

# ISLAND GOVERNMENT FINANCE OFFICERS' ASSOCIATION

December 5-7, 2006  
Wailea Beach Marriott Resort  
Wailea, Maui, Hawaii

## CONFERENCE REPORT



AMERICAN  
SAMOA



CNMI



FSM



GUAM



RMI



PALAU



VIRGIN  
ISLANDS



**GS** GRADUATE  
SCHOOL USDA

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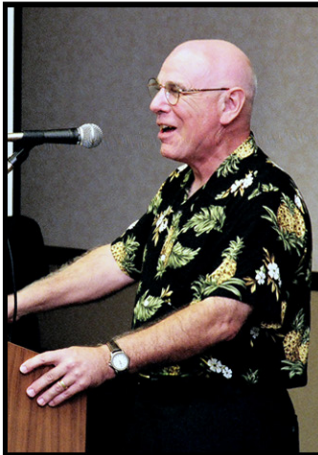




## **TABLE OF CONTENTS**

|            |  |     |
|------------|--|-----|
| I.         | Executive Summary  | 3   |
| II.        | Background   | 4   |
| III.       | Conference Objectives  | 5   |
| IV.        | Welcoming Speeches   | 5   |
| V.         | Keynote Address  | 6   |
| VI.        | Audit Improvement Project  | 6   |
| VII.       | Utilizing the Performer® as a Tool for Measuring the Financial Health of the Insular Governments (2005 update) | 11  |
| VIII.      | Financial Management Emerging Trends and Best Practices Panel Discussion                                       | 12  |
| IX.        | Procurement Issues in Audits   | 14  |
| X.         | Governmental Accounting Standards Update   | 16  |
| XI.        | Preventing Procurement Related Audit Findings  | 17  |
| XII.       | Managing the Finance Office: Integrating Internal Controls and Performance Measurement                         | 18  |
| XIII.      | Thomas Bussanich, Director, Budget and Grants Management Division, DOI/OIA                                     | 19  |
| Appendix A | Notes: Conference Agenda   | 21  |
| Appendix B | Slides: Edgar Johnson: The Role of OIA   | 25  |
| Appendix C | Slides: Debbie Milks: The Audit Improvement Project  | 35  |
| Appendix D | Slides: U. S. Virgin Islands Audit Improvement Summary   | 41  |
| Appendix E | Slides: Marshall Islands Audit Improvement Summary   | 47  |
| Appendix F | Slides: Guam Audit Improvement Summary   | 55  |
| Appendix G | Slides: American Samoa Audit Improvement Summary   | 59  |
| Appendix H | Slides: Performer® Updates   | 63  |
| Appendix I | Slides: Procurement Issues in Audits   | 83  |
| Appendix J | Notes: Highest Priority Procurement Issues   | 89  |
| Appendix K | Slides: Governmental Accounting Standards Updates  | 91  |
| Appendix L | Slides: Eval. and Imp. Internal Controls Audit Findings  | 135 |
| Appendix M | Notes: Common Procurement-Related Audit Findings   | 141 |
| Appendix N | Notes: Procurement Officers Training Notes   | 143 |
| Appendix O | Slides: 21 <sup>st</sup> Century Public Leader Tools & Competencies  | 151 |
| Appendix P | Notes: Government-Specific Action Plans  | 159 |
| Appendix Q | Slides: Thomas Bussanich, Insular Affairs' Budget  | 165 |
| Appendix R | Notes: Conference Evaluation Summary and Comments  | 173 |
| Appendix S | Notes: IGFOA 2006 Participant List   | 179 |















## **I. Executive Summary**

The Island Government Finance Officers' Association (IGFOA) was established in 1999 to promote improved financial management in the insular governments. IGFOA has met twice a year since 2000 to discuss public sector accounting and financial management requirements and to exchange best practices for implementing those requirements in the insular areas. Through funding provided by the U.S. Department of Interior's Office of Insular Affairs (DOI/OIA), the IGFOA fall conference was held at the Wailea Beach Marriott Beach Resort in Wailea, Maui, Hawaii from December 5 – 7, 2006. Representatives of the finance and procurement offices from all the insular governments participated in the conference and work sessions.

The Fall 2006 conference of IGFOA had three major goals. The first goal was to look back over the past year to reflect on and document the progress the insular governments have made in improving audit results and Performer® scores. The second conference goal was to look forward into the future and assess the procurement, internal control, and audit standards issues and changes which will be affecting the finance and procurement offices over the next few years. Conference participants assessed the impact of the changing procurement, control, and audit standards environments on their governments and anticipated how they would need to deal with these changes. The third goal was to review the management and leadership competencies covered at the Spring 2006 IGFOA conference and apply them to the responsibilities managers and executives have for implementing the organizational changes driven by the evolving procurement, internal control, and audit standard issues.

The conference started with a review of the progress the governments have made on their audits. Both the number of findings and dollars of questioned costs have declined by 33%. However, it would be inaccurate to assume finance offices were improving (or not improving) based solely on the number of audit findings, as all findings are not equal. Fewer and fewer findings were related to finance office operations and more were related to problems in the administration of federal programs.

Each government then received its Performer® score and a summary of its financial strengths and weaknesses. The Performer® analysis identified additional areas in which each government could improve its financial health.

On the meeting's second day, an analysis of all procurement-related audit findings from all the governments was presented to the conference. These findings seemed to focus primarily in four areas—lack of documentation, an insufficient number of bidders, change order pricing, and directed procurements. Once the procurement findings had been discussed, Mr. Procurement Man led the conference through a series of role-play exercises to illustrate how procurement officers and staff could deal with sensitive or difficult procurement situations.



The conference then offered two training tracks—one for the finance officers and one for the procurement officers. The finance officers received training on the new GASB accounting standards. The procurement officers received training on improving the procurement process and developed recommended 'best practices' for the highest priority procurement problems.

Both the finance and procurement officers attended a workshop on internal controls and managers' responsibilities for establishing an appropriate control environment. Participants then reviewed the leadership competencies covered in the Spring IGFOA conference session, The 21st Century Public Leader: Tools and Competencies. Conference participants from each insular government built an action plan to improve audit results, Performer® scores, internal controls, and finance office performance based on the leadership competencies presented.

Staff from the Office of Insular Affairs talked about the OIA budget and the criteria the office will be using to allocate funding. Tom Bussanich presented the OIA budget and how it is allocated among the insular areas. He also discussed the criteria OIA will use to assess the accountability of insular areas and how ratings on the criteria will be used to increase or decrease funding to the governments.

The IGFOA Executive Board also held its business meeting and elected its officers for the coming year.

## **II. 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. The 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 2006 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 complete conference agenda).



### **III. Conference Objectives**

The IGFOA fall 2006 conference had three broad goals. First, the conference would give participants the opportunity to review the progress made by insular governments in improving their audit and Performer® results. Second, the conference attendees would focus on two areas that significantly impact audit and Performer® results—the procurement process and new GASB audit standards. Finally, participants would review the management/leadership model presented at the 2006 spring conference and apply the model to specific changes each government wanted to implement. To achieve these goals, the conference established five specific objectives:

1. Review the progress on completion of the corrective action plans from the FY 2005 audits. Link the FY 2005 audit corrective action plans to the government's audit improvement plan and internal controls. Discuss techniques and strategies used to measure progress and determine the completion of the audit improvement plans.
2. Examine public sector financial management best practices being employed by the insular governments.
3. Exchange information on the latest Performer® analysis and determine ways to use it as a tool to measure the financial health of each insular government.
4. Provide training to IGFOA members in procurement, new accounting standards and management/leadership.
5. Identify specific areas of training and technical assistance that each insular government can use to develop site specific training and action plans aimed at enhancing the government's ability to issue timely and unqualified audited financial statements and to support other initiatives.

### **IV. Welcoming Speeches**

Ms. Lourdes Perez, the current President of IGFOA welcomed everyone to the 2006 fall IGFOA Conference in Maui. On behalf of IGFOA, she expressed her appreciation to the Office of Insular Affairs, Department of Interior, for sponsoring the meeting, and to the Graduate School, USDA, for planning, coordinating and running the conference. Ms. Perez then announced that the IGFOA Executive Committee had already met and elected officers for the next year. The newly elected officers were Ms. Bernice Turnbull from the Virgin Islands as President and Mr. Jefferson Barton from the Republic of the Marshall Islands as Vice-President. The members of the IGFOA Executive Committee for 2006-2007 are:

- President—Bernice Turnbull, United States Virgin Islands
- Vice-President—Jefferson Barton, Republic of the Marshall Islands
- Secretary—Secretary of Finance from the CNMI



- Treasurer—Nick Andon, Federated States of Micronesia

Ms. Turnbull then greeted the conference attendees and welcomed them to Maui. She also thanked the Office of Insular Affairs (OIA) for supporting IGFOA and the Graduate School, USDA, for managing the conference.

## **V. Keynote Address**

Mr. Edgar Johnson, Director of Technical Assistance at the Office of Insular Affairs, Department of Interior, presented the keynote address for the conference. Mr. Johnson gave a brief overview of the role of the Office of Insular Affairs. The Office administers the U.S. Federal Government's relationship with all U.S. territories (other than Puerto Rico)—Guam, American Samoa, U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands (CNMI)—and administers financial assistance to the Freely Associated States (FAS) under Compacts of Free Association.

The Office has five major areas of focus:

- Economic Development
- Federal Policy Initiatives/Coordination
- Accountability/Financial Management
- Financial Assistance
- Support for other DOI core mission areas

Mr. Johnson then gave more detailed information about the activities the Office performs to support each of these focus areas (see Appendix B). He concluded with a special welcome from Secretary of the Interior Kempthorne and challenged the participants to fully enjoy the meeting while also taking full advantage of the educational and networking opportunities available during the conference.

## **VI. Audit Improvement Project**

Ms. Debbie Milks analyzed the most current audit from each of the insular areas and summarized her observations in a PowerPoint presentation (Appendix C) and discussion. The highlights of her analysis are summarized below:

### **Analysis of Audit Findings**

The last combined analysis on audit findings was based on the FY2001/FY2002 audits. Both the number of findings and dollars of questioned costs have declined by 1/3rd as shown in the FY 2005 summary audit analysis. However, it is inaccurate to assume the finance office is improving (or not improving) based on the number of audit findings. For instance, every audit noted violations of the CMIA. The auditor's listed CMIA findings for each major federal grant separately in the Virgin Islands, the CNMI and the Republic of Palau audits (resulting in 7, 5,



and 9 findings, respectively) while combining all grants into one or two findings for the other governments. Only the CNMI has questioned costs associated with the CMIA violations, although it would have been possible to perform the same questioned costs calculations for the other governments. It should also be noted that fewer and fewer findings relate to finance office operations and more relate to problems in the administration of federal programs. The AFTER analysis has a measure that calculates the percentage of recurring findings. If the percentage of repeated findings is small, it is an indication of how aggressively the government addresses problems found in the audit process.

Nonetheless, findings are a measure and it is noteworthy that the 3 areas with the largest number of findings did not change from FY2001 to FY2005; procurement, recordkeeping and reconciliation.

### **Corrective Action Plans (CAPs) and Audit Improvement Plans**

Every finding should have an associated corrective action plan that addresses, at a minimum, the exact problem noted in the finding. For instance, it may be as simple as a missing document that is found and presented to the auditors or grantor. However, if many audit findings relate to missing documents, then not only should the documents be found and presented, but a full audit improvement plan should be developed that addresses the systemic problem. The cause of the problem should be fully explored (is it lack of filing space, lack of control over the files, lack of attention to the auditor's requests for documents?) so the solution is appropriate to the cause. While a grantor agency may forgive an audit finding in a single year, they are looking for the government taking proactive steps to resolve the overarching problem. An audit improvement plan shows how the government is addressing the problem complete with detailed steps, associated names, timelines, and progress measures.

### **Progress Measures**

Progress measures can help the government determine if the plan is working and demonstrate if progress is being made. The best method to use for a progress measure is to determine a baseline (where you are now) and a benchmark (where you want to be). Progress towards the benchmark should be included in the narrative of the audit improvement plan.

The power point presentation gives several examples of how progress can be reported. The simplest is illustrated in the RMI plan where in FY2003 & FY2004, nine Component Units were not included in the government wide financial statements (baseline). In FY2005, 4 were missing and FY2006, one is expected to be missing (progress). The benchmark is expected to be reached in FY2007 when all component units will be included in the audit.

### **Government Success Stories**

As an introduction to presentations by each government on one of their major problems resolved using the audit improvement plan process, Ms. Milks highlighted some good ideas she noticed while reviewing the plans:



- Guam has set up a system to allow them to offset amounts owed to the government for taxes or advances with amounts due for purchases or payroll.
- Pohnpei State has a new travel advance collection policy which is bringing down the amount of uncollected travel advances.
- The FSM National Government has set up a monthly checklist of reconciliations that will allow the Director to easily track if the reconciliations are completed on time.
- Chuuk built a new storage room for documents and a “check-out” system to avoid the loss of their documents.
- Palau has set up a review of all purchases using federal grants to ensure that the purchase is within the grant terms and conditions and A-87.
- The Marshalls also has a federal grant monitor in the finance office and has set up a special form that requires departments to get specific clearance for staff using federal funds to travel.
- The VI has a system that has the grantee departments writing their corrective action plans with OMB monitoring the plans and the progress.

After Ms. Milks’ presentation on the status of the audit improvement project, representatives of the insular areas made presentations about their own audit improvement efforts. The panel of presenters was:

- Jilla Pirmoozmandi—American Samoa (Appendix G)
- Bob Schrack—Commonwealth of the Northern Mariana Islands
- Kathy Kakigi—Guam (Appendix F)
- Ihlen Joseph—Federated States of Micronesia
- Junior Patrick—Republic of the Marshall Islands (Appendix E)
- Secilil Eldebechel—Republic of Palau
- Bernice Turnbull—Virgin Islands (Appendix D)

### **U.S. Virgin Islands**

The U. S. Virgin Islands analyzed their audit findings over the past seven years (see Appendix D) and identified several multi-year trends:

- Findings are no longer general
  - Audit findings are becoming more focused on grants, processes, and internal controls
- More focused findings allow the Government to focus resources on corrective action
  - Focus on resolving the most severe issues
- Questioned costs have decreased each year



- For FY 2002, Questioned costs were under a million dollars
- For FY 2003, Questioned costs were under \$600,000
- For FY 2004, Questioned costs were under \$500,000

The USVI further noted that audits are government-wide, with many of the findings outside of the control of the Department of Finance. Approximately half of all findings are multi-department issues. To resolve these findings, the USVI develops and implements a detailed Corrective Action Plan each year.

In a government-wide effort to prevent or reduce findings, the USVI is implementing an Enterprise Resource Planning system, a sophisticated financial management system that allows the government to implement territory-wide policy and procedures that conform to accounting standards. The system also provides for greater control over grant draw-downs and spending and enforces the use of budgets to justify and execute spending.

### **Republic of Palau**

Palau did not have an evident success story to report, but did have one specific goal on which it has been focusing its efforts--to minimize questioned costs in findings, especially repeated findings. In its audit reports over the past few years Palau noticed the number of findings centered on the procurement issues. It specified activities or efforts to address those issues. Their controller pushed the staff to meet and discuss these problems more frequently. Because of these efforts Palau has come up with a number of measures to tackle those problems. Some of those problems stem from program managers who come in as new managers who are not too familiar with procurement policies and laws. These program managers have received no training on procurement, so Palau has decided to solicit more training for program managers—especially new ones coming in. The Graduate School, USDA, has provided training on procurement and contract negotiations. The staff has a lot more awareness in terms of compliance with procurement laws. Palau, as a small country, doesn't have many economic activities going on, so sometimes implanting procurement policies that are comprehensive can be very challenging for the procurement offices.

Other issues include record keeping and to address this problem (missing documentation) the Procurement Office has recently come up with a checklist so that all the documents are in place for procurements. In the past the Procurement Office has not been paying attention to record-keeping systems or maintaining adequate records for auditors. Recently the Office has come up with a list of documents that needs to be completed before a document gets placed into a file.

### **Republic of the Marshall Islands**

The Marshall Islands identified four major sets of issues in its audits findings:

- Component Units



- Fixed Assets
- Other Compliance Issues (grants period of availability, allowable costs, procurement issues)
- Local Non-compliance

The RMI is addressing each of these issues (see Appendix E), but has been particularly successful resolving the problems with component units. The RMI has had un-auditable component units as a repeat finding since 1998. In 2003 there were eight un-auditable component units, while in 2005 the number of un-auditable component units was down to four. The RMI achieved these results by taking several actions. It:

- Engaged the services of a Consultant to assist component units in rectifying their accounting books and records, having them ready for audit,
- Coordinated with the Auditor General's Office on Component units' progress,
- Established an Audit Resolution Committee that met twice during the year to continuously work on the audit findings, and
- Ensured that component units are aware of the GASB requirements and dateline.

The results achieved thus far have been promising--one non-compliant component unit as of FY2006 and the expectation of no non-compliant units for FY2007 and onwards.

## **Guam**

The Government of Guam focused on one of its key findings—to improve its collection of account receivables (Appendix F). Specifically, Guam improved its monitoring of the collectibility of receivables and the rigor of its collections efforts. In FY2002, Guam collected 87.3% of its use tax. Although there have been annual fluctuations in this collection rate, in FY2006 99.2% of the use tax was collected. One of the steps Guam has taken to improve this rate is to place a notice to vendors on all purchase orders notifying them that any unpaid use taxes will be offset against the payments due on the purchase order.

Another chronic problem Guam has faced is outstanding travel advances. In FY2002 Guam averaged 471 days to clear outstanding travel advances and had 40% not cleared. In FY2006 it took, on average, 46 days to clear outstanding travel advance and only 20% were not cleared. Guam has taken two actions to effect these changes. First, government employees sign an authorization to offset outstanding travel advances against salaries. And second, the Department of Administration sends employees with outstanding travel advances a notice to clear the advance or the outstanding amount will be offset.



### **Federated States of Micronesia (FSM)**

Most of the common problems in the FSM deal with the lack of timely bank reconciliations. The governments also have untimely reimbursements for federal programs. The governments are spending their own general funds and then requesting reimbursements. Travel advances are also a problem. There's a lack of supporting documents for auditors; they'll often find a copy of a check, but no supporting documents, and the finance staff is unable to provide them in a timely fashion. Finally, the governments have weak procurement compliance.

In the general fund checking account the audit found unidentified deposits for over \$4 million. That number is now down to \$1.2 million, and the staff continues to reconcile. These are the common weaknesses identified in our audit findings. It takes time to work through these issues. But we also have some success stories, and one that deserves being highlighted is Pohnpei State's completely clean opinion for 2005 audit. Another success for the FSM is the inclusion of our component units, which have struggled because of a lack of CPAs. This problem has been reduced. Finally, in the last special session Congress appropriated the entire FSM's share of the annual single audit cost, which is a major achievement.

### **Commonwealth of the Northern Mariana Islands (CNMI)**

The CNMI reports two major successes. One is just catching up on the audits. Between July 2005 and 2006 the CNMI issued three years of audit reports, which is a significant accomplishment. The flip side is that by doing so many audits in such a short time the finance staff has not had time to address findings and qualifications. The compliance work is complete for the 2006 audit, with a goal to have the final 2006 audit issued by March 31st.

The CNMI has been able to remove a few qualifications. A lot of work was put into cleaning up grant receivables, with considerable success. The CNMI noted that it won the findings competition with the highest number. One reason for the increase in findings is new programs, particularly new disaster programs. The other problem is that it seems like the more work you do the more the auditors find. The findings seem to be getting more focused.

### **American Samoa**

American Samoa has made steady progress on reducing its questioned costs in its single audits (Appendix G). Over the past five years approximately 72% of federal programs have been tested each year. In FY2001 questioned costs comprised 34% of total federal fund expenditures. In FY2005 this percentage of questioned costs had been brought down to 3% of federal expenditures.

## **VII. Utilizing the Performer® as a Tool for Measuring the Financial Health of the Insular Governments**

This session focused attention on the latest measurement of the various insular governments' financial health and performance as measured by the



Perfometer® model (see Appendix H). The Government officials that were in attendance received updates on their respective financial health and performance for the fiscal year that ended September 30, 2005, which is the latest set of audited financial statement data released by all of the governments (with the exception of the USVI, whose latest set of audited financial statement is for the September 30, 2004 fiscal year).

Discussion centered on the changes in the Perfometer® score from the prior year, with emphasis on the reasons for the changes. In addition, the financial health and performance strengths and weaknesses of each government were highlighted.

Lastly, examples were provided to the participants for using the Perfometer® model and its results to assist in the management of the government.

## **VIII. Financial Management Emerging Trends and Best Practices Panel Discussion**

A panel of representatives from the insular areas presented information about public sector financial management best practices being employed by the insular governments. The discussion of these best practices covered what the government was currently doing and the results achieved, and offered opportunities for the other insular areas to learn how the practices could be applied in their own situations. The panelists' comments are summarized below:

### **Republic of Palau—Elbuchel Sadang**

Good afternoon. In 2002 when Palau accumulated deficits because of the SARS scare, we decided to take some measures to improve our positions. Rather than provide departments their full funding at the beginning of the year, we distributed funds in quarterly increments--50-20-20-10. The final 10% was held back to ensure we collected sufficient funds to cover all of our expenditures. The budget adjustments do not carry over to the next fiscal year. We strengthened our procurement policy to not allow any outside orders after July 1st. With those procedures in place we were able to reduce our deficit by 50%. This year we got a grant from OIA to install a new tax system that allows people to file online. We have non-filers and go after them aggressively. People can pay online via credit card. And we have VIP treatment for 50 major tax payers. Our revenue enhancement program is now up by 5%.

### **Guam—Lourdes Perez**

Our best practice is really the Financial Management Improvement Plan (FMIP) and how we implemented them. We faced two serious typhoons which put the government into an operational deficit and without power. In 2003 there had been as many as eight different directors in my position, and I think my stability, serving from 2003 to the present, helped. In 2003 we asked OIA to please come and help us. We had had as many as 2 or 3 FMIPs that were on shelves and not being implemented. OIA funded the development of an FMIP and asked the



Graduate School to help us implement the plan. We drew up a plan with five major goals. All of us in that room were people that dealt with these issues—projecting revenues for the year, the Bureau of Budget, Department of Revenue and Taxation, etc. We were fortunate in the help we received, and we were able to work our plan through visits from the consultants, which kept us on course. The FMIP has been updated regularly and it now has a life of its own. There's so much excitement to the plan and now we're really thinking forward. We're able to produce timely reliable and accurate financial information. We're able to get financial statements done on time, and the number of qualifications shows that our statements are much more reliable than they were in 2001. We're now looking forward to improving our records management system and many other things, and the FMIP process has been a really valuable tool.

### **State of Hawaii—Georgina Kawamura**

I have three issues I'd like to share. First, for 40 years before we took office it had been a practice to create "unbudgeted positions". When we took office the Legislature didn't want us to continue the practice, so they put in a provision that we can't spend any money for unbudgeted positions. Creating unbudgeted positions creates a long-term obligation, which I didn't want to continue.

In the State of Hawaii we're 70% funded in our pension fund. It's a \$10 billion fund. When I first took office we changed the way that we collect the employer share. We're all in one centralized system. How they used to collect from each employer group was based on actuarial numbers three years after the fact which nobody could really figure out. So finally we developed an easier method to charge them—a percentage of their payroll. People now know how much to budget, how much to plan, based on this view. This whole issue had to go through our legislative process to change laws, but it was a very positive change.

Unclaimed property is huge in the State of Hawaii. Unclaimed property is when people leave their accounts dormant for over 5 years. We were collecting at least \$10 million in unclaimed property every year, but only paying out \$1 or \$2 million. The rest of the money went to the general fund. So I went to the legislature four times to repeal the current law. I wanted to be able to keep properties for the owners or their heirs. I've never been able to get the new law passed, but every legislature has asked me for a list of people in their district who have unclaimed property. So I started an aggressive outreach program sending staff to every fair there is, and have had some success. They're surprised we give them \$200 or \$300, but it's because of the unclaimed property.

When I was appointed to Governor Lingle's cabinet, it was to continue the success we had with performance budgeting here in Maui—linking spending to results so the legislature and the public understand the link between their money and operational results. It's a bigger challenge at the State level, but I talk about this every day, and the directors, who aren't finance people, don't like it. But their money comes through the budget office and they need to communicate to me in performance-based terms in order to have their money released. The legislature has embraced it as well as a tool to communicate results. We've been here four years and have a lot of work still to be done.



At my hearing in 2003 they asked about my goals and objectives, so I talked about this issue of performance budgeting and how proud we were of the successes we had here in Maui. It boiled down to me trying to look at one legislator and know that that person was interested in parks. So I'd direct my remarks to him and say 'don't you think we should know how frequently the grass is cut, the bathrooms cleaned, etc. for the money we are spending?' Or for a legislator interested in education, I'd ask 'don't you want to know proficiency rates in the schools? Our education system is underperforming and is the biggest cash cow in our budget. Shouldn't we know what educational improvements we are getting for the money we are spending?'

### **American Samoa—Velenga Savali, Jr.**

The newspaper people came to my office to ask me how I'm doing financially for '06, and I told them we had a small surplus if we eliminate the overrun on the general fund. I did not say we were going to have a surplus. In our operation we have a budget office which does the projection for a fiscal year. We operate on net projections every year, and if we don't meet the projections then we operate under deficit. So we get deficit because we overrun the appropriation or the federal grants which we separate from local funds. Our budget office controls the local funds. There is a section in my office that monitors the general fund under the grants. When I got on board last year the governor gave me two assignments. First to hire a controller which we haven't had for over three years' time. Secondly to hire somebody from off-island to handle our grants spending.

### **U. S. Virgin Islands—Ira Mills**

Pertaining to budget, we've been pursuing performance-based budgeting for a number of years with a view to achieving an achievement-based budget award. We want to affect the cost of our funding in the financial markets. Over the years we've done a number of things. First we've gotten bond money to pay unpaid obligations. We've also tried to keep up with income tax payments. Now agencies have the ability to pay as much as \$50K for prior-year obligations. That's \$50K per item. One of the other things we recognized is that after Hurricane Hugo in '89 we created an Insurance Guarantee Fund. There have been a lot of persons who have tried to raid the funds, but Bernice Turnbull has kept them away. We also have a disaster recovery fund to help meet needs—preparing for the eventuality of a disaster. While we may not get FEMA funding, we want things in place to take care of disasters. Our rainy-day stabilization fund, our Legislature has raised it to \$10 million, but we want to keep it low enough that it's under the radar but in the budget so that legislators can't attack the fund. We have also engaged our budget analysts in the union negotiation process. When we come to the table with the chief negotiator we are able to do things that she cannot do. We assembled a financial team that has allowed us to make progress for the community. We put our budget on the website, we also decided to distribute the budgets, including giving it on a CD.



## **IX. Procurement Issues in Audits**

A review of the procurement issues noted in the FY2005 audits was presented by Debbie Milks (Appendix I). A new and problematic issue was noted in the ROP audit. The 2005 Appropriations Act included language that requires grantees to publish the amount of the grant in all grant-related documents, including purchase requests. Palau has found that having the grant amount in an RFP results in bids which all match the amount of the grant, negating the purpose of the RFP.

Almost every government had problems with documenting or providing correct justification for sole source purchases, expedited purchases, and special brand name purchases. It is not entirely clear if the documents are lost, not provided to the auditors on a timely basis, or never available. It is clear that if the procurement offices can provide proper documents, the number of procurement related findings will decrease substantially. Travel costs are beginning to be questioned if there are no quotes for the airfare or procedures to manage other travel costs. The excuse that "there is only one airline" does not work with international travel from the islands. Finally, several governments did not have procedures which adequately address small purchases.

Following the presentation of procurement-related findings in the audits, Jim Bruccia became 'Mr. Procurement Man'. The idea for having Mr. Procurement Man (the imaginary Director of Procurement) was to address several common findings identified in single audit reports. Among others, these findings centered on a lack of documentation, an insufficient number of bidders, change order pricing, and directed procurements. Using questions from the audience about each of these and other topics, participants discussed some of the ways procurement and finance personnel might deal with the issues presented in the single audits. For example, procurement personnel may have to spend additional time developing alternate sources when the lack of competition fails to ensure a reasonable price. When there is only one source, procurement personnel may need to perform price analyses and document the basis for their conclusion that prices are fair and reasonable. Regardless of the type of procurement, there is a need to better document the logic and basis for procurement decisions to eliminate a multitude of single audit issues. Finally, Mr. Procurement Man suggested that it was acceptable for procurement officials to refuse to sign directed procurements when the directing official also has procurement authority and can assume the responsibility.

Mr. Bruccia continued the procurement plenary session with a lecture on procurement findings (Appendix M), beginning with a discussion of the audit model used by auditors to evaluate compliance. The auditors identified each element of a performance audit finding-- condition, criteria, cause and effect. Because they were conducting compliance audits, the auditors did not delve into the underlying cause of the deficiencies identified. That leaves it to the line procurement and finance directors to get to the core of the problem by evaluating the real or underlying cause of the findings presented in single audits. Mr. Bruccia stressed that problems are caused by people, not policies and



procedures, and they need to spend whatever time is necessary to deal with underlying causes, (the why the condition exists) rather than the cosmetic causes identified in a number of the reports.

To complete the plenary procurement session, class participants were divided into five groups for a work session. Each group was tasked to identify the five highest priority procurement issues their governments were facing (see Appendix J). The problems listed by the groups were extremely similar, suggesting that all the governments had comparable procurement concerns. These issues were passed to the Procurement Officers for further discussion and analysis in their afternoon session.

## **X. Governmental Accounting Standards Update**

This session took a closer look at four relatively new accounting principles, along with a first look at one new auditing standard, all of which will probably impact the majority of the insular governments over the next year (Appendix K).

GASB 42, Asset Impairment and Insurance Recoveries, places new requirements on governments to account for capital asset impairments and various insurance recoveries received. Now that there is a higher focus placed on capital assets and their recorded values (GASB 34), this standard requires governments whose capital assets have been impaired revisit the remaining values assigned to those assets to see if they need adjustment. In many cases, if a capital asset has become impaired, the government will be required to include a “loss” in their annual expenses for the year that the impairment occurred, which results in the capital asset itself being “devalued”. Insurance recoveries, if applicable, will be used to offset the expenses.

Since many of the insular governments face the threat of asset impairment due to physical damage (mostly from weather or earthquakes), this standard could become particularly important to the insular governments.

The second and third accounting principles that were covered related to one topic, Other Post Employment Benefits (OPEB). GASB Principles 43 and 45 require that OPEB Plans (similar to a pension plan) and the employers that participate in the Plan (similar to the CNMI participating in the CNMI Pension Plan) begin to account for the true cost of the OPEB Plans and the true costs to the governments that participate in the plans.

These accounting standards will require, among other things, that governments account now for the costs of future promised benefits to retirees (usually in the form of health related benefits) rather than a “pay-as-you-go” methodology which has been applied in the past. Using this new methodology, governments can measure the true cost of these benefits and have more useful information to make appropriate decisions related to funding the promised benefits. The impact of these standards could include the recognition of a significant liability both in the financial statements and the notes to the financial statements depending upon how each government funds the current and past costs of these benefits. It



is anticipated that many, if not all, of the insular governments will have some liability related to OPEB type benefits.

The fourth accounting principle highlighted, GASB 47, deals with the accounting and financial reporting issues related to termination benefits, both voluntary terminations (early retirement plans) and involuntary terminations (severance pay or reductions-in-force). Many of the insular governments in the past have had these types of terminations, and it is anticipated that they could have some of these types of termination benefits in the near future. The principle basically states that, generally, the expense and liability caused by these plans should be recorded at the time the termination benefits are offered, extended, or in the case of involuntary terminations, "forced" upon employees. Currently, the costs of previous terminations were accounted for on a "pay-as-you-go" basis.

The last subject of the day was a quick look at a new auditing standard, SAS 112 – Communication of Internal Control Matters Noted in an Audit. Normally, audit standards are not discussed in any depth with the IGFOA participants; however this standard is different since it may directly impact many of the audit improvement plans and resolution of audit findings efforts that the various governments have been working on the last few years.

The basic premise of this auditing standard is to clarify that the auditor cannot be part of management's internal control structure, without that involvement more than likely being considered an internal control weakness in and of itself. In other words, in situations that are common to the insular governments, the finance departments of many of the insular governments have inadvertently relied upon their auditor to do several things that management should be doing. Examples of these types of situations where management has relied upon their auditors to be an internal control are 1) the preparation and drafting of financial statements and notes in accordance with generally accepted accounting principles, 2) the identification of material misstatements in the financial statements (or in other words, using the auditor to fix your mistakes rather than you fixing them on your own), and 3) relying upon the auditor to restate prior year financial statements for the correction of an error found in the prior year.

In addition, the new standard redefines what an internal control weakness is, using terms like control deficiency, significant deficiencies, and material weaknesses to appropriately describe the severity of an internal control weakness. These definitions appear to be broader than the prior definitions, and therefore it appears that the new standards will initially increase the number of internal control weaknesses that are now reported to management.

It is anticipated that the financial management department of each of the insular governments may be expected to take a larger role in the development of their financial statements, the identification and correction of any material misstatements, and an overall strengthening of their internal control structure to avoid additional internal control findings in the future.



## **XI. Preventing Procurement Related Audit Findings**

The Procurement Officers took the procurement issues identified in the morning session and consolidated them into a common list of the most pressing procurement problems (see Appendix M). The procurement team then analyzed each problem, further defining the problem, determining the consequences of the problem, and proposing possible causes (see Appendix N). As the discussions proceeded, it became clear that although many procurement problems were common among the government, the same problem often had different causes in different governments. Thus a single solution would not work for all governments, even for the same problem. The team proceeded to develop several possible solutions for a problem. The discussions provided an excellent exchange of ideas, revealed that some governments had effective solutions for the problems and offered opportunities for the Procurement Officers to jointly problem solve their issues.

## **XII. Managing the Finance Office: Integrating Internal Controls and Performance Measurement**

The discussion on internal controls centered on defining controls in terms of the control environment, control objectives and control techniques. Mr. Bruccia explained in some detail that all organizations were at risk of not accomplishing their control objectives, and these risks were influenced by such characteristics as budgets, mission complexity, handling of cash, responsiveness to audit findings, and organizational checks and balances.

Mr. Bruccia emphasized the need for top-level leadership and support (The tone is set at the top) for establishing and implementing internal controls. Most importantly he stressed that all those present were a major part of the internal control system. THEY were a control, put in their positions to ensure effective, efficient and economical use of public resources. THEY needed to independently test existing policies and procedures to ensure they were adhered to. THEY needed to develop additional controls if they were absent. Finally, THEY needed to understand THEY have no choice in this area, that it was included in each and every one of their position descriptions specifically or by the mere definition of their roles as managers.

After the internal controls presentation, Dr. Medlin reviewed the management/leadership model (The 21st Century Public Leader: Tools and Competencies) presented in the May IGFOA Conference. Dr. Medlin focused on two of the key leadership competences—vision and leadership. He also stressed the five conditions for success—top management/leader support, an urgent need for change, support from a critical mass, some ‘ripe apples’ and sufficient trust. He then discussed the leaders’ role in creating the conditions for success (see Appendix O).

Conference participants broke into government groups and identified the most critical issues for their government covered during the week. Drawing from the



audit, accounting, and procurement presentations during the conference, each group determined its top three priorities for change. Then, for each change, they developed plans to address the key things that they personally, or their agency specifically, needed to do to establish the conditions for successful change and manage the change effectively. Finally, each government prepared a government specific action plan to implement the changes it identified as its highest priority (see Appendix P).

### **XIII. Tom Bussanich, Director, Budget and Grants Management Division, DOI/OIA**

Tom Bussanich provided the conference an update on the current status of some key events affecting OIA. He addressed four major factors impacting OIA:

- Impact of Continuing Resolutions
- Estimated FY 2007 Appropriations
- Covenant Grants-Competitive Criteria
- NEPA Finds OIA

Most of the federal government, including the Department of Interior, is working under continuing resolutions; no appropriation bills have been passed allocating funds for FY2007. OIA does not know whether its budget will be increased or decreased, therefore it is being cautious with its expenditures until it receives its FY2007 budget.

OIA continues to use and improve its competitive criteria for awarding grants (see Appendix Q). Eleven criteria are now applied to determine whether each insular area gets an increase or decrease in its covenant grants.

Finally, Mr. Bussanich noted that NEPA has 'found' OIA. Although the impacts of this are unclear, OIA expects there to be more requirements of an environmental nature involved in their grants.







## **Appendix A: IGFOA Conference Agenda**

December 5 – 7, 2006  
Wailea Beach Marriott Resort  
Wailea, Maui, Hawaii

Purpose/goals: This meeting will be held to:

- Review the progress on completion of the corrective action plans from the FY 2005 audits. Link the FY 2005 audit corrective action plans to the government's audit improvement plan and internal controls. Discuss techniques and strategies used to measure progress and determine the completion of the audit improvement plans.
- Examine public sector financial management best practices being employed by the insular governments.
- Exchange information on the latest Performer analysis and determine ways to use it as a tool to measure the financial health of each insular government.
- Provide training to IGFOA members in procurement, accounting standards updates and management/leadership.
- Identify specific areas of training and technical assistance that each insular government can use to develop site specific training and action plans aimed at enhancing the government's ability to issue timely and unqualified audited financial statements and to support other initiatives.

### **Monday, December 4th**

3:00 – 5:00 pm Arrive & Register

3:00 – 4:00 pm IGFOA Executive Officers Meeting

5:00 – 6:00 pm FSM Financial Management System Planning Meeting

### **Tuesday, December 5th**

7:00 – 8:15 am Breakfast

8:30 am Ilima Conference Room  
Welcome

Lourdes Perez, President, IGFOA  
Edgar Johnson, Department of Interior  
Jack Maykoski, Graduate School, USDA

8:45 am Keynote Address: Nikolao Pula, Director  
Department of Interior/Office of Insular Affairs



### Questions and Answers

9:30 am            Review agenda and introductions  
Steve Medlin, Facilitator

10:15 am            Break

10:30 am            Audit Improvement Project  
Debbie Milks, CPA

Summary of the current status of audit findings and progress towards completion of the audit improvement plans;  
Establishing performance measures for audit improvement and finance office efficiency.

### Insular Government Presentations:

American Samoa  
Commonwealth of the Northern Mariana Islands  
Federated States of Micronesia  
Guam  
Republic of the Marshall Islands  
Republic of Palau  
U.S. Virgin Islands

12:15 pm            Group Photo

12:30 – 1:30 pm    Luncheon Speaker: Georgina K. Kawamura, Director of Finance, State of Hawaii

1:30 pm            Utilizing the Performer as a tool for measuring the financial health of the insular governments (2005 update)  
Frank Crawford, CPA

### Questions and Answers

2:45 pm            Break

3:00 pm            Financial Management Emerging Trends and Best Practices  
Panel Discussion

### Panelists:

Velega Savali, Treasurer, American Samoa  
Lourdes Perez, Director of Administration, Guam  
Georgina K. Kawamura, Director of Finance, State of Hawaii  
Marc Biggs, Commissioner, Department of Property and Procurement, U.S. Virgin Islands  
Elbuchel Sadang, Minister of Finance, Republic of Palau



## Questions and Answers

4:30 pm

Adjourn

5:00 pm

Reception sponsored by First Hawaiian Bank  
Bishop Street Capital Management**Wednesday, December 6th**

7:00 – 8:15 am

Breakfast

8:30 am

Review results from Tuesday and overview of agenda

8:45 am

Procurement Issues in Audits  
Debbie Milks and Jim Brucia

10:00 am

Break

10:15 am

Procurement Issues in Audits (continued)

11:00 am

Working groups to discuss procurement issues

11:30 am

Report back from working groups

12:00 – 1:00 pm

Lunch

1:00 pm

Dual training tracks:

Finance Officers' Track  
Governmental Accounting Standards Update  
Frank Crawford, CPA  
Ilima Conference RoomProcurement Officers' Track  
Preventing Procurement Related Audit Findings  
Jim Brucia, CPA  
Puakenikeni Room

2:30 pm

Break

2:45 pm

Finance Officers' Track (continued)  
Governmental Accounting Standards Update  
Frank CrawfordProcurement Officers' Track (continued)  
Preventing Procurement Related Audit Findings  
Jim Brucia



- 3:30 pm            Small Group Discussion  
Topic: Applying the skills covered in the sessions to insular government finance/procurement practices
- 4:00 pm            Report back to large group for overall discussion
- 4:40 pm            Update on DOI/OIA Grant Procedures  
Marina T. Tinitali  
Accountability and Insular Policy Specialist, DOI/OIA
- 5:00 pm            Adjourn
- 5:15 – 9:30 pm    Lahaina Trip (Optional)

### **Thursday, December 7th**

- 7:00 – 8:15 am    Breakfast
- 8:30 am            Review results from Wednesday and overview of today's agenda
- 8:45 am            Managing the Finance Office: Integrating Internal Controls and Performance Measurement  
Steve Medlin and Jim Brucia
- 10:30 am           Break
- 10:45 am           Tom Bussanich  
Director, Budget and Grants Management Division, DOI/OIA
- Questions and Answers
- 11:30 am           Government specific action planning
- 12:00 pm           Working Lunch to further develop site specific action and training plans
- 1:00 pm            Conference Wrap-up  
Advancing the plans  
Summary of progress during this session  
Summary of training and technical assistance requirements  
Next steps  
Conference evaluation
- 2:00 pm            Adjourn
- 2:00 – 3:00 pm    Island government consultations
- IGFOA Executive Meeting  
Puakenikeni Room



## Appendix B Edgar Johnson: The Role of the Office of Insular Affairs (Slides)

### The Role of the Office of Insular Affairs U.S. Department of the Interior

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## The Role of the Office of Insular Affairs U.S. Department of the Interior

- Administers the U.S. Federal Government's relationship with all U.S. territories (other than Puerto Rico)
  - Guam
  - American Samoa
  - U.S. Virgin Islands
  - Commonwealth of the Northern Mariana Islands (CNMI)
- Administer financial assistance to the Freely Associated States (FAS) under Compacts of Free Association
  - Federated States of Micronesia (FSM)
  - Republic of the Marshall Islands (RMI)
  - Republic of Palau



## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Major Focus Areas**

- Economic Development
  - Federal Policy Initiatives/Coordination
  - Accountability/Financial Management
  - Financial Assistance
  - Support for other DOI core mission areas
- 

## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Economic Development**

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## The Role of the Office of Insular Affairs U.S. Department of the Interior

### Economic Development

- Established by Secretary Norton and reaffirmed by Secretary Kempthorne as a major priority in all seven areas
- Sustainable, private-sector driven economies are necessary to reduce dependence on US and foreign government transfer payments
- OIA efforts have focused on several areas:
  - Raising the profile of opportunities in all seven areas
  - Facilitating connections between the business communities of the fifty states and the seven insular areas
  - Improving the business climate in all seven areas



## The Role of the Office of Insular Affairs U.S. Department of the Interior

### Economic Development

#### Raising the Profile/

#### Making Connections:

- 2003 Investment Development Conference (Washington, DC)
- Secretary of the Interior's 2004 and 2006 Conferences on Business Opportunities in the Islands (Los Angeles, CA and Honolulu, HI)
- 2005 Island Business Opportunities Mission to Guam, Saipan, and Palau
- 2006 Island Business Opportunities Mission to the U.S. Virgin Islands
- 2006 Island Business Opportunities Mission to American Samoa





## **The Role of the Office of Insular Affairs U.S. Department of the Interior**

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### **Economic Development**

#### **Improving the Business Climate**

- Island Fellows Program
    - Examining/Scouting growth opportunities
    - Groundwork for major OIA events
    - Studies on tax, trade, and regulatory environment
  - Ongoing discussions with local business and government leaders on potential regulatory and infrastructure improvements to bolster local business activity
- 

## **The Role of the Office of Insular Affairs U.S. Department of the Interior**

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### **Federal Policy Initiatives/Coordination**

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## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Federal Policy Initiatives/Coordination**

- Coordinating responses to changes in Federal Policy
    - Tax Policy
    - Immigration Policy
    - Trade Policy
  - Interagency Group on Insular Areas
    - 30-agency group created by Executive Order of the President
    - Serves as forum and network for discussing and addressing policy-related issues that affect the four U.S. territories
- 

## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Federal Policy Initiatives/Coordination**

#### **Coordinating responses to changes in Federal Policy**

- General Note 3(a)
  - American Jobs Creation Act
  - Regional/Industry-Specific Free Trade Agreements
    - Tuna
    - Garments
    - PICTA
    - PBDC
  - Immigration
  - Minimum Wage
  - Energy Policy
-



## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Federal Policy Initiatives/Coordination**

#### **Interagency Group on Insular Areas**

- **Cross-cutting issues**
    - Financing solutions for large-scale infrastructure work
    - Healthcare Surveys
    - Medicaid caps
    - Other major issues (tax, trade policy, economic development) are frequently addressed in the context of the members of the IGIA
  - **Jurisdiction-specific issues**
    - Emergency cabotage exemption
    - FEMA disaster relief cost share adjustment
    - Administration support for delegate bill
    - Submerged Lands jurisdiction
- 

## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Accountability/Financial Management**

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## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Accountability/Financial Management**

- Revised financial assistance manual
  - New Compact accountability requirements
  - New Hawaii office
  - Accountability coordinator
  - Accountability performance will affect allocation of CIP funds
  - Accountability performance will affect discretionary grants
  - Single audit completion
- 

## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### **Financial Assistance**

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## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### Financial Assistance

- 702/Covenant Funding
- Compact Sector Grants
- Compact Impact Assistance
- Technical Assistance (including Operations and Management Improvement Program)
- Operations assistance



## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### Support for other DOI Core Mission Areas





## The Role of the Office of Insular Affairs U.S. Department of the Interior

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### Support for other DOI Core Mission Areas

#### National Parks

- GUAM/War in the Pacific Memorial
- CNMI/American Memorial Park
- AS/American Samoa National Park
- VI/Virgin Islands National Park
- Environmental Preservation
  - Coral Reef Protection
  - Fisheries
  - Brown Tree Snake Control
  - Water Resource Maintenance
- President's Management Agenda
  - Accountability
  - E-Government Initiatives
  - GIPRA



## The Role of the Office of Insular Affairs U.S. Department of the Interior

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ON BEHALF OF SECRETARY KEMPTHORNE



WELCOME TO THE 2006 IGFOA MEETING

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## Appendix C Debbie Milks: The Audit Improvement Project (Slides)





## Comparative 2002 to 2005

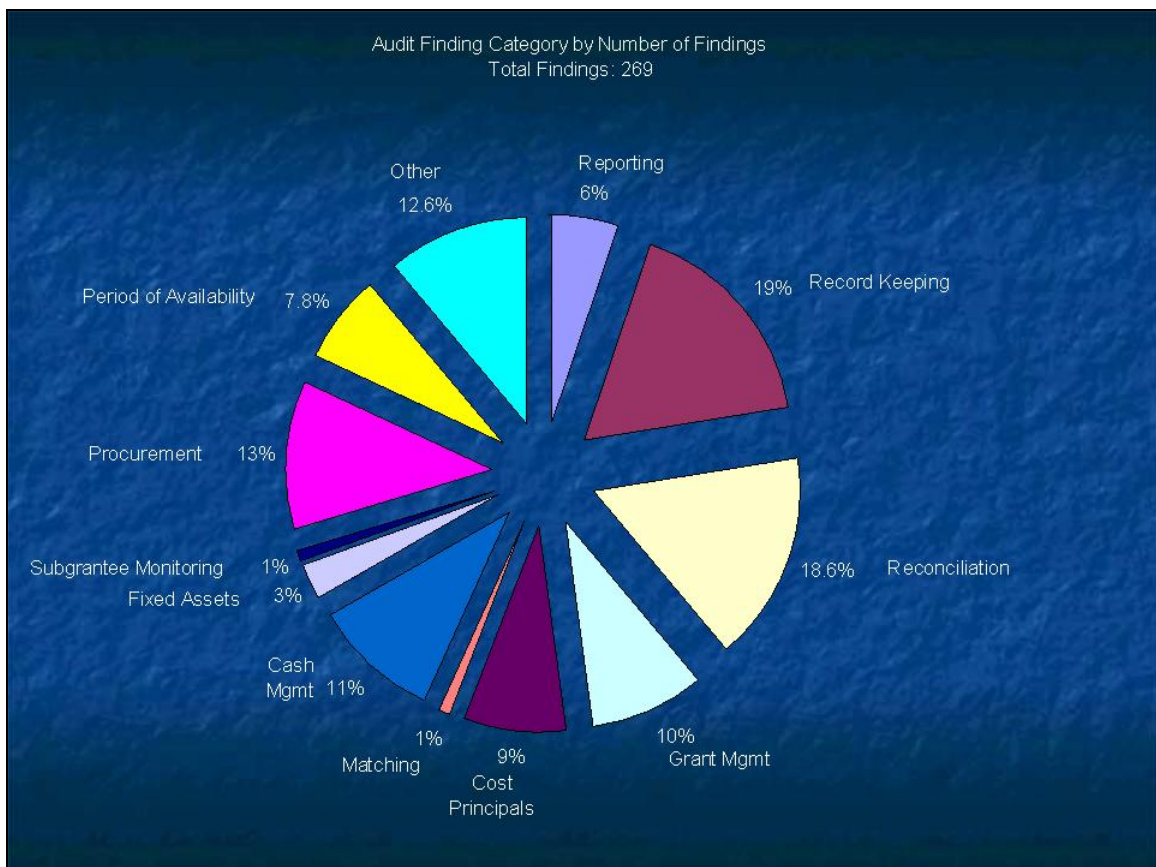
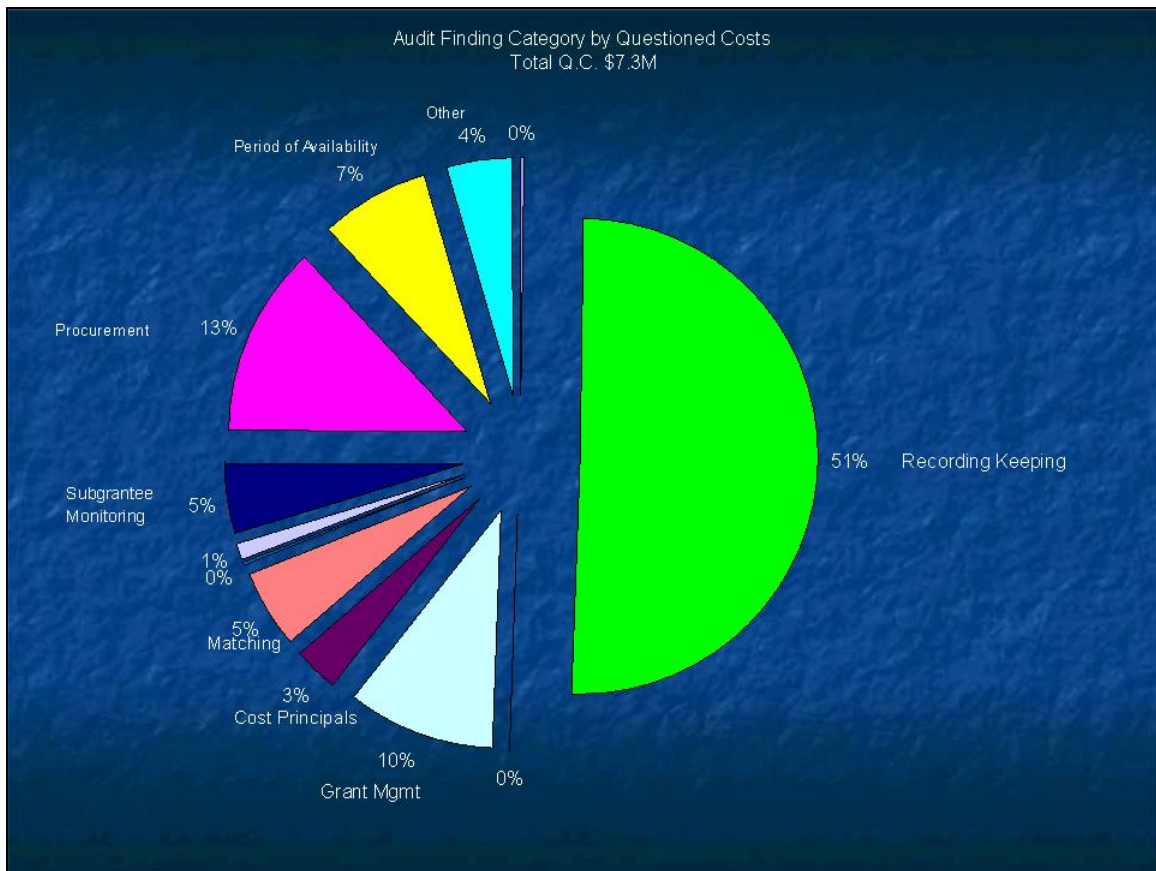
- Q.C. and findings have fallen by a third
- More accurate as they are more timely
- 3 biggest problems are the same
- A “blunt” measure dependent upon
  - presentation format
  - the focus of the auditor
- Q.C. is not indicative of large vs small problems--\$0 Q.C. on reconciliation

### FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

|                   |   |
|-------------------|---|
| Finding No.:      | 2005-10   |
| Agency:           | U.S. Department of Homeland Security  |
| Grant #:          | EMF-2004-GR-0409  |
| CFDA#:            | 83.544/97.036 - Public Assistance Grants  |
| Agency:           | U.S. Department of Education  |
| Grant #:          | P336A020010-03  |
| CFDA #:           | 84.336 - Teacher Quality Enhancement Grants   |
| Agency:           | U.S. Department of Education  |
| Grant #:          | H027B030002-04  |
| CFDA #:           | 84.027 - Special Education – Grants to States   |
| Agency:           | U.S. Department of Health and Human Services  |
| Grant #:          | U3RHS01318-01-07  |
| CFDA #:           | 93.003 – Public Health and Social Services Emergency Fund                                     |
| Agency:           | U.S. Department of Health and Human Services  |
| Grant #:          | U90/CCU9211821  |
| CFDA #:           | 93.283 - Centers for Disease Control and Prevention – Investigations and Technical Assistance |
| Requirement:      | Cash Management   |
| Questioned Costs: | \$0   |







## CAPs vs Audit Improvement Plan

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

## Progress Measures

- Benchmark—what is your goal?
- Baseline—where did you start?
- Reporting format—who cares? (and how do you tell them?)



Of 41 agencies we have completed the fixed asset inventory on the following 12

| <b>Agency</b>                      | <b>Date Completed</b> |
|------------------------------------|-----------------------|
| <i>Lt. Governor's Office</i>       | 8/18/2006             |
| <i>Bureau of Planning</i>          | 6/14/2006             |
| <i>Guam Public Library</i>         | 6/20/2006             |
| <i>Department of Youth Affairs</i> | 7/24/2006             |
| <i>Chamorro Land Trust</i>         | 6/13/2006             |
| <i>Chief Medical Examiner</i>      | 7/13/2006             |
| <i>C&amp;Q</i>                     | 6/21/2006             |
| <i>Guam Energy</i>                 | 7/25/2006             |
| <i>CAHA</i>                        | 6/15/2006             |
| <i>GTA Transition</i>              | 6/13/2006             |
| <i>Voc Rehab</i>                   | 7/3/2006              |
| <i>GEPA</i>                        | 7/25/2006             |

Example 1

### Outstanding Travel Advances 11/29/06

| < 30 days | 31-60 days | 61-365 days | > 365       |
|-----------|------------|-------------|-------------|
| \$81,639  | \$97,026   | \$318,667   | \$1,774,862 |

Example 2

|             | TRAVEL ADVANCES    | TRAVEL ADVANCES |
|-------------|--------------------|-----------------|
| Fiscal Year | Avg Clearance Days | Not Cleared     |
| FY2002      | 171                | 40%             |
| FY2003      | 348                | 60%             |
| FY2004      | 141                | 15%             |
| FY2005      | 102                | 20%             |
| FY2006      | 46                 | 20%             |



## CMIA

- Applies to all governments receiving U.S. grant funds
- All governments but 2 had audit findings on cash management
- Clarification of 3 day rule
- Need a written methodology (TSA)
- Techniques to reduce problems



## Appendix D U. S. Virgin Islands Audit Improvement Project Summary (Slides)



*An Update on Audit Findings and A Look into the Future*

*Mrs. Bernice A. Turnbull*

*Commissioner of Finance*

*Mr. Ira R. Mills*

*Director of Management and Budget*



### ***USVI - Seven Year Trend of Audit Findings***

- Findings are no longer general
  - Audit findings are becoming more focused on grants, processes, and internal controls
- Findings allow the Government to focus resources on corrective action
  - Focus on resolving the most severe issues
- Questioned costs have decreased each year
  - For FY 2002, Questioned costs were under a million dollars
  - For FY 2003, Questioned costs were under \$600,000
  - For FY 2004, Questioned costs were under \$500,000
    - 7 questioned costs in total, with 2 costs accounting for over half of the total questioned costs

### ***An Audit is Based on the Entire Government***

- Audits are a review of the Government as a whole
- The Department of Finance serves as the manager or caretaker of the official records for the Government, but Finance is not responsible for the quality and quantity of data input into the Financial Management Systems from other Agencies
- Many audit issues are outside the control of Finance
- Approximately half of all findings are multi-department issues



### ***Responding To Audit Findings***

- The Government of the Virgin Islands develops a Corrective Action Plan for each fiscal year based on audit findings
- Each action plan is developed by the Department cited with the finding and submitted to the auditors for review
- Office of Management and Budget then reviews the action plans and compiles the overall Corrective Action Plan
- Each corrective action plan is then managed by each department and monitored by the auditors
- If completion dates are not met or need to be changed, the Corrective Action Plan will reflect the most current completion dates
- This is a “living” document

### ***Changes for 2007***

- The Government of the US Virgin Islands implemented a comprehensive Enterprise Resource Planning system
  - Tyler-Munis
- System is being implemented in three phases
  - Phase 1 – Implemented October 2 – focused on the general financial components of the system including general ledger, accounts payable and receivable, budgeting, project and grant accounting, report writing, and requisitions and purchase orders.
  - Phase 2 - Scheduled for a January 2007 implementation - focuses on fixed assets, GASB 34 compliance, work orders and job costing.
  - Phase 3 – Scheduled for a July 2007 implementation – focuses on payroll and human resource functions



### ***Key Components in ERP to Reduce Audit Findings***

- Ability to implement territory-wide policy and procedures that conform to accounting standards
- Ability to scan documents into the system and tie supporting documents to accounting, procurement, and personnel actions
- Ability for increased control over grant draw downs and spending
- Ability to enforce the use of budgets – tie spending to budgets
  - Greater budget control can now be used to tie spending to performance budgets
- Ability to more easily convert cash basis to GAAP basis for financial statements
- Ability to project revenues and expenses and budgetary needs

### ***Historical Impact of Changing Financial Systems***

- Audit findings typically go up the year of changing financial systems
- Government is working hard to hold Departments accountable for progress
- Maintaining momentum of reducing audit findings is goal of project
- Coordinating change efforts with auditors
- Maintaining focus on good accounting standards



***We Live Our Motto***

*The Government of the Virgin Islands – changing  
today for a better tomorrow*









## Appendix E    Marshall Islands Audit Improvement Project Summary (Slides)



# RMI Major Audit Findings (FY2005)

- Component Units
- Fixed Assets
- Other Compliance Issues (grants period of availability, allowable costs, procurement issues)
- Local Non-compliance

*RMI Audit Improvement Plan*



## Progress to date:



- Component Units (major improvement to be discussed)
- Fixed Assets-
  - Applied for a grant to engage a Consultant for the fixed assets.
  - RMI conducted a nationwide physical inventory count of fixed assets in March 2006 and from August to December 2006.
  - Designated Property Coordinators per Ministry/Agency.
  - Pending Consultant's review and evaluation of the fixed assets presentation -since FY2004 and FY2005.
  - Expected completion date is FY2006 – provided the Consultant will provide the reports prior to completion of FY2006 Audit.

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*RMI Audit Improvement Plan*

## Progress to date:



- Other Compliance Issues
  - Established the RMI Fiscal Officers Association who meets quarterly for updates and discussions of major issues in their respective Ministry/Agency especially on compliance issues (to include local compliance).
  - Established a Compliance Unit w/in the Accounting Unit to double screen documents prior to processing and approval.
  - Established a Quarterly Allotment Scheme & distribute them to each Ministry/Agency to prevent over spending.

*RMI Audit Improvement Plan*





## Progress to date:

- Other Compliance Issues
  - Established a Memorandum of Agreement with sub-grantees (Allowable cost finding, Aid to Private Schools).
  - Close coordination with the project/program directors on compliance issues and final determination of questioned costs.

*RMI Audit Improvement Plan*



## Progress to date:

- Other Compliance Issues
  - Established a Memorandum of Agreement with sub-grantees (Allowable cost finding, Aid to Private Schools).
  - Close coordination with the project/program directors on compliance issues and final determination of questioned costs.

*RMI Audit Improvement Plan*





## Issue: Un-auditable Component Units

- A repeated finding since 1998
- From 8 un-auditable component units in 2003 down to 4 in 2005

*RMI Audit Improvement Plan*



## Where are we now?...

- 1 component unit has been audited for FY2005, pending issuance of the Audit Report by Deloitte & Touche (AMI)
- 1 component unit has been audited from FY2002 to FY2004, pending issuance of the audit reports from Deloitte & Touche. They are ready for audit for FY2005 (MIDB)

*RMI Audit Improvement Plan*





## Where are we now?...

- 1 component unit is 80% complete with regards to the preparation of audit schedules and expected to be audited for FY2004 and FY2005 in January (KAJUR)
- 1 governmental fund is 60% with regards to having their books ready for audit. This program has been transferred to another fund (Headstart Program)

*RMI Audit Improvement Plan*



## What we did? ...

- Applied for a grant to fund a 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*





## What we did? ...

- The Consultant is required to submit a monthly progress report on the status of the accounting books of these component units.
- Payments made to the Consultant is based on progress billing.
- Ensure that component units are aware of the GASB requirements and dateline.

*RMI Audit Improvement Plan*



## What we did? ...

- Coordinated with the Auditor General's Office on Component units' progresses.
- The Audit Resolution Committee met twice during the year to continuously work on the audit findings.

*RMI Audit Improvement Plan*





## What we expect? ...

- 1 non-compliant component unit as of FY2006.
- 0 non-compliant units for FY2007 and onwards.

*RMI Audit Improvement Plan*



## Expectation

- Reduce Number of Findings & Questioned Costs in FY2006
- Vision - Clean Audit by FY2007

*RMI Audit Improvement Plan*







**Appendix F    Guam Audit Improvement Project  
Summary (Slides)**

Government of Guam  
Single Audit Reports

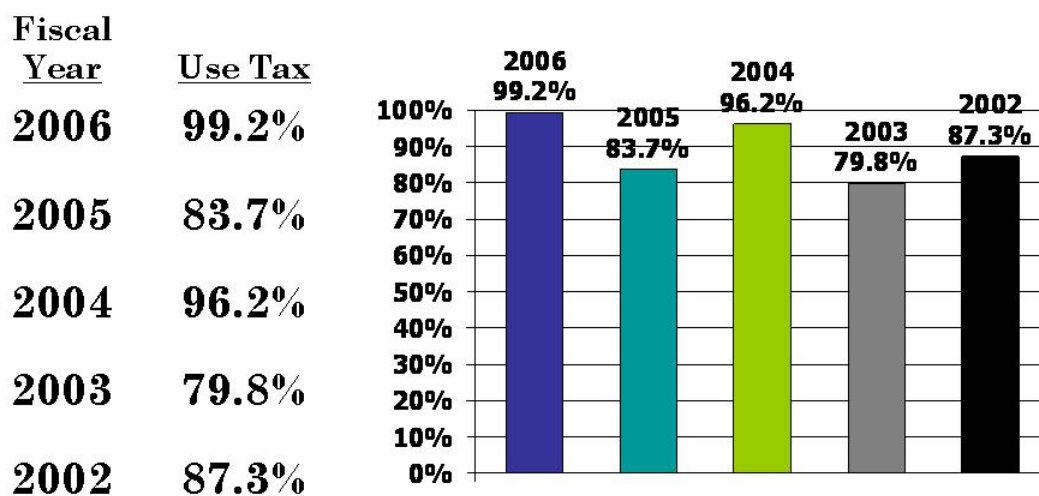
Year Ended September 30, 2005



## Finding No. 05-32

- Receivables
- Criteria: Collectibility of receivables should be monitored. Collections efforts should be enforced at all times to ensure that account balances are current.

## A/R – USE TAX





# PURCHASE ORDER

Dec-21-2006 10:08am From:GEA

40714701710

T-011 P.001/001 F=101

**PURCHASE ORDER**  
GENERAL SERVICES AGENCY  
DEPARTMENT OF ADMINISTRATION  
GOVERNMENT OF GUAM

148 Route 1  
Majors Drive  
P.O. Box 100925  
San Jose, CA 95131

**TRAN CODE**  
THIS PURCHASE ORDER NUMBER  
No. 007601029  
MAJ: APPEAR ON ALL INVOICES  
PACKING SLIP, PACKAGES, S/L  
CORRESPONDENCE ETC.  
DATE 11/22/2006 060003101280  
PAGE 210

TO: EQUATORIAL MANUFACTORY CO  
P.O. BOX 8844  
TANUNING, GU 96931  
Telephone: 671 649-6736 Fax: 671 646-4527

VENDOR: ES243001

DEPARTMENT OF ADMINISTRATION  
P.O. BOX 884  
MAGATNA, GU 96932-0000  
DATA PROCESSING DIVISION  
FNPIS GRANT MCI 11

1/8" PAIR DCOR. (74 1/2" (W) X 80 7/8" (H))  
HARDWARE INCLUDES:  
1 SET LOCKSET KNOBTIPS  
1 SET DEADBOLT  
2 SETS DOOR CLOSER, SURFACE MOUNT  
1 EACH ANTHRAGAL  
2 EACH FLUSHBOLT  
2 EACH CONTINUOUS HINGE  
POC:FRANCES CABRERA6475-1229

NOTE: Amounts due this Purchase Order may be off set for monies due the Government of Guam inclusive of but not limited to taxes, fees, and returned checks plus fees, interest or other damages, penalties and attorney's fees, after failure to pay according law.

NOTE: THE GOVERNMENT OF GUAM WILL NOT BE RESPONSIBLE FOR 'UNAUTHORIZED' PURCHASES OR SERVICES. THIS BE COORDINATED BETWEEN REQUESTING AGENCY AND VENDOR. ALL LATE DELIVERIES AND ACCEPTANCES ARE SUBJECT TO THE LIQUIDATED DAMAGES CLAUSE IN SECTION 6101(9)(a) OF THE GAS.

SPECIAL INSTRUCTIONS TO VENDOR:  
1. SEND ORIGINAL AND THREE (3) COPIES OF INVOICE TO: DEPARTMENT OF ADMINISTRATION, GENERAL SERVICES AGENCY, 148 ROUTE 1, MAJORS DRIVE, SAN JOSE, CA 95131.  
2. INVOICE MUST BE SUBMITTED WITHIN 15 DAYS OF DELIVERY.  
3. THE ORDER IS SUBJECT TO THE SPECIAL PROVISIONS AND NO GENERAL TERMS AND CONDITIONS, PRINTED ON THE BG.  
4. IF THE ORDER IS SUBJECT TO THE SPECIAL PROVISIONS, THE ORDER NUMBER MUST BE PRINTED ON THE BG.  
5. IF YOU ARE AN INDEPENDENT CONTRACTOR, YOU MUST CALL THE NUMBER UPON ARRIVAL OF GOODS IN GUAM.

CONTRACTOR PLEASE SUPPLY PROMPTLY THE ABOVE ARTICLES OR SERVICES. ALL COMMODITIES RETURNING TO THE ISSUES HOLDING INVOICES, SHIPPING DOCUMENTS AND PACKAGES MUST BEAR THE PURCHASE ORDER NUMBER PRINTED ABOVE.  
SEE REFUSE FOR PURCHASE OF ORDER TERMS AND CONDITIONS, PAGE 2


ADVANCE PAYMENT AUTHORIZATION  
Signature: Claudia S. Adelle  
Date: 11/20/06  
Title: Chief Procurement Officer

Control No. ORIGINAL/VENDOR'S COPY

# TRAVEL ADVANCE

| Fiscal Year | Travel Advances<br>Avg. Clearance Days | Travel Advances<br>Not Cleared |
|-------------|--|--------------------------------|
| 2006        | 46                                     | 20%                            |
| 2005        | 102                                    | 20%                            |
| 2004        | 141                                    | 15%                            |
| 2003        | 348                                    | 60%                            |
| 2002        | 471                                    | 40%                            |



 **GOVERNMENT OF GUAM**  
HAGATÑA, GUAM 96932

**DEPARTMENT OF ADMINISTRATION**  
**DIVISION OF ACCOUNTS**

Date: November 30, 2006

**MEMORANDUM**

**TO:** \_\_\_\_\_

**FROM:** Division of Accounts

**SUBJECT:** Advance Per Diem and Miscellaneous Expenses

**Hafa Adai!**

Attached herewith is CKE For \_\_\_\_\_, payable to you as an advance payment of your travel expenses under Travel Authorization Number \_\_\_\_\_, This advance is recorded in our books as a receivable due from you, until you submit your Travel Voucher [Form FCN 2-1-70].

Volume III, Part 4, Chapter 17, Section 1712.02 of the Government of Guam Travel Manual in part provides "Outstanding advances which have not been fully recovered by deductions from reimbursement vouchers or voluntary refunds by the traveler shall be recovered promptly by the Director of Administration or his designee, by "set - off" of salary due, retirement credit or otherwise, from the person to whom advances, or his estate, by deduction from any amount due from the Government of Guam, or by such other legal method of recovery as may be necessary."

You are, therefore, required to file your Travel Voucher and supporting documents such as (1) airline ticket coupons, (2) boarding passes and (3) receipts (Lodging, Registration, Ground Transportation, Meals and Incidentals, Miscellaneous Allowances, Fees) with the Division of Accounts, Department of Administration no later than fifteen (15) days upon return to Guam. After fifteen (15) days all uncleared advances will automatically be set-off as prescribed in the Government of Guam Travel Manual without notification.

|  |               |
|--|---------------|
|  | Per Diem      |
|  | Reg Fee       |
|  | Total Advance |

I understand that upon my return I will settle outstanding balance due in the amount of \$ \_\_\_\_\_ or provide clearance due Ref: . I further understand that the Department of Administration can withhold my payroll check or suspend my travel privileges until all outstanding travel is cleared.

If traveler receives per diem allowance reimbursement by the conference sponsor, this advance per diem must be refunded or returned (5 GCA 23104).

I hereby acknowledge that I have read and understood the conditions under which my advance allowance is made and fully concur with the provisions stated above.

\_\_\_\_\_  
TRAVELER'S SIGNATURE

Dist: Original - Division of Accounts  
Copy to Traveler



**Department of Administration**  
(DIPARTAMENTON ATEMINISTRASION)  
**DIRECTOR'S OFFICE**  
(DIRISINAN DIREKTOT)  
Post Office Box 884 Hagatña Guam 96932  
Tel: (671) 475-1101/1250 Fax: (671) 477-6788



DATE: November 30, 2006

**NOTICE TO CLEAR OUTSTANDING TRAVEL**

|                                |  |
|--------------------------------|--|
| NAME:                          |  |
| TOTAL AMOUNT UNCLEARED TRAVEL: |  |
| PERIOD OF TRAVEL:              |  |

Dear Sir/Madam:

Our records indicate that you have outstanding balance(s) due for uncleared travel advances for the period(s) shown above. Please provide the following original documents as proof of travel:

|   |  |
|---|--|
| <input type="checkbox"/> Boarding Passes<br><input type="checkbox"/> Lodging Receipts<br><input type="checkbox"/> Ground Transportation Rcpt(s)<br><input type="checkbox"/> Misc. Allow. Rcpt(s) \$ | <input type="checkbox"/> Certificates<br><input type="checkbox"/> Registration Fee Rcpt(s) \$<br><input type="checkbox"/> Notarized Affidavit<br><input type="checkbox"/> Other: _____ |
|---|--|

This notice is to inform you that the Department of Administration, Division of Accounts - Travel Section, will hold payroll checks commencing December 15, 2006 (pay period ending December 9, 2006) for any active Government of Guam employees - with uncleared travel at the Treasurer of Guam until given clearance in writing. Should this notice be unheeded, succeeding payroll checks will be held until the affected employee clears his/her outstanding travel.

All travel approved for official conduct of business for the Government of Guam must be cleared upon return from travel. This is the established policy of the Government of Guam. Our independent auditors, Deloitte & Touche, have performed annual audits of travel taken by employees of the Government of Guam. Previous audit findings have indicated a high number of uncleared travel and have recommended that additional measures be taken to ensure that travelers abide by the current travel policies and procedures.

Should you have any questions or require clarification of the above, please contact Mrs. Jennifer Rayphand, DOA Travel Section, at 475-1266.

Your urgent attention in this matter is required.

  
LOURDES M. PEREZ



**Appendix G   American Samoa Audit Improvement  
Project Summary (Slides)**





# A brief review of Single Audits



## Recap of ASG Single Audits' Question Costs FYs 2001-2005

| <b>Fiscal Year</b> | <b>% of Total Grants tested</b> | <b>% of question cost over total federal expenditures</b> | <b>Programs with highest question cost</b> |
|--------------------|---------------------------------|---|--|
| 2001               | 73%                             | 34%   | Department of Transportation               |
| 2002               | 72%                             | 9%  | Department of Interior                     |
| 2003               | 71%                             | 16%   | US Department of Agriculture               |
| 2004               | 75%                             | 4%  | US Department of Agriculture               |
| 2005               | 72%                             | 3%  | US Department of Agriculture               |



## Recap of ASG Single Audits' Question Costs FYs 2001-2005

| <b>Fiscal Year</b> | <b>Total Major Programs Tested</b> | <b>Total Federal Expenditures</b> | <b>Total Question Cost</b> |
|--------------------|------------------------------------|-----------------------------------|----------------------------|
| 2001               | \$82,575,820                       | \$113,641,331                     | \$390,122                  |
| 2002               | \$ 92,669,343                      | \$127,966,514                     | \$114,125                  |
| 2003               | \$91,920,287                       | \$130,200,063                     | \$211,484                  |
| 2004               | \$104,727,322                      | \$140,244,215                     | \$51,076                   |
| 2005               | \$ 91,080,431                      | \$127,197,979                     | \$42,673                   |

## Process of Successful Completion: Recruitment of a Fabulous Controller

- **Problem:** Vacant Controller's position for an extended period of years
- **Impact on ASG Audits:** Repeated audit findings and qualified opinion for over a decade, and declaration of high risk status
- **Steps taken to rectify the problem:**
  - Recruited continuously local and international applicants
  - Interviewed many qualified applicants
  - Hired and or offered the position to at least 5 qualified applicants
  - Put in a lot of efforts in preparation of the controller's arrival and accommodation
  - Trying very hard to do anything we can to satisfy the current controller's needs, so he won't leave us







**Appendix H Frank Crawford: Performer® Updates:  
(Slides)**

*Performer* Updates

Prepared and Presented by Frank Crawford, CPA  
Crawford & Associates, P.C.

[www.crawfordcpas.com](http://www.crawfordcpas.com)  
[frank@crawfordcpas.com](mailto:frank@crawfordcpas.com)

1



## Topics for today

- A brief review of what the *Perfometer* is (and what it is not...)
- Update the most recent *Perfometer* evaluations, with various governments strengths and weaknesses highlighted
- Using the *Perfometer* results to assist in managing the decision-making process in your government

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 2005 financial statements, and therefore have a current *Perfometer* with at least two comparative years
- Let's look at the most recent *Perfometer* score for each, and the strengths and weaknesses of each...

4

## Update...

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

5



## Update...

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

6

## Update...

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

7



## Strengths and weaknesses

- Guam 2005
  - Strengths
    - Satisfactory intergenerational equity
    - Excellent capital asset remaining lives
    - Moderate tax per capita burden

8

## Strengths and weaknesses

- Guam 2005
  - Weaknesses
    - Increasingly high levels of unrestricted net assets deficit and General Fund balance deficit
    - High debt per capita ratio
    - High debt to asset ratio
    - Low current and quick ratios
    - High level of unfunded pension plan liability

9



## Strengths and weaknesses

- VI 2004
  - Strengths
    - Positive change in net assets
    - Excellent intergenerational equity
    - Above average capital asset remaining lives
    - Above average quick ratio

10

## Strengths and weaknesses

- VI 2004
  - Weaknesses
    - High level of unrestricted net assets deficit
    - High tax and debt per capita ratios
    - High debt to asset ratio
    - Low current ratio
    - High level of unfunded pension plan liability

11



## Strengths and weaknesses

- CNMI 2005
  - Strengths
    - Near satisfactory intergenerational equity
    - Revenue dispersion
    - Above satisfactory capital asset remaining lives

12

## Strengths and weaknesses

- CNMI 2005
  - Weaknesses
    - Large increase in net assets deficit
    - High level of unrestricted net assets deficit and General Fund fund balance deficit
    - High debt to asset ratio
    - Low current and quick ratios
    - High level of unfunded pension plan liability

13



## Strengths and weaknesses

- ASG 2005
  - Strengths
    - Positive change in net assets
    - Excellent intergenerational equity
    - Near satisfactory General Fund fund balance reserve
    - Above satisfactory capital asset remaining lives
    - Near excellent tax and debt per capita ratios
    - Near fully-funded pension plan
    - Above satisfactory debt to assets ratio

14

## Strengths and weaknesses

- ASG 2005
  - Weaknesses
    - Low revenue dispersion
    - Business-type activities are not self-sufficient
    - Low level of unrestricted net assets
    - Below satisfactory current and quick ratios

15



## Strengths and weaknesses

- RMI 2005
  - Strengths
    - Positive change in net assets
    - Excellent intergenerational equity
    - Excellent tax and debt per capita ratios

16

## Strengths and weaknesses

- RMI 2005
  - Weaknesses
    - High level of unrestricted net assets deficit and General Fund balance deficit
    - Low revenue dispersion
    - Low capital asset remaining lives
    - High level of unfunded pension plan liability
    - High debt to asset ratio
    - Low current and quick ratios

17



## Strengths and weaknesses

- Palau 2005

- Strengths

- Positive change in net assets
    - Excellent intergenerational equity
    - Near excellent capital asset remaining lives
    - Above satisfactory taxes per capita ratio
    - Excellent debt per capita ratio
    - Near excellent debt to asset ratio

18

## Strengths and weaknesses

- Palau 2005

- Weaknesses

- Level of unrestricted net assets deficit and General Fund balance deficit
    - Low revenue dispersion
    - High level of unfunded pension plan liability
    - Low current and quick ratios

19



## Strengths and weaknesses

- Pohnpei 2005
  - Strengths
    - Above satisfactory intergenerational equity
    - Above satisfactory unrestricted net assets
    - Excellent General Fund unreserved fund balance
    - Above satisfactory capital asset remaining lives
    - Excellent taxes and debt per capita ratios
    - Near excellent debt to asset ratio
    - Above satisfactory current ratio

20

## Strengths and weaknesses

- Pohnpei 2005
  - Weaknesses
    - Low revenue dispersion
    - Slightly below satisfactory quick ratio

21



## Strengths and weaknesses

- Yap 2005
  - Strengths
    - Above satisfactory change in net assets
    - Excellent intergenerational equity
    - Excellent unrestricted net assets
    - Excellent General Fund unreserved fund balance
    - Excellent taxes and debt per capita ratios
    - Excellent debt to asset ratio
    - Excellent current and quick ratios

22

## Strengths and weaknesses

- Yap 2005
  - Weaknesses
    - Low revenue dispersion
    - Low business-type activity self-sufficiency
    - Low capital asset remaining lives

23



## Strengths and weaknesses

- Kosrae 2005
  - Strengths
    - Excellent taxes and debt per capita ratios
    - Near excellent debt to asset ratio
    - Above satisfactory current ratio

24

## Strengths and weaknesses

- Kosrae 2005
  - Weaknesses
    - Decrease in net assets for the year
    - Low intergenerational equity
    - Low level of unrestricted net assets
    - Low level of General Fund unreserved fund balance
    - Low revenue dispersion
    - Low capital asset remaining lives
    - Low quick ratio

25



## Strengths and weaknesses

- Chuuk 2005
  - Strengths
    - Excellent capital asset remaining lives
    - Excellent taxes and debt per capita ratios

26

## Strengths and weaknesses

- Chuuk 2005
  - Weaknesses
    - Decrease in net assets
    - Low intergenerational equity
    - Low level of unrestricted net assets
    - Low level of General Fund unreserved fund balance
    - Low revenue dispersion
    - Low quick and current ratios

27



## Strengths and weaknesses

- FSM National 2005
  - Strengths
    - Excellent intergenerational equity
    - Strong level of unrestricted net assets
    - Excellent taxes and debt per capita ratios
    - Strong current ratio

28

## Strengths and weaknesses

- FSM National 2005
  - Weaknesses
    - Revenue dispersion
    - Pension plan funding

29



## Problems from the Past

- Fund deficits
- Budget deficits
- Retirement fund deficiencies
- Supporting documentation
- Politics
- Complete reporting entity financial statements
- Resolving findings and questioned costs with real solutions for the cause of the findings and questioned costs

30

## What we can do (or are doing) about it

- The problems of the past must be dealt with now and in the future, along with the new problems of the future
- Simply changing the way financial activity is reported doesn't alter your true financial condition and performance
- Audit Improvement Plans

31



## Audit Improvement Plans

- Much progress has been made to date:
  - Most of the governments present today are “caught up” and becoming more timely with audited financial statement issuance
  - More accurate financial statements are being produced with the elimination of audit opinion findings and the resolution of questioned costs

32

## Audit Improvement Plans

- Much progress has been made to date:
  - Many of the governments have or are eliminating not only audit opinion qualifications but findings and questioned costs resulting from the Single Audit process, reducing their findings quantitatively or qualitatively
  - The more accurate the financial statements, the less likely the government will make an uninformed decision relying on those numbers, amounts or disclosures

33



## Continued focus on the Future

- Priority number 1:
  - Eliminate audit opinion qualifications
    - Even if our financial health and performance is bad, at least we are accurately informing the users of that (reliability)
    - More accurate *Performer* readings of financial performance and health (reliability)
  - Improve the timeliness of issuance (relevance)

34

## Continued focus on the Future

- Priority number 2:
  - Eliminate findings and questioned costs that didn't result in audit opinion qualifications and prevent new findings from appearing
    - These either pertain to the audit of the financial statements (Yellow Book, or Government Auditing Standards findings), or
    - The audit of compliance with major programs in the Single Audit (A-133, or federal grant programs)

35



## Continued focus on the Future

- Priority number 3:
  - Solve funding woes
    - Retirement
    - Employee performance
    - Unpaid vendors
    - Education of decision-makers to prevent this financial trap from ever happening again
      - Could involve basic financial budgeting workshops tailored specifically for these officials/decision-makers

36

## Using the *Perfometer* to manage

- Before making significant financial decisions, ask how the *Perfometer* score might be affected
  - Example: Before issuing debt to purchase capital, is there excess cash to do it? How will that affect my ratios?
  - How can we increase our revenue dispersion?
  - Our are business-type activities charging appropriate fees to cover their costs? If not, why?

37



Comments/Questions???



**Appendix I     Debbie Milks: Procurement Issues in  
Audits (Slides)**

# Procurement Issues

IGFOA Conference  
December 2006



## Common Rule requirements for Contract provisions

Criteria: The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the Common Rule) requires that grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with Equal Employment Opportunity; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

## U.S. Public Law 108-447, Title V, Sec 506 "Consolidated Appropriations Act, 2005"

Criteria: The grant terms and conditions require that when issuing statements, press release requests for proposals, bid solicitations, and other documents describing projects or program funded in whole or in part with Federal money, all grantees receiving Federal funds, including but not limited to State and local governments, shall clearly state the percentage of the total costs of the program or project which will be financed with Federal money, the dollar amount of Federal funds and percentage and a dollar amount of the total costs that will be financed by nongovernmental sources. Further, the grant terms and conditions require that to the greatest extent practicable, all equipment and products purchased with funds made available shall be American-made.



## Preparing & maintaining necessary documentation

### RepMar's Procurement Code states the following:

- ) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition No. 1: Of \$4,864,340 in non-payroll expenditures of the Education Sector Grant Fund, twenty non-payroll expenditures, totaling \$766,648, were tested. We noted one \$31,597 item (PO # P1150801 - Check # 27840) where documentation was inadequate to evidence that competitive bid procedures occurred. Specifically, the Ministry of Education purchased foodstuffs for the Jaluit High School and the Northern Islands High School. Documentation supporting the procurement

## Preparing & maintaining necessary documentation

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals shall be documented in the procurement file. Also, the procurement officer shall obtain price quotations from at least three vendors for all small purchases over \$5,000 not put to bid, unless the Republic documents that only two vendors possess the required goods or services. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Condition: Of thirty-four expenditures tested totaling \$1,071,758 of a population of \$1,996,241, evidence of full and open competition was lacking for the following:

- No price quotations were on file and inadequate documentation was on file that there were fewer than three suppliers:



## Documenting expedited purchases

Criteria: In accordance with Section 3-108 "Expedited Purchasing in Special Circumstances" of the CNMI Procurement Regulations, when special circumstances require the expedited procurement of goods or services, the official with expenditure authority may request that the Property and Supply Director approve expedited procurement without the solicitation of bids or proposals. Additionally, paragraph 6 of Sec. 3-108 provides that the total amount of goods or service that may be approved under this section shall not exceed \$25,000.

Condition: During the year ended September 30, 2005, the CNMI entered into a contract (contract # 356-OS) using an expedited procurement method. We did not note any written determination documenting the use of expedited procurement.

## Requesting by Brand Name

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 2 (or 11%) of 18 transactions, aggregating \$366,266 of \$503,901 in total non-payroll Program costs, the request for quotation specified a brand name for the following:



## Travel Purchase Policy

Criteria: In accordance with OMB Circular A-87, Attachment B, Section 43, costs incurred by employees and officers for travel, including costs of lodging, other subsistence and incidental expenses shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under Subchapter 1 of Chapter 57, Title 5, United States Code or by the Administrator of General Services or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

Condition: The CNMI procurement regulations do not include procurement procedures relating to travel expenses (i.e., airline tickets, accommodations, transportation, etc.). Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement.

## Small Purchase Procedures

- "accept no less than 3 price quotes or conduct bidding for purchases involving costs of \$15,000 or more" (Pohnpei)
- "Procurement not exceeding \$10,000 may be made in accordance with small purchase procedures.....small purchases over \$5,000 not put to bid... obtain 3 price quotes... small purchases under \$5,000 may be limited to local vendors" (ROP)
- "bidding not required, but encouraged for procurement over \$2,500 and under \$10,000... obtain price quotes from at least 3 vendors... for procurement valued at \$2,500 to \$10,000" (CNMI)



## Small Purchase Procedures

Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing service, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

It appears that the absence of competitive procurement for items less than \$2,500 does not conform to the federal requirement. Additionally, it does not appear that funding agencies approved such a threshold. As a result, the above requirement does not appear to conform to federal requirements.



## **Appendix J     Highest Priority Procurement Issues (Notes)**

### **Group 1**

Violation of sole source procurement procedures  
Use of brand names in procurement requests  
Violation of small purchase procedures  
Lack of documentation  
Lack of direction

### **Group 2**

Lack of documentation  
Evade procurement rules and regulations, especially sole source regulations  
Inadequate bidding contracts, including for change orders  
Poor planning, both in terms of funding and timing  
Lack of training for procurement personnel

### **Group 3**

Lack of advance planning for procurements, resulting in 'emergency'  
procurements and violations of procurement requirements  
Lack of adequate documentation  
Inappropriate use of brand names  
Conflicts of interest  
Lack of understanding of procurement laws and policies

### **Group 4**

Lack of documentation  
Need for central filing system  
Vendor favoritism/lack of competition  
Undefined procedures  
By-passing the procurement process

### **Group 5**

Lack of planning, creating crisis situations in procurement  
Lack of documentation that proper procedures were followed  
Lack of adequate justification in documentation  
Unfamiliar with procurement procedures  
Conflicts of interest







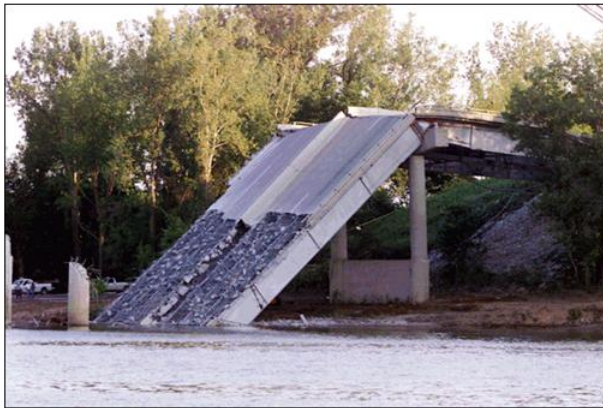
**Appendix K   Frank Crawford: Governmental  
Accounting Standards Updates (Slides)**

**Governmental Accounting Update  
(plus some other stuff you should know)**

Prepared and Presented by Frank Crawford, CPA  
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## **GASB 42 - Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries**



### **GASB 42 - Issues**

- Definition:
- Asset impairment is a *significant, unexpected decline in the service utility of a capital asset*

Not expected when  
the capital asset  
was acquired



**GASB 42 - Issues**

- Definition:
- Asset impairment is a *significant, unexpected decline in the service utility of a capital asset*

The usable capacity that, at acquisition, was expected to be used. NOT the same as utilization.

Slide 4

**GASB 42 - Issues**

- Identifying Impairments:
- Events or changes in circumstance that indicate impairment should be **prominent**
- Generally expected to have prompted discussion by governing board, management, or media

Slide 5



**GASB 42 - Issues**

- Common Indicators of Impairment:
- Evidence of physical damage
- Enact or approval of laws or regulations or other environmental factors
- Technological development or evidence of obsolescence
- A change in the *manner* or *expected duration* of use of an asset
- Construction stoppage.

Slide 6

**GASB 42 - Issues**

- Alternate Indicator:
- Use of nonstandard repair parts, such as duct tape or a broom, may indicate that maintenance has been inadequate and that the asset may no longer be able to produce the originally anticipated level of service.

Slide 7





*Some water systems employ short-term measures to postpone the expense of replacing and rehabilitating infrastructure. Here a water system uses a broom to prop up a chemical feed line. With a \$4.4 million DWSRF loan, a neighboring water system expanded its treatment capacity to serve the community previously served by this deteriorated system.*

Slide 8

## **GASB 42 - Issues**

- Decision to Sell an Asset:
- An asset that a government has decided to sell, but is continuing to use until the sale occurs, is NOT considered to exhibit a change in manner or expected duration of use.

Slide 9



**GASB 42 - Issues**

- ***Impairment Tests:***
- ***The magnitude of the decline in service utility is significant***
- ***The decline in service utility is unexpected***

Slide 10

**GASB 42 - Issues**

Have the Impairment Tests been met?

- Magnitude
- Unexpected



Slide 11



**GASB 42 - Issues**

- Measurement of Impairment:
- Assets that are continuing to be **used** by the government
  - Restoration cost approach for assets with physical damage
  - Service units approach for legal/ environmental changes, technological obsolescence, and some changes in duration or manner of use
  - Deflated depreciation replacement cost for some assets with a change in duration or manner of use

Slide 12

**GASB 42 - Issues**

- Measurement of Impairment:
- Assets that are not being used and construction stoppage
  - Lower of carrying value or fair value

Slide 13



**GASB 42 - Issues**

- Reporting Impairment Losses:
- As program or operating expense, special item, or extraordinary item per GASB 34
- Disclose general description, amount, and financial statement classification, if not evident from financial statements

Slide 14

**GASB 42 - Issues**

- Temporary Impairments:
- Impairments are assumed to be permanent, unless . . .
- Evidence is available to demonstrate impairment is temporary
- Temporary impairments should not be recorded

Slide 15



## GASB 42 - Issues

- Assets That Do Not Meet the Impairment Tests:
- If asset presents an indicator of impairment,
- but does not meet the tests of magnitude and being unexpected,
- Reevaluate depreciation estimates
  - Remaining useful life
  - Salvage value

Slide 16

## GASB 42 - Issues

- Idle **impaired** assets include those with temporary and permanent impairments



- Idle impaired assets should be disclosed

Slide 17



**GASB 42 - Issues**

- Insurance Recoveries:
- Net impairment loss with insurance recovery
- Replacement/restoration of asset is a separate transaction
- Applies to all insurance recoveries, not only those related to impairment

Slide 18

**GASB 42 - Issues**

- Insurance Recoveries:
- Governmental funds would not report an impairment loss. Insurance recovery would be OFS. Replacement would be expenditure.
- Government-wide, proprietary funds net impairment loss with insurance recovery. Replacement is capitalized.

Slide 19



**GASB 42 - Issues****Example – School  
With Mold****• Facts**

|  |                     |
|--|---------------------|
| Building acquisition, 1972             | \$ 2,435,000        |
| Accumulated depreciation, 2002 (30/60) | <u>1,217,500</u>    |
| Carrying amount, 2002                  | <u>\$ 1,217,500</u> |
|  |                     |
| Total mold remediation cost            | \$ 4,000,000        |
| Percentage rebuilding cost             | <u>60%</u>          |
| Restoration cost                       | <u>\$ 2,400,000</u> |

**GASB 42 - Issues****Example-School With Mold Impairment Loss/New Basis**

|                                    |                      |
|------------------------------------|----------------------|
| Restoration cost (current dollars) | \$ 2,400,000         |
| Replacement cost (current dollars) | <u>6,200,000</u>     |
| Restoration cost ratio             | 38.7097%             |
| Carrying amount (historical cost)  | <u>1,217,500</u>     |
| Impairment loss                    | <u>\$ 471,290</u>    |
|                                    |                      |
| Building before impairment         | \$ 2,435,000         |
| Accumulated depreciation           | <u>\$(1,217,500)</u> |
| Impairment                         | <u>(471,290)</u>     |
| Restoration                        | <u>2,400,000</u>     |
| Restored building                  | <u>\$ 3,146,210</u>  |



**GASB 42 - Issues****School With Mold**

- **Disclosure**

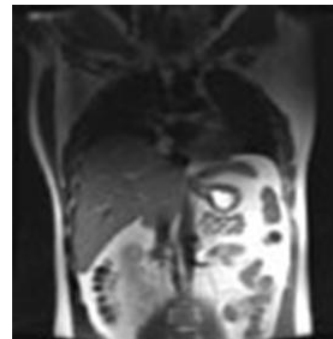
- Program expenses include an impairment loss of \$471,290 due to mold contamination at an elementary school and includes \$1,600,000 in mold remediation costs as follows:

|                                | Impairment        | Mold                |
|--------------------------------|-------------------|---------------------|
|                                | Loss              | Remediation         |
| Regular instruction            | \$ 259,209        | \$ 880,000          |
| Special education instruction  | 70,694            | 240,000             |
| Pupil support services         | 47,129            | 160,000             |
| Instructional staff services   | 47,129            | 160,000             |
| School administration services | 47,129            | 160,000             |
|                                | <u>\$ 471,290</u> | <u>\$ 1,600,000</u> |

Slide 22

**GASB 42 - Issues****Technology Affecting Usage:**

- **Acquired MRI in 2000 for \$2.25 million**
- **7 year expected useful life**
- **Expected 10 tests per day, 5 days per week**
- **2003 donation of “open” MRI**





**GASB 42 - Issues****Technology Affecting Usage:**

|          |   |                           |
|----------|---|---------------------------|
| <i>a</i> | <b>Acquisition cost, 2000</b>   | <b>\$2,250,000</b>        |
|          | <b>Accumulated depreciation, 2003 (3 / 7 years)</b>   | <b><u>964,286</u></b>     |
| <i>b</i> | <b>Carrying amount, 2003</b>  | <b><u>\$1,285,714</u></b> |
| <i>c</i> | <b>Original service units (7 years × 52 weeks per<br/>year × 5 days per week × 10 uses per day)</b> | <b><u>18,200</u></b>      |
| <i>d</i> | <b>Acquisition cost per service unit (<i>a</i> / <i>c</i>)</b>                                      | <b>124</b>                |
| <i>e</i> | <b>Remaining service units (4 years × 52 weeks per<br/>year × 5 days per week × 1 use per day)</b>  | <b><u>1,040</u></b>       |
| <i>f</i> | <b>Remaining service units × average cost (<i>d</i> × <i>e</i>)</b>                                 | <b><u>\$ 128,960</u></b>  |
|          | <b>Impairment loss (<i>b</i> – <i>f</i>)</b>  | <b><u>\$1,156,754</u></b> |

Slide 24

**GASB 42 - Issues**

- ***Technology Affecting Usage:***
- ***Disclosure***
  - Program expenses include a total impairment loss of \$1,156,754 related to a magnetic resonance imaging machine that has become impaired due to unexpected obsolescence.

Slide 25



**GASB 42 - Issues**

- Effective Date:
- Years beginning after December 15, 2004
  - Earlier application encouraged
- Retroactive implementation
  - (But don't write up previous impairments)

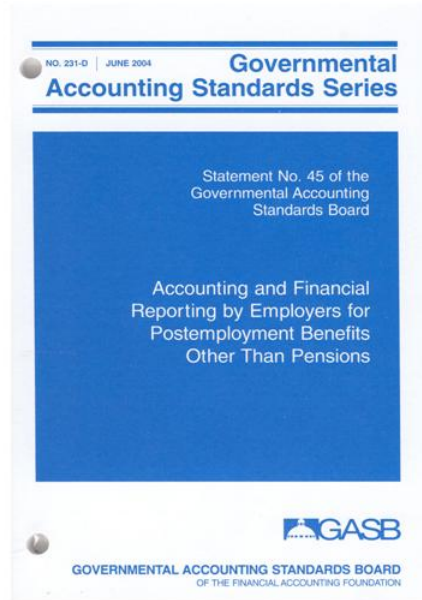
Slide 26

**Statements 43 and 45**

Other Postemployment Benefits  
(OPEB)



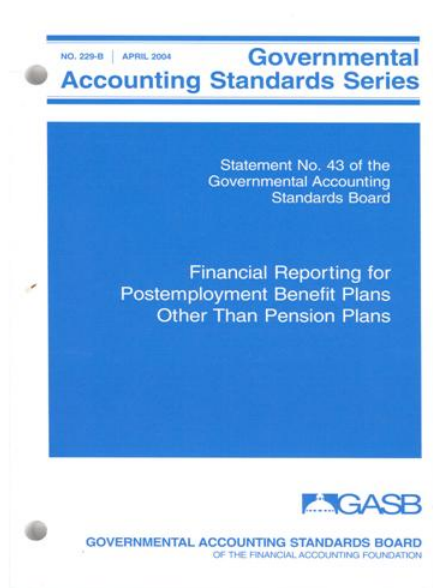
## Statement 45 (for Employers/Sponsors)



- Issued June 2004
- Will generally affect an employer that offers retiree healthcare or other post employment benefits that are not pension benefits
- If applicable to an employer, will require accrual-basis accounting for expense and measurement and disclosure of funded status (UAAL)

Slide 28

## Statement 43 (for Funded Plans)



- Issued in April 2004
- Affects administrators and sponsors of plans (here, meaning a plan that has assets)
- For *trusts*, requires statements and disclosures similar to GASB 25; for *non-trust funds*, requires reporting as an agency fund

Slide 29



## Executive Summary

### GASB Statement Nos. 43 and 45 in brief

- Government employers which sponsor certain post-retirement benefits programs (e.g., medical) are affected and must generally comply with and report under GASB No. 45
- Results in recording expense and liabilities in financial statements rather than typical past practice of “pay as you go” expensing
- May have significant impact on sponsor’s financial statements
- Funded OPEB plans must generally comply with and report under GASB No. 43
- Sponsors and funded plans will need actuarial and accounting analysis to evaluate impact on accounting treatment of these plans
- There is opportunity to understand implications and explore alternatives *before* effective date of Statements

Slide 30

## What is an “OPEB”?

### Postemployment benefits ***other than pensions*** (“OPEB”):

- Includes postemployment healthcare benefits (medical, dental, etc.)
- Includes other types of non-pension benefits (e.g., life insurance) if *provided separately from a pension plan* (otherwise accounted for as part of pension benefits)
- OPEB does **not** include special termination benefits, early retirement incentive programs, etc. (however, effects of these special benefits on *existing* OPEB plans should be accounted for under GASB Nos. 43 and 45)
- OPEB does **not** include conversion of sick leave to individual *defined contribution* retiree healthcare accounts (but any subsidy in amounts charged for healthcare coverage and deducted from account are covered by GASB 43 and 45)

Slide 31



### Current Practice

- Very few governmental OPEB plans have ever had an actuarial valuation
- Most OPEB plans are financed on a *pay-as-you-go basis*
- Financial reporting practice has generally focused on reporting outflows of *current financial resources* (i.e., the pay-as-you-go or cash basis)
- Therefore, current financial reporting generally fails to:
  - Recognize the cost of benefits in periods when services are received
  - Provide information about the current value of future promised benefits and associated liabilities
  - Provide information useful in assessing potential demands on future cash flows

Slide 32

### Accrual Recognition of OPEB

- The new standards require that OPEB costs generally be recognized over the working lifetime of employees
- The new standards are the GASB-equivalent of FASB's SFAS No. 106 in the private sector
- The entity legally responsible for making the contributions should report and comply with GASB 45
- Postemployment benefits (both pensions and OPEBs) are considered part of compensation for services rendered by employees, so theoretically should be expensed and accrued during the employee's working lifetime
- GASB 45 does not apply to sponsor if retirees and beneficiaries pay 100% of actuarially determined cost of coverage, taking into account only retirees and their beneficiaries

Slide 33



### Other Exemptions from GASB 45

- Different rules apply to employers that participate in cost-sharing Multiple-Employer Plans, “insured benefit plans”, and defined contribution OPEB plans
- In these cases, expense is equal to cash contribution/premium payment, but some basic disclosure is still required
- A “cost sharing” plan is one where:
  - Assets are commingled and used to pay benefits for members of all participating sponsors
  - A single actuarial valuation covers all plan sponsors/members
  - All participating sponsors pay same rate(s) per member
  - Assets are not allocated to individual sponsors

Slide 34

### Other Exemptions from GASB 45

- An “insured benefit plan” is a plan where:
  - The sponsor pays premiums on behalf of *active employees*
  - Insurer unconditionally takes on obligation to pay postemployment medical benefits for these employees
- A “defined contribution plan” is one where account balance accumulated during active employment is used to pay retiree medical benefits until account is exhausted (and medical benefits post retirement are not provided on any kind of employer subsidized basis)

Slide 35



### Implementation Provisions for GASB 43

- Effective for *plan* fiscal years beginning after December 15:
  - 2005 if largest sponsor in plan has >\$100M revenue
  - 2006 if largest sponsor in plan has \$10M – \$100M in revenue
  - 2007 if largest sponsor in plan has <\$10M in revenue
- So for a calendar year plan of a funded plan for a large employer, GASB 43 is effective for 2006, and must be reflected in plan's financial statements at December 31, 2006
- Earlier implementation is encouraged

Slide 36

### Implementation Provisions for GASB 45

- *Prospective* implementation; the initial Net OPEB Obligation on balance sheet is generally set equal to \$0, regardless of funded status of plan
- Can develop retroactively determined Net OPEB Obligation if desired, but this will likely be very rare
- Effective for periods beginning after December 15:
  - 2006 if sponsor has >\$100M revenue
  - 2007 if sponsor has \$10M – \$100M in revenue
  - 2008 if sponsor has <\$10M in revenue
- Earlier implementation is encouraged

Slide 37



### Recognition in Governmental Entity Financial Statements

- Report OPEB in a manner generally consistent with pensions (GASB 25 is for pension plan reporting and GASB 27 is for reporting by pension plan sponsors)
- By analogy, GASB 45 is similar in concept to GASB 27, and GASB 43 is similar to GASB 25

Slide 38

### Recognition in Governmental Entity Financial Statements

- Under GASB 45, financial statements of employers should recognize OPEB expense in an amount equal to Annual OPEB Cost for the period, *regardless of the amount paid in cash*
- The cumulative difference between amounts expensed and “contributions” to the plan will create a liability (or asset) on the sponsor’s balance sheet called the Net OPEB Obligation
- Additional footnote disclosure and supplementary information is required

Slide 39



## Statement 47

### Accounting for Termination Benefits

Statement No. 47

- Issued June 2005
- Establishes accounting and reporting requirements for *all* forms of termination benefits
- Supersedes guidance in NCGAI 8 for *special termination benefits*

Slide 41



## Scope

- Voluntary termination benefits
  - Inducements to hasten the termination of services
  - Ex.: early-retirement incentives
- Involuntary termination benefits
  - Benefits provided as a consequence of the early termination of services
  - Ex.: severance pay
- Includes COBRA
- Excludes unemployment compensation

Slide 42

## Termination Benefits vs. OPEB

- Determine whether the nature of arrangement is to provide benefits:
  - In exchange for the early termination of services (a termination benefit)
  - As compensation for services (OPEB)
- Consider all relevant factors, including:
  - Employer's intent
  - Employees' view of the benefits
  - Whether conditioned on termination of employment prior to normal retirement age
  - Length of time benefits have been made available

Slide 43



## Measurement

- Healthcare-related:
  - Projection of benefits
  - Healthcare cost trend rate
  - Discount rate
- Non-healthcare-related:
  - If specific amounts are payable at fixed times—  
Use discounted PV of expected future benefits
  - If not, option to use undiscounted total at current cost

Slide 44

## Recognition Requirements—Accrual Basis

- **Voluntary termination benefits**
  - Liability and expense recognized when:
    - Employees accept the offer
    - Amounts can be estimated
  - Measurement updated at end of each subsequent reporting period

Slide 45



Recognition Requirements—Accrual Basis (cont.)

- **Involuntary termination benefits**
  - Generally, liability and expense recognized when:
    - Plan of termination approved and communicated
    - Amounts can be estimated
    - Measurement updated at end of each subsequent reporting period

Slide 46

Recognition Requirements—Accrual Basis (cont.)

- **Involuntary termination benefits (cont.)**
  - Plan of involuntary termination
    - Identifies, at a minimum:
      - Number of employees to be terminated
      - Job classification or functions and locations affected
      - When terminations are likely to occur
    - Provides sufficient detail for employees to determine the type and amount of benefits they will receive if they are terminated

Slide 47



## Recognition Requirements—Accrual Basis (cont.)

- **Involuntary termination benefits (cont.)**
  - If plan of termination requires future service
    - Liability and expense for the portion of involuntary termination benefits that will be provided only after completion of future service should be recognized ratably over the future service period
      - Future service period begins when plan of termination has been approved and communicated and the amounts can be estimated
      - Measurement of liability updated at end of future service period and incremental liability/expense recognized ratably over remaining future service period

Slide 48

## Recognition Requirements—Modified Accrual Basis

- Liabilities and expenditures recognized to extent the liabilities are normally expected to be liquidated with expendable available financial resources
- See paragraph 14 of Interpretation 6

Slide 49



### Note Disclosures

- **In period employer becomes obligated:**
  - Description of termination benefit arrangement
    - Ex.: type(s) of benefits, # of employees affected, period of time benefit are expected to be provided
  - Cost of termination benefits, if not otherwise identifiable
    - If benefits affect a defined benefit pension or OPEB plan, employer should disclose the change in the actuarial accrued liability attributable to the termination benefits

Slide 50

### Note Disclosures (cont.)

- **In all periods termination benefit liabilities are reported:**
  - Significant methods and assumptions
- **If a benefit is not recognized because expected benefits are not estimable, disclose that fact**

Slide 51



### Effective Date and Transition

- Generally, effective for periods beginning after June 15, 2005
- However, those that affect defined benefit OPEB simultaneous implementation with Statement 45
- In initial year, requirements should be applied to any previous commitments of termination benefits that remain unpaid at effective date

Slide 52

### Issued or Coming Soon...

- Stmt 48: Sales/Pledges of Accounts Receivable and Future Revenues
- PV on Derivatives and Hedging
- TB 2006-1: Medicare Part D
- ITC on Fund Balance Reporting
- Con. 4: Elements of Financial Statements
- ED on Intangible Assets
- Stmt 49: Pollution Remediation Obligations

Slide 53



## Questions?

Slide 54

### Recently Issued Documents

- Standards issued recently
  - 102, *Defining Professional Requirements in Statements on Auditing Standards*
  - 103, *Audit Documentation*
  - 104-111, *Audit Risk Assessment Suite of Standards*
  - 112, *Communication of Internal Control related matters noted in an audit*

Slide 55



### Recently Issued Documents

- Exposure drafts outstanding
  - Amendment to SAS 69, *The Meaning of Present Fairly...*(applicable only for nongovernmental entities)
  - Proposed Statement on Standards for Attestation Engagements, Reporting on an Entity's Internal Control Over Financial Reporting
  - Proposed Statement on *The Auditor's Communication With Those Charged With Governance*

Slide 56

## SAS No. 112

### Communicating Internal Control Matters Identified in an Audit



### Auditor's Responsibilities

- In an audit of financial statements under GAAS and GAGAS, the auditor:
  - is not required to identify deficiencies in internal control
  - is not required to express an opinion on internal control effectiveness
  - is required to understand controls in assessing risk of misstatements
  - is required to test internal controls for effectiveness, if they intend to rely on the controls to reduce audit work
- SAS 112 did not change these requirements

Slide 58

### In a Nutshell, SAS No. 112...

- Defines the terms **control deficiencies**, **significant deficiencies** and **material weaknesses** and conforms those definitions to those in PCAOB AS#2
- Provides guidance for auditors on evaluating the severity of control deficiencies
- Requires the auditor to communicate, in writing, to management and those charged with governance (Should be communicated even if they were communicated in connection with previous audits and are still applicable)
- Effective date = audits of periods ending on or after December 15, 2006

Slide 59

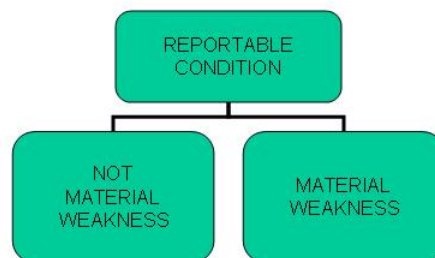


## Communication to Whom?

- ***Those charged with governance*** = the persons with responsibility for overseeing the strategic direction of the entity and the entity's financial reporting and disclosure process. (May be collective responsibility)
- Recognizes that the bodies to whom communication is made may take different forms
  - Management (or committee thereof)
  - Agency Board (or committee thereof)
  - Legislative or governing body (or committee thereof)

Slide 60

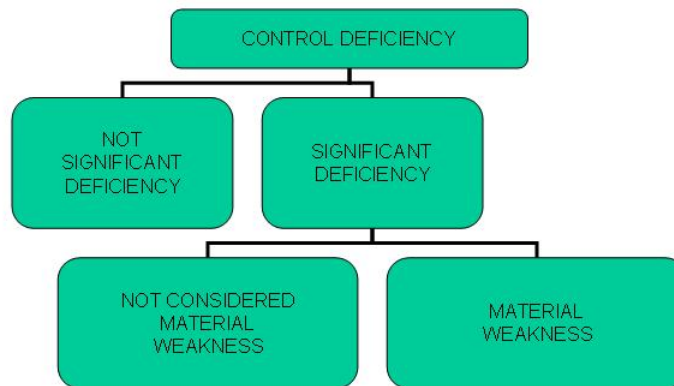
## SAS 60 Classifications



Slide 61



## SAS 112 Classifications



Slide 62

## Control Deficiency

### OLD DEFINITION

Not defined.

### NEW DEFINITION

A **control deficiency** exists when the *design* or *operation* of a control does not allow management or employees, in the course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Slide 63



## Control Design and Operation

- Deficiency in ***Design***
  - Necessary control is missing
  - Control exists but is not properly designed to accomplish control objectives
- Deficiency in ***Operation***
  - Person performing the control is not capable or have sufficient authority to perform the control effectively
  - Designed control is not being followed as designed

Slide 64

## Types of Controls

- ***Preventive***
  - Designed to prevent misstatements
  - Example: Segregation of duties
- ***Detective***
  - Designed to detect and correct misstatements
  - Example: Independent reconciliation of accounts

Slide 65



## Significant Deficiency

### OLD DEFINITION

A **reportable condition** involves a matter coming to the auditors attention relating to **significant deficiencies** in the design or operation of the internal control that, in the auditor's judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

### NEW DEFINITION

A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP or OCBOA, such that there is *more than a remote likelihood* that a **misstatement** of the entity's financial statements that is *more than inconsequential* will not be prevented or detected.

Slide 66

## Misstatement

- A misstatement causes the financial statements not to be fairly stated in conformity with GAAP (or OCBOA)
- Misstatement may consist of:
  - A difference in the amount, classification, or presentation of a financial statement element, account or item as required by GAAP
  - The omission of a financial statement element, account or item
  - Omitted disclosures or non-GAAP disclosures

Slide 67



## Misstatement (Cont.)

- Misstatements may be of two types:
  - **Known** – specifically identified
    - Unaccrued invoices for goods or services received
    - Unrecorded cash transaction
  - **Likely** – extrapolation of sample results or unreasonable estimates
    - Depreciation, allowances for uncollectible receivables, self-insurance obligations

Slide 68

## Remote Likelihood

- Remote likelihood has the same meaning as in FASB Statement No. 5
  - Probable – the future event is likely to occur
  - Reasonably possible – the chance of the future event occurring is more than remote but less than likely
  - Remote – the chance of the future event occurring is slight
- Therefore, the likelihood of an event is “**more than remote**” when it is *reasonably possible* or *probable*

Slide 69



## More Than Inconsequential

- More than inconsequential describes the ***magnitude of potential misstatement*** that could occur as a result of a significant deficiency
- Misstatement is “inconsequential” if a reasonable person would conclude would clearly be immaterial to the financial statements
- In determining whether potential misstatement would be more than inconsequential, auditor should consider ***qualitative*** and ***quantitative*** factors
- A potential misstatement may be inconsequential quantitatively, but may still be considered more than inconsequential due to qualitative factors

Slide 70

## Quantitative Factors

- Interpretation No. 3 – *Quantitative Measures of Materiality in Evaluating Audit Findings*, to SAS 47 - *Audit Risk and Materiality in Conducting an Audit*
- Matter of auditor’s professional judgment
- Overall financial statement material is based on a percentage or dollar amount related to an element or elements in the financial statements for “***each opinion unit***” that are expected to affect the judgment of a reasonable person relying on and using the statements (generally considered 0.5% - 5.0% of opinion unit base)
- In government entities, total assets, total revenues, or fund balance/net assets are often important and widely-used elements or bases
- SAS 112, paragraph 8, uses 20% of overall financial statement materiality to define clearly immaterial (inconsequential)

Slide 71



## Qualitative Factors

- Interpretation No. 4 – *Considering the Qualitative Characteristics of Misstatements*, to SAS 47 - *Audit Risk and Materiality in Conducting an Audit*
- Matter of auditor's professional judgment influenced by the auditor's perception of the needs of a reasonable person using the statements
- Qualitative factors for consideration include:
  - *A misstatement that turns a net loss into net income*
  - *A misstatement in turns a negative unrestricted net assets to a positive amount*
  - *A misclassification that turns a negative budget variance into a positive variance*

Slide 72

## Qualitative Factors (Cont.)

- *Qualitative factors for consideration include:*
  - *Potential effect of misstatement on compliance with debt covenants or important regulatory requirements*
  - *Misstatement that rewards management for performance (bonus, job retention, political promise)*
  - *Misstatement that would result in avoiding a single audit when required*
  - *Sensitivity of circumstances surrounding the misstatement, such as fraud, abuse, etc.*
  - *A misstatement that has implications on motivations or integrity of management*
  - *The risk of additional undetected misstatements*

Slide 73



## Material Weakness

### OLD DEFINITION

A **material weakness** is a reportable condition in which the design or operation of one or more of the internal control components ***does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected*** within a timely period by employees in the normal course of performing their assigned functions.

### NEW DEFINITION

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in ***more than a remote likelihood*** that a ***material misstatement of the financial statements*** will not be prevented or detected.

Slide 74

## Example of Magnitude

- Assumptions
  - Opinion unit planning and reporting materiality is \$100,000
  - Likelihood of misstatement is more than remote
  - No compensating controls exist to mitigate control deficiency

Slide 75



### Example of Magnitude (cont)

- **Inconsequential** = potential misstatements from control deficiency, or combination thereof, is quantitatively less than \$20,000 (20% of \$100,000), AND is not qualitatively material
- **More than inconsequential** = potential misstatements from control deficiency, or combination thereof, is quantitatively more than \$20,000 (20% of \$100,000) but less than \$100,000, AND is not qualitatively material
- **Material weakness** = potential misstatements from control deficiency, or combination thereof, is quantitatively \$100,000 or more, OR is qualitatively material

Slide 76

### Evaluating Deficiencies

- Evaluation of “identified” control deficiencies as to severity, whether individually or collectively they are
  - Significant deficiencies
  - Material weaknesses
- **Severity of control deficiencies**
  - Based on likelihood and magnitude of misstatements
  - Depends on the “potential” for misstatement, not whether an actual misstatement has occurred

Slide 77



## Evaluating Deficiencies

- Examples of factors that may affect the **likelihood** that a control could fail to prevent or detect a misstatement
  - Susceptibility to loss or fraud
  - Subjectivity and complexity of the amount involved
  - Cause and frequency of any known or detected exceptions related to the operating effectiveness of a control
- Examples of factors that may affect the **magnitude** of a misstatement that could result from a deficiency
  - Financial statement amounts or total of transactions exposed to the deficiency
  - Volume of activity in the account balance or class of transactions exposed to the deficiency

Slide 78

## Evaluating Deficiencies

- Auditor should also evaluate possible mitigating effects of effective “compensating controls”
- A compensating control limits the severity of the control deficiency (i.e. keeping it from reaching a significant deficiency or material weakness)
- Compensating controls can mitigate the effects of a control deficiency, but do not eliminate the deficiency
- To consider compensating controls in their evaluation, auditors must test the controls for effectiveness

Slide 79



## Compensating Controls

- ***Preventive Control Deficiency***
  - Lack of segregation of duties over payables and disbursements
- ***Compensating Detective Control***
  - Executive level review of all disbursements made in excess of \$1,000 in books and bank statements

Slide 80

## Evaluating Deficiencies

- SAS 112 identifies control deficiencies that ordinarily would be considered at least significant deficiencies
- Also identifies circumstances that should be regarded as at least a significant deficiency and a strong indicator of a material weakness
- After concluding on severity of deficiency (control deficiency, significant deficiency, material weakness), auditors must consider whether “prudent individuals” having knowledge of facts and circumstances would come to same conclusion

Slide 81



### Written Communication

- Written communication required no later than 60 days following issuance of audit report (including deficiencies that were communicated in previous audits)
- Auditor may decide communicate certain deficiencies *during* the audit
- SAS 112 includes an appendix containing examples of circumstances that may be control deficiencies, significant deficiencies, or material weaknesses

Slide 82

### Management Letter

- Also states that nothing precludes the auditor from communicating to management and those charged with governance other matters that the auditor:
  - Believes to be of potential benefit to the entity
  - Has been requested to communicate
- Such a communication can be done orally or in writing

Slide 83



## Management's Responses

- Management may wish to, or be required to, prepare a written response to the auditor's communication
- Such response may include:
  - a description of corrective actions,
  - the entity's plans to implement new controls, or
  - a statement indicating that the cost of correcting would exceed the benefit
- If such a response is included in a document with the auditor's written communication the auditor should add a paragraph to the communication disclaiming an opinion on such information

Slide 84

Questions about SAS 112???







**Appendix L    Jim Brucia & Steve Medlin: Evaluating and  
Implementing Internal Controls Audit  
Findings (Slides)**

INTERNAL CONTROLS  
IN THE  
PROCUREMENT PROCESS

Island Government Finance Officers' Association  
December 5-7, 2006

**EVALUATING AND IMPLEMENTING  
PROCUREMENT INTERNAL CONTROL  
FINDINGS**

IGFOA Meeting December 6,  
2006 Maui, Hawaii

1



## THE AUDIT MODEL

- **ELEMENTS OF AN INTERNAL CONTROL FINDING**
  - **CONDITION** = What's happening
  - **CRITERIA** = What's supposed to happen
  - **CAUSE** = Why is there a difference
  - **EFFECT** = So What?
  - **RECOMMENDATION** = Direct to the cause

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2

## MANAGEMENT CONTROL REVIEWS

- Management control reviews performed by government department managers or management teams use the same model as the auditor uses to identify weaknesses and correct the deficiencies.

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3



## TYPICAL COMPLIANCE AUDIT FINDING

- REQUIRES ONLY THREE OF THE FIVE ELEMENTS
  - CRITERIA= The right thing to do
  - CONDITION = The way it was done
  - RECOMMENDATION = Just do it the right way (or NIKE time, “Just Do It”)

## CRITERIA

- GRANT REQUIREMENTS
- LAWS
- RULES, REGULATIONS, POLICIES, PROCEDURES
- DESK MANUALS



# CONDITION

## – SOME REPORTED CONDITIONS

- Lack of procurement justification
- No local survey of needs
- Inadequate record keeping
- Restrictive specifications
- Lack of competitive bidding, including change orders
- Inappropriate use of brand names
- Etc.

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6

# THE UNDEVELOPED AUDIT ELEMENT

## • CAUSE

### – SOME THAT WERE COMMON IN THE AUDIT REPORTS

- This condition occurred because there was a lack of internal controls.
- The cause was inadequate documentation.
- The cause is lack of awareness.
- The cause was weak internal control over compliance with federal grant requirements.

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7



## Common reported causes continued

- The cause of this condition is weak controls.
- The cause is lack of oversight.
- The cause is lack of internal controls.
- The cause of the above condition is weak internal controls over ensuring compliance.
- The government of \*\*\*\*\*did not enforce procurement procedures and regulations.

ARE THESE SURFACE OR UNDERLYING CAUSES?

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8

## MANAGERS RESPONSIBILITY

- In a compliance audit, the auditor is not obligated to determine the cause of the problem or non-compliance.
- **MANAGERS MUST ASK**
  - ARE PROBLEMS THE RESULT OF :
    - Lack of a system of internal controls
    - Failure of personnel to implement existing internal controls
    - Something else, all of the above
  - **AND FINALLY**
    - » How do we cure the deficiency or solve the problem?

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9



# MANAGERS RESPONSIBILITY

- MANAGERS MUST ALSO ASK  
  
– WHO CAUSES PROBLEMS?

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10

# GROUP EXERCISE

- Identify your five major procurement internal control deficiencies.
  - And  
For each, identify what you consider to be the underlying cause.

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11



## **Appendix M: Work session notes from Procurement Officers' Training**

### **Consolidated common problems:**

- Lack of documentation—no documentation, inadequate documentation, inability to find documentation
- Proper procurement procedures not followed (both within and outside Procurement office)
- Procurements treated as crises (emergency procurements)
- Conflicts of interest/favoritism
- Changes orders (too many and too substantial)

### **Understanding the Problems**

#### **Lack of documentation**

- No documentation exists—the CPOs report no procurements are released without documentation because they have to sign the documentation and they do not approve it without some documentation
- Missing documentation—after the procurement is released, documentation is lost, misplaced, misfiled, dispersed or destroyed by natural disaster. Governments need to establish record retention, protection and management policies and procedures. These policies and procedures should address multiple copies of procurement files, accountability for the use of procurement files (check them out like library books are checked out), legality of electronic versions of the files, requirements and user tools for procurement file completeness, and stewardship of procurement documentation.

#### **Procurements treated as crises (emergency procurements)**

- Departments who submit 'emergency' procurements do not understand what an emergency procurement really is. Emergencies can be declared only by the Chief Executive of the government. Most procurements are merely urgent or last minute. There are no consequences to the requesting agency for last minute procurements. Political pressure sometimes forces the procurement office to 'bend' the rules. Generally, the CPOs felt they handled these procurements as well as they could be handled. They just wish the requesting agency would plan better so there would be no need for 'emergency' procurements.
- Year-end procurements are a special kind of emergency procurement. Year end procurements are often rushed through so funds can be expended before they expire. These last minute procurements frequently lack sufficient documentation, are processed quickly by ignoring



procurement procedures, have insufficient reviews of paperwork and the procurement files, and allows the acquisition of unneeded goods and services.

- Possible solutions proposed are to establish a cut-off date for procurement submissions well before the end of the fiscal year, have Chief Executive of the government issue directive to agencies addressing end-of-year procurement policy, and handle agencies that are repeat offenders differently than other agencies.

Proper procurement procedures not followed (both within and outside Procurement office)

- Some of the ways in which procedures are not followed are no or inadequate price quotes are obtained, unqualified or unjustified sole source procurement are issued, unauthorized procurements are made (with no purchase order), price controls are violated, and policies are outdated.
- Possible reasons for not following procedures are that there are only a limited number of suppliers on island (less than the three required), the requester wants to direct the procurement to a favored vendor or supplier, to make the procurement quicker and easier, and/or because product/service specifications are too ambiguous or specific.
- Unjustified sole source procurements are issues because they can be quicker, easier, or can be directed to a preferred vendor.



**Appendix N    Jim Brucia: Integrating Internal Controls  
and Performance Measurement (Slides)**

# **INTEGRATING INTERNAL CONTROLS AND PERFORMANCE MANAGEMENT**

Island Government Finance Officers' Association  
December 7, 2006

IGFOA Meeting, December 7,  
2006

1



## MANAGEMENT CONTROLS

- Policies, procedures and practices used to reasonably ensure:
  - S—Safeguarding assets
  - C Compliance with policies, laws and procedures
  - A Accomplishing stated goals and objectives
  - R Reliable information and records
  - E Efficient and effective organizations

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2

## CONTROLS – WHO USES AND WHY?

- Controls are used by managers to give reasonable assurance that their programs, agencies, activities, and functions are efficiently and effectively managed in conformance with applicable laws and regulations and that their programs are achieving intended results.

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3



## RESPONSIBILITY

- MANAGERS ARE RESPONSIBLE FOR ESTABLISHING, ASSESSING, CORRECTING AND REPORTING ON MANAGEMENT CONTROLS

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4

## INTERNAL CONTROL FUNDAMENTAL CONCEPTS

- Continuous built-in component of operations
- Effected by people
- Provides reasonable (not absolute) assurance

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5



## INTERNAL CONTROLS

- Internal controls include
  - Control environment
  - Control objectives (policies) intended to achieve desired results
  - Control techniques (procedures) used to attain the desired results

## CONTROL ENVIRONMENT

- The control environment influences and permeates the other components of the management control system.
- The control environment together with integrity, ethical values, and competence sets the “tone at the top” of an organization.
- The attitude and concern of top management for effective management controls must permeate operations and functions.



## CONTROL OBJECTIVES

Aspects of performance management is trying to achieve, for example quality, fraud prevention, security of assets, and staff safety

- Are key to the definition of management controls and it helps shape the requirements of the other standards/components, e.g. control techniques
- By setting objectives and sub-objectives, managers can identify critical success factors, the key things that must go right if goals are going to be attained

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8

## CONTROL TECHNIQUES

- Actions taken to reasonably ensure adherence to the policies and procedures established to address risk associated with achieving at the agency objectives. Common control procedures might include:
  - Top level review
  - Mid level/functional managers
  - Information processing

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9



## CONTROL TECHNIQUES

- Documentation
- Records
- Authorizations
- Structure
- Supervision
- Security

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10

## RISK ASSESSMENT

- All entities face a variety of risk from external and internal sources.
- Risk affects agencies ability to achieve their stated mission, maintain a positive public image, and maintain overall quality of services and people.
- Risk assessment involves identifying risk to achieving both stated and implied agency objectives.

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11



## RISK FACTORS

- Program purposes and characteristics
  - Broad or vague authority or regulations
  - Cumbersome legislative or regulatory requirement
  - Broad or vague missions, goals or objectives
  - High degree of complexity
  - Payment of entitlement monies
  - Severe time constraints
  - Cash receipts

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12

## RISK FACTORS

- Budget level
- Impact outside the agency
- Degree of centralization
- Special concerns
- Prior reviews
- Management responsiveness to audit findings
- Budget and reporting procedures
- Organizational checks and balances
- Information systems

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13



## MANAGEMENT ASSESSMENT

- A review of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation due to the nature of the program and the environment in which it exists
- It assesses the control environment, objectives, risk, and adequacy of safeguards or internal controls



**Appendix O Steve Medlin: 20<sup>th</sup> Century Public Leader  
Tools & Competencies (Slides)**

**IGFOA**

**December 3-7, 2006**

- **The 21<sup>st</sup> Century Public Leader: Tools and Competencies**
  - First presented by Dr. Evan Berman
  - Refresher presented this week
  - Tools and Competencies to be applied to issues discussed this week



## Trends Affecting Government

- Changing Rules
- Emphasis on performance and results
- Demands to improve service delivery
- Increasing collaboration

## How These Trends Affect Government Leaders

- Need to better understand and influence legal frameworks, organizational structures and business practices
- Need to enable managers to be more productive and hold them accountable for results
- Must exercise resource stewardship that results in clean audits, timely and accurate financial statements, and the ability to measure outcomes and their costs



## What this Means to the Public Sector Leader

- Leading change in public organizations will be constant and increasingly intensive
- The rate of change will increase dramatically
- Leaders will be held increasingly accountable for producing documented results

## Berman's Session Addressed Five Sets of Issues

- Leading and motivating managers to become more productive and results-oriented
- Ensuring citizen participation to help you set goals and priorities
- Responding to constant change
- Building effective collaborative partnerships
- Communicating the importance of resource stewardship



## OPM Leadership Competencies

- Leading Change
- Leading People
- Results-Driven
- Business Acumen
- Building Coalitions/Communications

## Leadership Domains for Managers and Executives

- Strategy Development and Execution
- Ethics, Values and Judgment
- Technical Areas of Expertise
- Leading and Managing People



## Leadership Competencies

- Strategic Leadership
  - Key foci:
    - Vision
    - Change management
  - Competencies:
    - Assessment
    - Strategic planning
    - Community-based visioning, planning, and change

## Vision

- A clear, articulate, compelling vision is necessary so all stakeholders know where we are headed
  - Developed collaboratively
  - Measurable
  - Communicated to all key stakeholders
  - Leader held accountable for fulfilling the vision



## Managing Change

- **Five conditions for success**
  - Top management/leader support
  - An urgent need for change
  - Support from a critical mass
  - Some 'ripe apples'
  - Sufficient trust

## Leader's Role in Managing Change

- **Leaders create the conditions for success**
  - Marshall the support needed
  - Identify or create the urgent need
  - Build the critical mass
  - Identify and pick the 'ripe apples'
  - Trust and be trustworthy



## Small Group Assignment

- Get into your government groups
- Based on all the issues covered in the conference, identify the 3 highest priority changes that you, your organization or your government need to make
- For each change, using the five conditions for success, identify the key things you and/or your organization must do to manage the change successfully







## **Appendix P Government-Specific Action Plans (Notes)**

### **American Samoa**

#### *Three goals*

##### *1. Budget & Accounting written policies and procedures manual*

Need DOI assistance in hiring outside qualified consultants

Need to obtain the Governor's support

Draft executive order on management controls for Governor's signature

Need commitment of ASG funds and resources

Need commitment from Governor that the procedures and policies will be followed.

Need a commitment from the Governor that there are consequences of non-compliance

By March 1 complete a strategic plan for presentation to the Governor

By April 1 meet with the Governor detailing the vision and the plan

##### *2. Minimize opportunity for waste, fraud and abuse*

##### *3. Consolidate finance related departments*

### **CNMI**

#### *Three Goals*

##### *1. Reduce or eliminate audit qualifications (multiple qualifications in FY05)*

Top management support – yes

Urgent need for change – yes

Need reliable financial statements

Allows better management decisions

Get improved Performer score

A factor in CIP distribution

Support from critical mass

Meet with directors & staff involved

Communicate need for change

Involve in planning steps

Conduct periodic meetings to assess progress

Ripe Apples

Reserve for continuing appropriations #1

Taxes Receivable and rebates payable #2

These involve major recommendations and cleaning up of old problems

Sufficient trust

Allow Directors & staff to resolve problems with periodic assessment

Measure: Reduction of qualifications in Single Audit

##### *2. Produce financial reports and year end adjustments independent of single audit auditors to comply with SAS 112*

Need a decision to



- bring task in house or
- hire another audit firm or
- accept SAS 112 findings

### *3. Update or revise procurement procedures.*

Need a codification of policies, directives & memoranda related to procurement.

Top Management Support

Secretary will support implementation & clarification of regs & policies

Urgent need for change

Absence of the procedures creates audit findings

Lack of knowledge in the departments and the government on proper procedures

Reliable financial statements allows better management

New energy policy requires immediate changes

Support from a critical mass

Training/education of staff re: new policies

Solicit input from various department to determine how new policies/regs will address their needs

ID deficiencies in department

Encourage staff to become invested in change

Finance and Govt wide training and support for new policies

Educate staff re: significance of compliance

Ripe Apples

Begin with small purchase regulations

Currently there is no regs or procedures

Overall, workable guidelines and structure exists but there is a need for specificity

Trust

Gain trust as working procedures makes life easier

Set up a central filing system for procurement

To improve audit performance--educate and train auditors on procurement procedures.

## **Guam**

### *Three top priorities*

*1. To improve Performer rating*

*2. To improve sole source justifications*

*3. To implement and prepare for the GASB 42-43-45 statements and SAS 112.*

Top Management Support

DOA, Director will issue circulars to all agencies advising of new GASBs

Urgent Need for Change

GASB 42 is effective immediately

Must prepare for GASB 43 & 45 and SAS112

Receive training by March 2007

Support from a critical mass

GASB 42 has an established F/A group



GASB 43 & 45 to be included in the FY2008 actuarial contract  
 Ripe Apples  
     Inventory of fixed assets  
 Trust  
     Internal & external perception of continued success in our FY06 audit

## USVI

### *Three goals*

#### *1. Timely Issuance of Audits*

Top Management Support  
     Support from the Governor  
     Collaboration from Legislature  
     Collaboration from component units (entire board)  
     Buy in from top management of departments and agencies  
     Support from OIA by withholding discretionary funds or other sanctions

Support from a critical mass  
     Fiscal officers  
     Procurement officers  
     Program personnel

#### Needs:

Timely closing of govt financial books including posting of audit adjustments  
 Fixed Asset tracking implementation

#### Measures for change:

Timely issuance of component units' audits  
 Issuance of property & procurement rules and regulations  
 Timely compliance with auditors' requests for information from depts.  
 Readily available accurate fixed asset report  
 Timely response with supporting documentation requests from all departments & agencies  
 Audits completed within 270 days of the close of the fiscal year

#### *2. Implementation of new accounting standards #42-27 and SAS 112*

Top management support  
     Support from OIA to offer training to all stakeholders affected by the standards ASAP  
     Top down communication to the critical mass  
     Communication to the Governor, Legislature and unions of the impact of the standards  
     Communiqué to Governor, Senators, Department Heads, Unions regarding the FY05 audit

#### Measures for change:

Availability of funding to implement the standards



Acceptance & implementation of the necessary changes affecting the employees

### *3. Development of government organizational architecture*

#### Top management support

- Support from governor, Legislators and union leadership
- Collaboration from employees and the community
- Support from OIA to assist in giving clear direction as to how the VI can approach the problem
- Select a firm to perform the analysis
- Support from the critical mass for implementation

#### Measures for success:

- Acceptance by employees for the need for change
- Complete reorganization of departments and agencies and re-alignment of employees
- Improvement of timely delivery of service to the community
- Installation of a hotline (311) for community feedback and complaints

## **Republic of Palau**

### *1. Full compliance with procurement policies and procedures*

- Letter from MoF Minister through the President to top level managers
- Update procedures & checklists
- Disseminate to departments with training
- Sound & effective policy “practice what you preach”

### *2. New GASB Standards & SAS112 Compliance*

- Send letter from MoF & Public Auditor to component units top managers
- Make them aware of new requirements & request for training

## **Republic of the Marshall Islands**

### *1. Achieve clean audit*

#### Top Management Support—yes

- Get more support through being able to communicate
- Get the whole nation involved and understand the importance of the audit
- State the consequences of questioned costs

#### Urgent need for change—yes

#### Support from a critical mass—yes

- Need to continue to inform & train the relevant personnel (fiscal officers)
- Give direction and provide support to the Audit Resolution committee

#### Ripe Apples—no

#### Sufficient Trust

- Continue to educate staff about the existing regulations, rules & policies
- Keep consistent with the application of rules and policies

### *2. Strengthen Internal Controls*

- Need to change old ways, attitudes and approach to problems
- Roles & duties must be clearly defined



Need trust and confidence in employees

*3. Strengthen Capacity in Finance*

Get support from bosses to attend conferences & training

**FSM**

*Top Priority*

*1. FMIS Implementation*

Top Management Support—yes

Congress & President

Governors

Finance officers

Sufficient Trust—yes

Between the National Govt & the States including a State representative  
on the Executive Steering Committee

Between the FSM and OIA establishing reporting and communication

Ripe Apples—yes

Yap and Pohnpei successful implementations

Urgent Need—yes

National accounting system for reporting to outside grantors and investors

Critical Mass—yes

All of the State finance offices agree to the change







**Appendix Q   Thomas Bussanich: Insular Affairs'  
Budget and Allocation Criteria (Slides)**

## Office of Insular Affairs

- Impact of Continuing Resolutions
- Estimated FY 2007 Appropriations
- Covenant Grants- Competitive Criteria
- NEPA Finds OIA



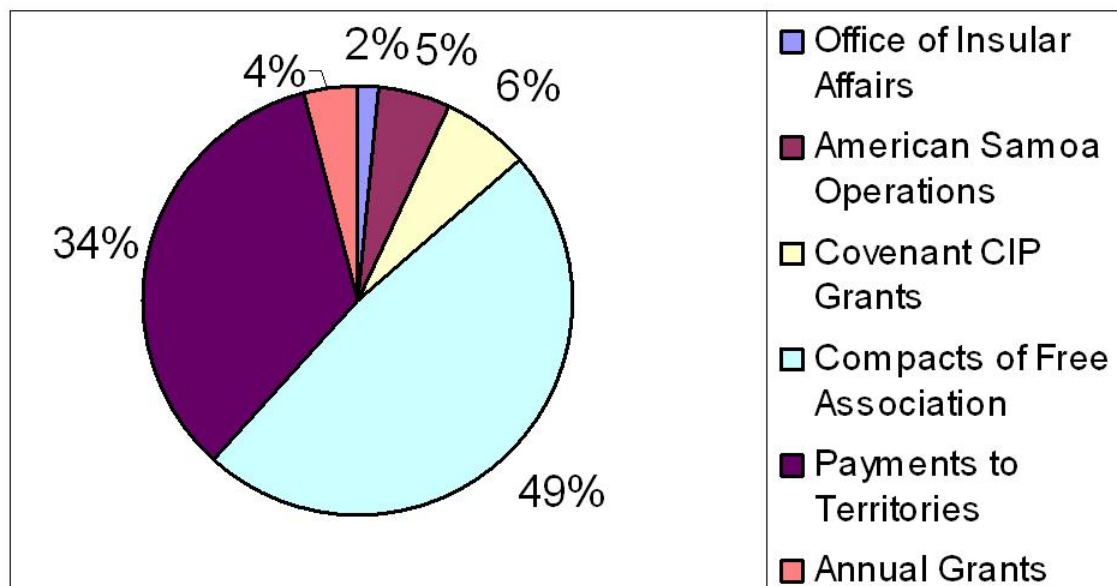


## Estimated FY 2007 Appropriations

|                               |         |
|-------------------------------|---------|
| Office of Insular Affairs     | 7,748   |
| Technical Assistance          | 10,579  |
| OMIP                          | 2,254   |
| Brown Tree Snake              | 2,646   |
| Insular Management Controls   | 1,461   |
| Coral Reef Initiative         | 490     |
| Water and Wastewater Projects | 980     |
| American Samoa Operations     | 22,651  |
| Covenant CIP Grants           | 27,720  |
| Compacts of Free Association  | 207,265 |
| Payments to Territories       | 146,000 |
| Total                         | 429,794 |



## Estimated FY 2007 Appropriations





# Competitive Allocation System

Covenant Grants  
(CIP)



## Covenant Funding Basics

- \$27,720,000 available annually
- American Samoa, Guam, U.S. Virgin Islands and Northern Marianas
- Capital Improvement Projects





## How the System Works

- Base Levels
- Adjusted within a range of plus/minus \$2 Million
- Using 11 Competitive Criteria



## Base Levels

- Established using historic trends
- Adjusted every five years.
- Re-calculated based on the average allocation over the five-year period





## Current Base Levels

### Baseline Covenant Funding

FY 2005 – FY 2010

(\$000)

|                      |              |
|----------------------|--------------|
| CNMI .....           | 11,000       |
| American Samoa ..... | 10,000       |
| Guam .....           | 3,360        |
| Virgin Islands ..... | <u>3,360</u> |
| TOTAL                | 27,720       |

## Award Amounts

- Base Level
- Plus/Minus no more than \$2 million
- Using scores created by 11 criteria





## Criteria

1. The extent to which the applicant is in general compliance with deadlines established under the Single Audit Act of 1984.
2. The extent to which the applicant's financial statement were reliable.
3. The extent to which the applicant is exercising prudent financial management, is solvent, and is current in paying outstanding obligations.



## Criteria

4. The extent to which the applicant has demonstrated prompt and effective efforts to correct internal control deficiencies.
5. The extent to which the applicant has demonstrated prompt and effective efforts to resolve questioned costs.





## Criteria

6. The extent to which the applicant provides timely and comprehensive responses to any follow-up inquiries that OIA and other Federal agencies may have regarding audits, including those related to questioned costs and those related to internal control deficiencies.



## Criteria

7. The extent to which the applicant has demonstrated effective contract administration and compliance with local statutes and regulations regarding procurement practices and processes.
8. The extent to which the applicant has made improvements as measured by the Performer.





## Criteria

9. The extent to which the applicant has properly functioning internal controls, including the presence of a qualified independent auditor, with an adequately funded office and strong safeguards to its independence.
10. The extent to which the applicant's capital improvement application is submitted on time.
11. The extent to which the applicant has complied with all reporting requirements applicable to past and ongoing grants.





## Appendix R Conference Evaluation Summary and Comments

### EVALUATION SUMMARY (26 Evaluations Completed)

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 |
|----------------|-------|---------|----------|-------------------|
| 73%            | 27%   | 0%      | 0%       | 0%                |
| Score: 4.7     |       |         |          |                   |

#### 2) The meeting's objectives were substantially met.

| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|----------------|-------|---------|----------|-------------------|
| 50%            | 50%   | 0%      | 0%       | 0%                |
| Score: 4.5     |       |         |          |                   |

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

| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|----------------|-------|---------|----------|-------------------|
| 69%            | 27%   | 4%      | 0%       | 0%                |
| Score: 4.7     |       |         |          |                   |



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

| Strongly Agree    | Agree | Neutral | Disagree | Strongly Disagree |
|-------------------|-------|---------|----------|-------------------|
| 85%               | 4%    | 8%      | 4%       | 0%                |
| <b>Score: 4.7</b> |       |         |          |                   |

**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 |
|-------------------|-------|---------|----------|-------------------|
| 88%               | 12%   | 0%      | 0%       | 0%                |
| <b>Score: 4.9</b> |       |         |          |                   |

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

| Strongly Agree    | Agree | Neutral | Disagree | Strongly Disagree |
|-------------------|-------|---------|----------|-------------------|
| 62%               | 38%   | 0%      | 0%       | 0%                |
| <b>Score: 4.6</b> |       |         |          |                   |

**7) What sessions of the IGFOA Meeting were the most relevant and meaningful to you?**

- Mr. Procurement Man
- The audit & procurement sessions. The "Procurement Man" was very interesting and funny
- Performer
- Accounting Standards
- Sharing of ideas and group sessions
- Best practices and success. Financial Government Accounting Standards Board
- New GASB accounting procedures
- Procurement
- Government Accounting Standards Update, Best Practices Panel, Government Specific Planning, OIA Update



- Audit Resolution, Internal Control/Procurement, Accounting Standards Updates
- Procurement matters and Control measures
- Internal Controls and Procurement Issues
- Internal Controls & Performance Measurement
- Procurement, Internal Control and Audit related areas
- Procurement issues
- Need for internal control / management practices
- Procurement issues & general accounting standards
- Audit resolutions. Update on new accounting standards
- Procurement session
- Management / Leadership
- They were all meaningful and relevant to me
- All sessions were most relevant and meaningful
- All of them
- Almost all of them

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

- Integrating Internal Controls & Performance Management – document and establish checklist for basic procedures. Accounting Standard Update – initiate communication with Public Auditor to prepare for these new requirements
- Internal controls – this will help me in preparing the internal control manual. Procurement issues – incorporate the things learned in conducting training back home
- Changes & general accounting standards will discuss with office & users. Performer rating – use in evaluation for projects
- SAS No. 112
- How to better manage and be accountable for our governments operation
- New GASB Standards and SAS 112 requirement. Internal Controls Review – will begin implementing what I learned
- Reminder of what leaders/managers need to continue to do to be effective and successful. Small successes lead to larger successes and that they are being documented and recognized, that we are achieving results.
- New GASB training with accounting staff
- Procurement changes will be made accordingly



- New Standards Finance and Auditing. Look at how we can implement & issues involved. Procurement Issues – Dana will handle!
- Take command of situations and revise procurement policies / laws
- GASB Standards & Roles of Managers
- The implementation of accounting statements 42-47 and SAS No. 112
- Working together among the different government agencies is very important
- Standard 42-47, SAS #112 and Internal Mgmt Control
- Procurement contract for commonly need goods (1yr), Internal Control Agreement Process and Audit Finding Resolutions
- Implementation of change and steps for improvement from other governments
- Outcomes of performeter and discussion of leadership & leading a change
- Need changes and need to update the procurement system
- Audit resolution/update on new accounting standards & utilize these in the FY '06 audit
- How to achieve no qualifications and how to become a lively leader, continue to lead my ministry to achieve and be sincere and approachable.
- I must tighten up in implementing ROP procurement practice. It is critical that we (ROP Finance Group) ensure that stakeholders “buy in” with implementation of ROP policy. There is more at stake than just processing what we need
- OIA impact on ASG. (Tom’s presentation). I would like to understand the CIP structure better & will be back to Pago & do more research for update & status. Internal control & control environment. Investigate if possible to implement.
- Procurement and Vision
- Management skill

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

- Internal controls discussion seems like a series of threat
- Group meetings
- Everything worked very well to make the whole time interesting and meaningful to us regarding our work
- Each session was relevant
- Procurement
- Enjoyed them all



- All relevant
- They all were relevant
- I like these all and all are useful
- Financial tools – performeter
- Review of the Leadership session by Berman
- Procurement because I'm not a procurement person

**10) Please provide any other comments concerning the IGFOA Meeting that will make future conferences and meetings more meaningful and enjoyable.**

- This IGFOA meeting has been the best overall. Relevant in terms of topics, sessions. It is nice to be in a position to now be able to analyze the results of our efforts to know and plan ahead for the changes that are to come, such as new accounting standards, grant funding criteria, etc. Looks like we are no longer in a “crisis” mode as far as getting audits done on time. Thank you Graduate School and DOI/OIA for continued support.
- Request for a meeting with the issues on procurement
- Similar meetings like this meeting is greatly appreciated
- Possibly consider ending conference for first 2 days at 4pm – maybe start earlier
- Let's keep doing this. Very educational
- Hand out evaluations earlier – always seem to be rushed in preparing
- Thanks for a wonderful, well-worth meeting
- It was fine; Keep up the great efforts
- More activities for the participants to get to know each other
- Group sessions to enable and encourage delegates to participate and share this experience relative to issues. Discourage on person control of discussions.
- Solicit more contributions on what works / doesn't from governments
- Review of previous strategic action – plans by instructors from previous IGFOA meeting – report of the status on most significant accomplishments.
- Thanks a million for my delegation
- DOI to finance more than 1 staff from each government to attend these meetings. For some other governments it's too expensive to fly from home to the meeting venue.







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