize total compact cash on hand, by state. That figure should tie closely to the reconciled bank accounts. The group agreed to develop the report this year.

OIA is also looking for life-to-date expenses on all SF272 reports, not just a slice of a particular sector's quarterly receipts and disbursements.

OIA also asks that actual sector names be listed on each page instead of organizational codes.

Finally, it was noted that the OIA-1 to OIA-4 reports are standardized but can be modified by users. The finance officers should be cautious and carefully review the reports before sending them out to ensure they comply with the standard format. Fundware has been asked to assist with locking them in across states. OIA asks that those reports come in PDF format.

FSM Internal-Only Meeting Notes (Afternoon Session)

(1) Chart of Accounts Maintenance Procedures

Need to keep the COA consistent among states, and the National Government needs to take a more active role in managing the COA.

The infrastructure projects that are beginning are likely to create additional complexities, and need to be handled carefully with respect to likely future reporting requirements.

Of particular note was the need to standardize codes for federal grants and federal infrastructure at the national level.

Debbie agreed to update the procedures and this will then be added to the agenda for the January meeting. Agreement was reached that this issue will be discussed in more depth in the FMIS Post-Core Planning Workshop in January, as scheduled, in the FSM.

(2) Accounting for Budgets: Appropriations and Allotments

The FSM budget and finance officers need to agree on a standard methodology in how they record budgets in the Fundware system. Currently, the offices are not recording the annual appropriation, but just the periodic allotments. Appropriations then must be tracked elsewhere. A change in the business rules for recording budgets will entail changes in all of the fund status reports, the addition of a new budget journal, and procedures to ensure that the appropriations and allotments are in balance for the year. Debbie will write up the proposal and send it out for comments and approval.

(3) Bank Reconciliation System

The Fundware bank reconciliation system has major weaknesses that prevent it from being useful to the finance offices for their monthly reconciliations. Deborah Atwood has programmed an independent bank recon system in Access that can be used instead.

Yap will beta-test the FW Bank Reconciliation system and report back to the larger group.

(4) System Maintenance Procedures

The maintenance contract with Grant Thornton has been extended through the end of January 2009. Agreement was reached that Deborah Atwood would develop a draft RFP and would begin exploring other FMIS support options. Ongoing support will be considered at the January FMIS Post-Core Planning meeting in the FSM.

It was also noted that Fundware does have a new version of 7.5, which has a few features that may be relevant to the states. The upgrade should be considered by the states once it is determined the new version is stable.

(5) Fiscal and Calendar Year-End Issues

Encumbrance and accounts payable by fund reports. The program designed to prepare the encumbrance and AP reports still has errors which Fundware is responsible for correcting. However, these problems must be reported by the users. Debbie requested that each of the States produce the reports as of 9/30/2008 and determine where there are discrepancies with the General Ledger balances.

Quarterly Cut-Off for Payroll and Fiscal Year-End Cut-Off for Payroll. The Fundware system does not have a feature to correctly account for payroll accruals at year end. The users must ensure that payrolls earned in the previous fiscal year and paid in the current year are recorded using the payperiod end date for all processing, including the check date.

The wage and salary reporting forms used by the FSM are now set up as APC forms in Fundware. The finance offices are reminded that FSM Revenue & Tax requires these forms to be submitted by the end of January for all government employees.

(6) Post Core Planning

Fixed assets, budget and advanced reporting are all included under post-core activities. Using programs such as iData, Corridor and F9 will all help get data in and out of Fundware.

Core data will be warehoused in a server at the National Government. The data will be pulled from state-specific Fundware systems and stored in an SQL server environment (encrypted) at National. Summary data will be uploaded monthly. SBOC can then access the data to comply with reporting requirements.

Any remaining issues from core installation that require training, or additional refresher training for new staff members, will also be considered under post-core.

The group endorsed the week of January 12th for the FMIS Post-Core meeting in Pohnpei.

Slides from OIA Presentation

FSM and OIA Grants Management and Reporting Issues

**Kona, Hawaii
December 5, 2008**

First Dollar In, First Dollar Out

- USG official view – "Compact resources belong to the FSM as a whole and are granted on an annual basis for stated needs".
- "Carry-over money does not remain with the state government, but it does remain with the sector."
- The point is to promote both accurate annual budgeting and the efficient use of the funds.

FY 2008 EDU

Education	Grant Number	AWARD	OBLIGATED/	Balance
		Amount	ULO	
Chuuk	GR870011	9,990,369	6,394,717.66	3,595,651.34
Kosrae	GR870012	2,256,039	2,197,303.00	58,736.00
NAT	GR870009	591,331	439,644.50	151,686.50
CDM	GR870010	3,800,000	3,800,000.00	0.00
PNI	GR870013	7,565,071	7,565,069.00	2.00
Yap	GR870014	4,220,978	4,179,691.00	41,287.00
		28,423,788	24,576,425.16	3,847,362.84

Example - FY 2008

- **FSM Education Grant - \$25,000,000**
- **Chuuk Education - \$10,000,000**
- **Expenditure - \$6.3 million**
- **Carry-Over - \$3.7 million**

If the carry-over of \$3.7 were retained by Chuuk and added to a FY 2010 request by Chuuk EDU we'd be over-funding Chuuk EDU and possibly overlooking funding needs elsewhere.

A better approach....

- **The FSM can track the allocations internally by each government.**
- **If the \$3.7 million is considered the first dollar into the FY 2010 sector grant, the funds unspent by Chuuk become the first \$3.7 million of the \$25 million that will be granted in FY 2010.**
- **This will have the effect of "opening up" funds on the back end which would be considered unallocated.**

Grant Close-Out/Liquidation Period

- Operational grants available for one year.
- Liquidation period – 90 days to coincide with.....
- Final cash transactions report due 90 days after the end of the funding period.
- FSM has averaged “close-out” of 210 days for FY 2004-2007.

Budget Cash Management

- Sector payments are intended to fund financial requirements of the governments during the month in which they are made.
- Large cash balances in the Compact bank accounts are not allowable.
- Can be avoided by working with sector program managers in developing an outlay analysis.
- Personnel, utilities, contracts – even throughout the year.
- Direct payments?

Budget Allotments

- Need to immediately move away from the practice of 30-30-20-20 allotments that were the norm during the first 17 years of the Compact.
- In order to ensure that allocations match actual budgets at the beginning of each year OIA needs to see an appropriation summary by each governmental fund type.
- FY 2006 Kosrae Example

Program Structures for Health and Education Sectors

- A level of uniformity and consistency across the governments in order to assist in comparative analysis in determining how funds are being utilized.
- Needs to be driven by program managers.
- Timeframe – in time for FY 2010 budget

Quarterly Grant Reporting

- Huge improvements in terms of quality and content.
- 272 life-to-date.
- Summary of Compact account balances by government.
- OIA 1-4 provides uniformity.
- Labeling
- PDF

Meeting Participants

Office of Insular Affairs

Stephen Savage
Honolulu Field Office
733 Bishop Street Suite 2530
Honolulu, Hawaii 96813
Phone: 808.525.5088
Fax: 808.525.5399
Email: steve@uscompact.org

FSM National Government

Rose Nakanaga
FSM National Government
P. O. Box PS 158
Palikir, Pohnpei 96941
Phone: 691.320.2639
Fax: 691.320.2380
Email: rnakanaga@yahoo.com

Deborah Atwood
FSM National Government
P.O. Box PS-158
Palikir, Pohnpei, FM 96941
Phone: 691-320-2639
Fax: 691-320-2380
Email: deborah.atwood@gmail.com

FSM: Kosrae State

Tiser Reynold
Office of Administration and Finance
P.O. Box 878
Kosrae, FM 96944
Phone: (691) 370-3400
Fax: (691) 370-2004
Email: kosraedoa@mail.fm

FSM: Pohnpei State

Thomas Pablo
Director of Treasury/Adm.
P.O. Box 1567
Kolonias, Pohnpei FM 96941
Phone: 691-320-2243
Fax: 691-320-5505
Email: directordota@mail.fm

Alpino Kerman
Pohnpei Budget Office
P.O. Box 644
Pohnpei FSM 96941
Phone: 691-320-2238
Email: alpinosr@hotmail.com

FSM: Yap State

Maria Laaw
Office of Administrative Services
Yap, FSM
PO Box 610
Yap, FM 96943
Phone: 691-350-2307/2142
Fax: 691-350-2107
Email: oasyap@mail.fm

Robert Fathaltamanbay
Office of Administrative Services
Yap, FSM
PO Box 610
Yap, FM 96943
Phone: 691-350-2142
Fax: 691-350-2107
Email: rfathal@hotmail.com

Pius Talimeisei
Office of Planning & Budget
Yap, FSM
P.O. Box 492
Yap, FM 96943
Phone: (691)350-2166
Email: piustalim@yahoo.com

Resource Consultants

Deborah Milks (Consultant)
Post Office Box 1166
Lawrence KS 66044
Phone: (785) 841-8505
Fax: (785) 832-9465
Email: milksdeb@aol.com

Steve Medlin (Consultant)
1931 West 775 South
Cedar City, UT 84720
Phone: (435) 867-4597
Fax: (435) 867-4597
Email: ikonsm@aol.com

Graduate School, USDA

Jason Aubuchon
Graduate School, USDA
900 Fort Street Mall, Suite 1540
Honolulu, HI 96734
Phone: (808) 523-1650
Fax: (808) 523-7634
Email: jason_aubuchon@grad.usda.gov

Judy Perry
Graduate School, USDA
900 Fort Street Mall, Suite 1540
Honolulu, HI 96734
Phone: (808) 523-1650
Fax: (808) 523-7634
Email: judith_perry@grad.usda.gov