

## **Island Government Finance Officers' Association**

#### **Graduate School USA, Pacific & Virgin Islands Training Initiatives (PITI-VITI)**

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A digital copy of this report, as well as past IGFOA conference reports and additional program information, is available online at www.pitiviti.org

















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#### **Executive Summary**

The Island Government Finance Officers' Association (IGFOA) has met at least annually every year since 1999 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.

During recent conferences, the IGFOA has focused on improving financial, accounting and budgeting practices. The current conference presented trainings on ethics and political transitions. Participants were also updated on new GASB accounting principles, especially those relating to unfunded pension liabilities, and exchanged best practices on improving finance office performance and single audits. Finally, the forum provided the opportunity to develop action plans to improve audit performance, finalize cash management plans, implement accounting standards updates, coordinate federal grants and review processes and procedures to ensure ethical implementation.

The IGFOA Executive Committee built the agenda for the conference based on input solicited from IGFOA members, feedback from previous conferences, and current issues facing government accounting. The goals of the December 2014 IGFOA conference were to:

- Present and discuss best practices in federal program coordination, finance office performance improvement, single audit improvement, and cash management.
- Review new GASB accounting principles and standards and develop a plan for the implementation of these principles
- Provide training to IGFOA members on ethics and management.
- Exchange information on the latest Performeter analysis
- Build government specific plans to implement new GASB standards, improve communication and fiscal capabilities with federal program managers, enhance finance office performance measures, develop cash management plans, and improve management skills and capabilities.

The 35 IGFOA participants represented nearly all of the insular areas; the Virgin Islands, currently in the midst of a political transition to a new administration were not able to send an official to the conference. The conference agenda has been included as Attachment 1.

#### Welcoming Remarks

#### Welcoming Remarks: Minister Elbuchel Sadang

Elbuchel Sadang, Minister of Finance for the Republic of Palau, Tom Bussanich, Director of the U.S. Department of the Interior's Office of Insular Affairs (DOI/OIA), and Stephen Latimer, Program Manager for the Graduate School USA's Pacific and Virgin Islands Training Initiative (PITI-VITI) welcomed participants to the 2014 IGFOA winter conference.

Minister Elbuchel Sadag from the Republic of Palau reminded conference participants of the importance of the IGFOA conference, as it plays a vital role in mapping out the way forward to improve financial management in each respective country. The Minister took time to thank the partners present at the meeting, including representatives of the Department of Interior, and representatives and resource

consultants from the Graduate School USA's PITI-VITI Program, who provide vital assistance and expertise on management improvement.

Minister Sadang noted that, as small island nations and growing nations with limited resources, we rely on our partners to provide expertise we lack. We look forward to continuing to work with our partners to build a financial management system that we all envision to be transparent, compliant, and financially sound.

The partnerships present at the conference are important for the future of our governments. Too often, disagreements are focused on rather than the vast mutual interests present. If governments and partners can find a way to work together, like today and during previous meetings, then differences that are roadblocks today will become mere speed bumps tomorrow. Gathered together today are government financial officers and experts. The discussions we have here will inform our decision making as we plan our financial management improvement projects.

Minister Sadang employed the governments to be active, purposeful, and deliberate in their efforts to build the kind of financial management systems that we want. If we just sit back and let events control us, if rely on reaction rather than action, we risk becoming like a boat without an engine or rudder. We will be swept by the tide, winds, and waves to a place we will not recognize. We cannot afford for this to happen. Instead, the insular governments need to chart a course for the future that utilizes what we have, without jeopardizing our resources. Our course must take advantage of the best that the modern world has to offer, while maintaining best practices and strong links to the traditions that make us who we are. Only then we can we be sure that our government can run with an open door policy, transparency, and provide the necessary services to our people.

Minister Sadang further commented that the agenda for this meeting reflects just that—the financial management improvement training which acts as the backbone of our improvement process. Our challenge is to develop and create an improvement plan that addresses our problems and provides a way to implement this plan, as well as make sure that everybody understands the importance of such a plan. More importantly, we must determine how all our employees participate and benefit from such a plan. It is said that a rising tide lifts all boats, but if does not lift a boat that has holes in it. High tide means nothing to a fisherman who cannot afford to buy gas. We must make sure that everyone is in a position to benefit from the improvement process that we create.

Finally, Minister Sadang congratulated all of the governments for all of the hard work they have done, and for the many accomplishments they have achieved. However, the Minister also noted that the insular governments need to do more. While each government faces big challenges, the Minister expressed his confidence that each government is up to the task.

# Welcoming Remarks: Mr. Thomas Bussanich, Budget Director, Department of the Interior, Office of Insular Affairs

Mr. Thomas Bussanich, the Budget Director for the Department of the Interior Office of Insular Affairs (DOI-OIA), welcomed IGFOA participants on behalf of DOI-OIA:

Good morning everyone. I am Tom Bussanich, the Budget Officer and Director of the Budget and Grants Management Division of the Office of Insular Affairs of the Department of Interior. It is my great pleasure to be back with this group again. Today I bring greetings from our Assistant Secretary, Esther

Kia'aina, from the director of our office Nikolao Pula, and I am also accompanied by Marina Tinitali from our office. We've been participating in these meetings with the Island Governments Finance Officers Association since around 2000, which has grown out of the larger technical assistance program that we manage. I know I was in this hotel 20 years ago, and I think Elbuchel and others were probably here when we were addressed by the then mayor of Maui, Linda Lingle, who went on to become the governor. So who knows? This could be the start of something good for the mayor of Maui.

The goal of the finance officers and the importance of good financial management is really one of the keystones of performance from our perspective at the Office of Insular Affairs, and an important part of our overall mission. The words we use, and the planning statements that direct our requests for appropriations so that Congress funds us over, are "empowering insular communities." Under that header we talk about trying to improve quality of life in the communities, creating economic opportunities, and promoting efficient and effective governments in those communities. Certainly, our support and our interaction with government finance officers supports efficient and effective governments. In fact, as you know, the focus on improving the single audits over the last few years has been a measure of how we look at the islands and also how capital improvement money, including the resources that are granted to each of you, is distributed.

All those three things—improving quality of life, creating economic opportunity, and promoting efficient and effective government—I think are intertwined with the activities that we do. I've always believed that finance people are the heartbeat of the government. Without control of government resources, the government can't achieve any of the other goals that it has. When a government is in control of its resources, it is well-positioned to improve the life quality of its people. A well-managed government helps establish a community where people want to invest and do business. I think all of our missions are supported by you and I really appreciate that.

I will be giving a presentation on Wednesday morning on the OIA budget and I will be available to discuss that and any other issues that might relate to federal programs and management issues related to the Department of the Interior.

I want to welcome you all and thank you for being here. I'm sure you all had a Happy Thanksgiving and I want to wish everybody a Merry Christmas. Thank you.

#### Welcoming Remarks: Hon. Tulsi Gabbard, United States Congresswoman

Congresswoman Tulsi Gabbard prepared a welcome message for IGFOA conference participants which was shared by video:

Aloha and good morning. I am Tulsi Gabbard, Hawaii's representative to the United States Congress. I am honored to welcome those of you who have traveled to Maui from across the Pacific and the Caribbean. We are honored to host representatives from the US territories of Guam, the Northern Mariana Islands, the Virgin Islands, the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, and American Samoa. *Mahalo nui loa* to Maui Mayor Alan Arakawa, Kalbert Young, Sandy Baz, and all of the hosts and guest speakers from Hawaii and Washington DC who are here this week to share their aloha and knowledge with our guests at this year's Island Government Finance Officers Association conference.

So much has been achieved in the nearly fifteen years since the Association was first established. Each of the governments represented here today submit timely audited financial statements and six have received unqualified audit opinions. Because of your dedication to serving the people of your communities, you work to produce timely and accurate financial statements, which adds greatly to an atmosphere of transparency that citizens from your islands and US taxpayers surely appreciate. Congratulations on your successes.

To those here today from the US Department of Interior's Office of Insular Affairs, thank you for your department's continued support of the Island Government Finance Officers Association and for supporting the Pacific and Virgin Islands Training Initiatives. These important programs invest in these governments' most valuable resource, their people.

Please enjoy your stay on Maui and be sure to set aside some time for sightseeing, shopping, and taking in all that the beautiful Valley Isle has to offer. Best wishes for a productive conference and I wish you all safe travels back to your home. Aloha.

#### Welcoming Remarks: Hon. Alan M. Arakawa, Hawaii County Mayor

Maui County Mayor Alan M. Arakawa welcomed everyone to Maui. Mayor Arakawa commented that this is a critical conference because finance is the basis of a government's function. The Mayor mentioned that without financial officers managing everything, nothing would function. There is truth in the saying "money makes the world go 'round." It is important to understand the causes and effects of what we are trying to do.

The Mayor compared government to a giant, multidimensional jigsaw puzzle with a thousand pieces. Every part of the community is one little piece of the great puzzle that we have to work with. Budgeting must account for all the pieces together because if once piece is ignored the picture does not work right. It is easy to see this puzzle as two dimensional but we cannot forget that we are always working on a multidimensional project. Governments work must with today, tomorrow, and with one hundred years from now in mind.

Every government elected group likes to landmark all the buildings and other infrastructure they create, like libraries and parks, but very few think about the necessary maintenance to keep each of these upgraded throughout the years. Expansion must happen slowly in order to incorporate all the work that needs to be performed over the years. Rather than an attitude of "once it is built, it is done," the attitude must be "once I built it, I have a starting model to work with," and then "I have to be able to modify this model to make sure that it continues to work well in an ever changing world."

The Mayor stated that not too long ago, nobody would have conceived that we would be able do calculations on your telephone, play video games, or communicate with someone across the world using a simple device that you carry around. Each tool we rely on changes with time. Technology has created a world that we have to see as constantly evolving, meaning we can no longer be fixated on a parameter that we assume will never change. Those days are long gone. As we plan budgets, we can no longer just look at what we need to do today, but we must look at how we can take care of the challenges that are coming for our community. We must incorporate the coming changes in technology into the fixed structures and rules we have today.

The way business is done has changed a lot over the years. All the evolutions and developments that occur require changes in systems that are currently in place. Mayor Arakawa commented that he used to anticipate that paper work would take a long time. Now, the Mayor can receive what he needs in two days. When we start looking at where we are going to get business supplies from, we used to have to hope the shop down the street had what we needed. Today, anyone can get supplies from anywhere in the world and therefore, everyone has to be able to do payments and financing for almost any place in the world. In order to be economical, we have to find the most competitive prices, which means spending money in places we may not have spent before. Third world nations are becoming first world nations as economic structures change tremendously. Countries we used to ignore because they did not have technology are now leading the world in technology. The Mayor cited Korea as an example. The Korean War nearly leveled the entire country. Now, Korea is now one of the world leaders of economics, manufacturing with great companies like Samsung and LG. Samsung not only produces televisions and electronic parts, they build bridges and create other huge structures.

Governments have to keep track of spending and manipulate financing to take advantage of the best market and the best investment processes. It is a big job to keep the economies of your communities under control, to keep funding to a level that your communities and legislative bodies can understand. The mayor stated that the group at the conference is probably one of the most powerful groups because it has the most responsibility of any other government group. The people here control the purse strings. You are the ones that are accountable for all the taxes, all the revenue that is brought in. You have to make sure the expenditures are done in a professional way and that it is managed in a professional way so that all the bookkeeping is in place. Without proper bookkeeping, no government system can survive. The days where you can just pretend money is coming in and money is going out and governments do not have to control, understand, or explain it are gone. That was three generations ago. The Mayor stated that every penny that goes in and comes out has to be accounted for. The government has to understand why it is spending each penny, and where money will come from for next year, for ten years from now, for fifty years from now, and for a hundred years from now.

When planning our communities, budgets, and expenditures, we have to look at the multilevel jigsaw puzzle. If government financial officers can meet this daunting task, the communities will function well over time. If we do not understand how the pieces fit together, we are going to make a lot of mistakes. We cannot take pieces from different puzzles, put them together, and expect to get a good a picture. Each piece of the puzzle has to be worked, massaged, and reformed so that it fits into the puzzle well. If the pieces are not already formed, we, as governments, have to create these pieces as we go, which is why the multidimensional jigsaw puzzle may be sort of crazy, and our responsibility may be crazy, but I applaud all of you for taking on this task.

Governments do run. Governments will continue to run. The way a government is run determines how and in what form the system will work. We need to be able to use people's money in the most efficient way to be able to run the most efficient type of government that we have, so we can create a quality of life for each of our communities. We want to be able to assure that our families, our friends, and our neighbors can have kind the lifestyle that we want them to be able to have. How we distribute and manage our funds will make that really important decision for them.

The Mayor closed by encouraging guests to try to enjoy the beaches and resorts of Maui. He expressed his hopes that, at the end of the day, this conference will leave participants with enough information and energy to be able to go out and run the most efficient types of governments.

#### Questions and Answers with Hon. Alan M. Arakawa, Hawaii County Mayor

What is the size of Maui's government and number of government employees?

Maui County has a budget of \$603 million and has 2,600 employees. The population is 168,000.

We from the government have to be able to find money. We have to figure out how to economize. In Maui County, we have switched over to alternative energy options because we are trying to economize, through changing our systems. Maui is trying to repurpose in order to restrict expenditures. We have to reorganize, in order to cut expenditures, and change to fit the modern world and to run an efficient government. For example, many things that we used to rent, we have now built our own in order to save on rental costs.

Do you have your audits posted?

All of our reports are on the Maui County website at www.mauicounty.gov

What are the two top priorities of the budget and why?

We are working to get infrastructure to level where it makes sense. For instance, our highway system was on a 50 year maintenance budget, but our roads only last 25 years. We tripled the budget so that we are on a 25 year maintenance cycle. We are trying to do that with virtually all of our departments. We are trying to get maintenance to a real cycle, based on actual costs, rather than on a political cycle. We have to adjust people to what it really costs to live here and maintain infrastructure.

The Mayor encouraged any people with more questions to call or email him.

#### IGFOA Participant Meeting Expectations

Following opening remarks, IGFOA participants shared their expectations for the three-day IGFOA meeting. Several topics were highlighted, with a particular emphasis on cash management plans, Performeter results, and updates on finance office performance measures. The Graduate School Program Manager, Stephen Latimer, also reminded the group that a pre-conference questionnaire was shared with each of the finance offices, the results of which assisted with the development of the conference agenda. The complete list of expectations included:

- Discussing best practices in the finance offices
- Reviewing finance office performance measures
- Learning from professionals
- Ensuring compliance with changing audit standards
- Understanding new GASB updates and finance office implications
- Sharing training and assistance needs
- Getting excited and energized
- Providing ongoing support to office personnel
- Receiving FY13 Performeter results

- Reviewing ways to help Component Units reach fiscal compliance
- Closing out cash management plans for audit compliance
- Improving annual audits, reducing questioned costs, and reducing findings

#### IGFOA Government Updates and Presentations

Prior to the IGFOA conference, each government was asked to prepare a brief presentation on its progress on the IGFOA-sponsored financial improvement activities. Specifically, each government prepared and presented presentations that updated participants on federal grant outreach, government audit status and performance measures, and cash management plans.

As has been the standard practice at IGFOA conferences, each government prepared a brief presentation on its progress on the IGFOA-sponsored financial improvement activities, as follows:

- Audit status and audit finding resolution
- Finance office performance measures
- Cash management plans
- Outreach to federal grant mangers and federal program coordinators on island

The slides for each government's presentation have been included as Appendices 2a through 2j.

#### Audit status and audit finding resolution



For the first time ever, all eleven insular governments filed their annual audits on time. Two governments, noted below, received permission to file their audits slightly later than the June 30 deadline. Timely audit completion is a significant achievement and improvement. At the inception of the audit improvement program in FY2002 the audits were cumulatively 159 months late. It was a challenge for the governments to organize and push their staffs and their auditors to complete multiple audits within a single year.

Over the last 10 years, the governments have struggled to balance timeliness with the quality of their financial statements and audits. On the whole, they have found that timeliness eventually results in better quality. The finance office is able to address audit and accounting issues quickly and concentrate on current and future activities rather than continually looking backwards. The results of quality are reflected in the decrease in the number of financial statement and major federal program qualifications as illustrated in the tables below.

The majority of financial statement qualifications which remain are due to issues with the governments' component units. Most federal program qualifications are related to program management, not financial management. In almost all cases, the Chief Financial Officer for the central government does not have direct authority over component units or the departments which manage federal programs. While the Finance Officers can provide training, technical assistance and otherwise highlight issues with component units and other executive branch departments, the Public Auditors and the Governor or President are necessary to enforce improvement in those areas.

		FY2013 Stat	us	
		FY2002 # quals 83 total	FY2013 # quals 18 total	1 <sup>st</sup> year for unqualified financial audit
	AMERICAN SAMOA	14	1	1 qual related to CU
1	CNMI	9	7	7 quals related to Cl
	FSM: NATIONAL	6	0	FY09
10.0	FSM: KOSRAE	5	0	FY06
•	FSM: POHNPEI	9	0	FY05
100	FSM: CHUUK	9	2	Close
4	FSM: YAP	1	2	FY09
0	GUAM	9	0	FY07
•	MARSHALL ISLANDS	10	0	FY07
0	PALAU	0	0	FY03
V to	US VIRGIN ISLANDS	11	6	4 quals related to Cl

	FY	2013 Status			
		FY2006 67 total	FY2011 51 total	FY2012 51 total	FY2013 41 tota
	AMERICAN SAMOA	9	15	9	11
(3)	CNMI	7	8	8	7
•	FSM: NATIONAL	7	3	3	3
	FSM: KOSRAE	3	0	0	0
700	FSM: POHNPEI	2	0	0	1
	FSM: CHUUK	4	0	0	1
	FSM: YAP	4	5	5	2
0	GUAM	13	5	5	4
<b>&gt;</b> /	MARSHALL ISLANDS	3	3	2	2
0	PALAU	9	7	7	7
V Tol	US VIRGIN ISLANDS	6	5	2	3

#### Finance office performance measures

The finance officers' presentations highlighted their improvement plans on one or two of their most challenging performance measure areas. In addition, Guam, Yap, CNMI, Kosrae and Palau prepared their full financial performance measure dashboards (found at Appendices XX-XX).

The finance office performance measures track those areas which have resulted in a number of audit findings and those which are most directly related to management of federal funds. Overall, the finance offices have shown improvement in those problematic areas, yet, as noted in their presentations, each office still struggles with performance issues.

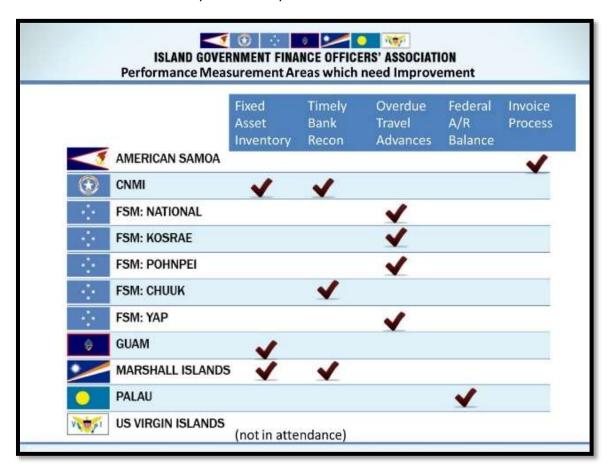
The table below highlights the areas which each government finance officer determined was their most problematic. As noted in previous reports, the issues with travel advance collection are long standing and seemingly resistant to improvement. While the technical and legal issues are not complicated, the finance officers find enforcement to be difficult without the support of the island leadership.

The IGFOA selected financial measures:

- timeliness of bank reconciliations,
- reduction in overdue travel advances,
- accuracy of estimated revenues compared to actual collections,
- timely completion of the fixed asset physical inventory,
- number of days to process an invoice,

- timeliness of the SF425 (federal program) reports and
- reconciliation of the federal accounts receivable

were reinforced by Mr Sandy Baz from Maui County. These measures are based upon the criteria that Sandy noted in his presentation. They are based upon measureable and available data that is numeric, tells a story of progress (or not) and characterizes the performance of the finance office. Many of the same measures are also tracked by Maui County.



#### Cash management plans

The island governments finance offices have made significant improvement in the status of their cash management plans. The Republic of Palau has finalized their plan while noting they would like to make some improvements and additions. All the other governments have made significant progress in completing and assembling the components of the plan. Many of the plans are in final draft awaiting a last review before signature.

The project to develop cash management plans was initiated to address the continuing cash management findings on the financial audits. The comprehensive cash management plans assemble the local cash management laws, policies, procedures as well as provide a listing of all cash accounts, their custodians and their purpose. A major component of the plan is the federal grant cash disbursement and drawdown procedure.

While the plan alone will not remove cash management findings, it does allow the government and the auditor to refer to documented procedures then determine if the government is following those procedures.

#### Outreach to federal grant mangers and federal program coordinators on island

The finance officers presented their efforts to train, assist and otherwise reach out to the federal program coordinators and other departmental finance staff in their government. Some governments provide regularly scheduled sessions which cover different and timely topics. Some governments rely almost exclusively on external trainers. Without exception, each finance officer agreed that these sessions help operations in their own office as well as the local federal program offices. Yet, some offices are not yet following through with additional sessions.

The challenge remains for every finance office to provide these outreach programs using local staff and addressing local issues on a regular basis. External trainers should be viewed as the "icing" on a basic cake of support.

#### **Best Practices**

The finance officers' presentations, the panel discussions, and informal question and answer periods provided an opportunity for the group to discuss a number of best practices in different areas. Below are listed some of the highlights of those practices:

#### Audit relations:

- Use multiyear contracts
- Schedule frequent meetings with the auditors before, during and after the audit
- Insist that the auditors provide findings as they are noted and early in the process
- Meet with the auditors after the completion of the audit to review corrective action plans and progress towards completing the plans
- Require the auditor prepared cumulative questioned cost summary
- Include requirements noted above in the contract with the audit firm

#### Fixed Asset Inventory:

- Capture current acquisitions first (stop the bleeding)
- Review capitalization threshold
- Meet with department AOs regularly to emphasize need for and determine the status of fixed asset inventory

#### Travel Advances:

- Concentrate efforts on collecting current advances first (stop the bleeding!)
- Ensure you are on firm legal ground for remedies such as withholding from payroll or holding paychecks
- Withhold a significant fixed amount from paychecks (as opposed to a small dollar or percentage)
- Send collection notice to the head of the department as well as the employee

Timely payment of invoices using federal monies:

- Segregate federal payments from general and other funds
- Don't delay processing federal invoices or checks
- Monitor unpaid encumbrance reports
- Meet with department AOs regularly to emphasize need to forward invoices to finance

#### In general

- Consider an update or review of government financial management regulations
- Select problematic and high profile processes for improvement and review
- Develop a database of all department contacts
- Be proactive and chart your course
- Develop a formal plan with tasks, dates and names for anything you want to get done

#### Where do we go from here?

After reviewing a short history of the progress in each of the IGFOA project areas, the group was presented with Citizen Centric Reporting as a possible new project. (See Appendix XX) Citizen centric reports, as defined by the Association of Government Accountants, are short (4 pages) and highlight the financial and performance results in areas where the public is most concerned. The argument for such reports is to provide a means to educate and include the public in budgetary and financial decisions. The island governments are faced with restricted or diminishing revenues and must make some severe choices in the types and level of services they provide. Citizens should be part of that decision process.

Since the burden of the preparation of the report is likely to fall primarily on the already busy finance office, the IGFOA group will carefully consider how to build support in their government and how to pull in other resources for assistance in the project.

#### Kalbert Young: Hawaii Transition and Transformation

The Hawaii State Interim Director of the Department of Finance, Kalbert Young, delivered a lunch presentation on "Hawaii Transition and Transformation: A recap and status of transformative financial initiatives in Hawaii State government over the last 5 years."

Mr. Young stated that Hawaii is at a critical transition phase with a new governor taking over. Incoming Governor David Ige is a fiscally conservative politician that Mr. Young expects to stay the course that Governor Abercrombie and Interim Director Young have put in place. Mr. Young noted that political changes happen in government all the time. The main challenge stems from the nature of government work in a very "target rich" environment—meaning that changes frequently. In addition, government officials always seem to be working on things from the past. The Interim Director asked, "why are we still, so to speak, building the ship?"

Interim Director Young reminded participants that government is big business. Government is tasked with providing a lot of services, often with very little resources, to a public that does not want to pay any more than they already are. This is why a lot of things that need to happen in government get put off.

In Hawaii, many things that need to get done have been put off because of under resourcing. The global recession was less than 4 years ago. The state endured a \$220 million revenue decline in 2011 alone. The Interim Director posed the following question:

"How do you sustain the public services that the public demands and expects, even if they do not appreciate these services?"

Interim Director Young stated that government finance officials have to make critical decisions to suspend and cut programs. The State of Hawaii, relative to other states, was in a pretty good position and, therefore, came out of the recession quickly. By late 2012, Hawaii was fully recovered from the recession. Interim Director Young is comfortable leaving the office in a much better position than when he started four years ago. By 2013, the state had already built up its balance to a positive number. This did not happen organically. The billion dollar increase was created by making difficult decisions.

Now that the state has a positive ending balance, programs have been rebuilt and refunded, but these funds are not typically stable. The current economic cycle is coming to an end. When is the economy at the peak? Has the peak already occurred? It is important to know when the peak is coming in order to prepare for the down turn that occurs after the height. The Interim Director believes the cycle in Hawaii will be concluding sometime in the next 3-5 years. The next governor is very fortunate to have a strong state economic situation and an improving economic situation in the federal government. It is easy to manage government programs when there is a lot of money, but it is difficult when there is little or no money to spend.

Hawaii currently has the 7th lowest unemployment rates in the country at 4.1%. There are currently 660,000 jobs in Hawaii, which is the largest job count in the history of the state. Construction on the Rapid Transit System in Honolulu has and will create more jobs and increase revenue.

The other main revenue source for the state, tourism continues to rise. Tourism has peaked in the following areas:

- largest number of visitors for the third in a row
- highest revenue per available room for the third year in a row
- largest number of air seats coming to Hawaii for the third year in a row

Hawaii needs tourism to continue at this peak!

Mr. Young shared his observation that it is important to look for peaks so that we can prepare for the downturn that follows. The true work of a financial manager may not be recognized by the general public or even by elected officials. The true work is how officials manage these downturns.

In the State of Hawaii, transformation issues relate to unfunded liabilities, reserve levels, government management, and technical resources. Unfunded liabilities relates to pension and other postemployment benefits (OPEB). Hawaii has led the way in terms of coming up with solutions for unfunded liabilities. Hawaii also has one of the worst state total unfunded liabilities with pension liabilities of \$22 billion and OPEB liabilities of \$18 billion. This problem occurred because future liabilities were not planned for when commitments were made years ago. However the issue must be dealt with now, before it cripples the future progress of the Hawaii government. Interim Director Young and staff passed a bill that plans to correct the total unfunded liabilities for the state. Starting in 2015, the bill requires

that all government employers contribute 20% of their Annual Required Contribution (ARC) to unfunded liabilities. This increases by 20% every year until 100% of ARC is contributed to unfunded liabilities. Under this plan, in 30 years, the unfunded liabilities should be minimized.

Transformation takes years of constant pushing and mindful, cognitive attention before any idea gets traction. Once traction is established though, it is hard to go back. Therefore, once an idea gets going, the government is on track for change. The State of Hawaii will be challenged to demonstrate the fortitude to keep this plan going. The challenge of reducing the unfunded liabilities must be planned for in advance.

Interim Director Young also discussed the current controversy over state pension. The Department of Finance passed a pension reform that affects new, not-yet-hired employees. These future employees will receive smaller benefit packages, which is necessary to build a pension system that is sustainable. There are no easy answers and choices will not always be easily received. The Interim Director urged financial officers to look across the landscape and see what other states are doing about this problem to find the most acceptable program for each community and economy.

With regard to technical resources, Interim Director Young mentioned that analytics is more than just people. It is systems and processes. The State of Hawaii runs a big business with technology from 1980. Most everything is run on excel. Interim Director Young believes that taxpayers demand and deserve better than that. Outdated systems are not enough to run the government properly, because the government needs modern and contemporary systems to make analytical decisions. Only small progress has been made in updating and modernizing. Financial management system upgrades have to come from changing the culture of government workers. Without robust, dynamic financial analytics at its fingertips, a government is not operating in the modern world.

The Interim Director made clear:

"It is imperative to realize that it is not that important who the president is, who the governor is, or who the director is. Those leaders are not the ones who actually make the changes. It is you and your staff, the people who are beyond the political transformation. It comes down to the civil servants who have been there for years and who are committed to government service. They deserve better resources and tools. These people make transformation work."

When Interim Director Young steps aside, he knows it is the staff that he has worked with at the State of Hawaii that will carry forth the transformations that have already been put in place. The faith has to be in who you leave behind in your government.

#### Questions and Answers for Kalbert Young: Hawaii Transition and Transformation

What kind of program cuts did you make to help Hawaii recover from the recession?

In 2010 and 2011, a lot of 'easy' cuts, like travel and spending, had already been made due to the recession. When the Interim Director started, there was a hiring freeze, a two day per month furlough, and a pay freeze for all government employees. Mr. Young looked at many social service programs and had to cut many of their grants. It was hard, but it was the best practice because it was not affecting government directly. When the state was able to restore these cut grants, it did. Interim Director Young augmented the hiring freeze by also not hiring to fill retired employees' former positions. This put a crimp on succession planning as the state lost a lot of knowledge. There is now a huge lack of longevity

among staff, because the state did not hire anybody for three years. Interim Director Young also refinanced a lot of existing state debt to guard the debt service savings. Rather than kicking the can down the road to pay later through restructuring, the Director suggested that refinancing is a more financially responsible choice—so long as payments are not spread out over longer stretches of time.

Did you cut any programs that were not contracted out?

Yes, we suspended and shrank some programs that were not contracted out.

Is there a format or outline to determine whether to cut a program?

Interim Director Young shared his philosophy, which reviewed several metrics:

- Value benefit for every dollar
- Is this a core government function?
- Are there alternative organizations for this service?
- Morality
- Are you okay with cutting this program?

There was a lot of hardship for government employees during this time. We offered all Defined Contribution (DC) plan participants, who could demonstrate financial hardship, an emergency withdrawal of retirement funds. A lot of government employees were able to make withdrawals to mitigate large hardships that the workforce was facing.

Some programs are mandated by law, how did you deal with these during the financial crisis?

We did have to look at federally funded programs, but they were largely spared. We could not cut the federally required programs. For example, one large expense program we have for to provide is healthcare for many citizens of the Freely Associated States—so called "Compact Impact." Hawaii is not adequately reimbursed for many of these expenses. Hawaii has tried to reduce the burden on the state to pay for these benefits. This will help put Hawaii on better footing for providing these benefits in the future. A lot of improvements that have been made have yet to be realized because these changes take time.

Doesn't allowing an employee to withdraw from their deferred compensation hurt the employee in the long run?

We offered this solution to those facing financial hardship from their own 401(k) plans. We allowed them to withdraw funds from their voluntary retirement programs—not their pension plans. Their pension plans are different, and employees will still receive their pensions funds upon retirement.

What did you do to address the unfunded expense health program for island nations?

We filed a lawsuit in federal court proposing to have COFA personnel to be qualified under the state Medicaid program. COFA personnel will have a smaller package of benefits that conforms to Affordable Care Act requirements.

Would you expand on your plan to reduce unfunded liability?

The lower the discount rate, the bigger your unfunded liability will be. Some governments are going to be forced to recognize a bigger unfunded liability because of the discount rate. Starting in 2015, the bill requires all government employers to pay at least 20% of the Annual Required Contribution to the OPEB trust fund. Each year this requirement goes up 20% so that in 2016 it will be raised to 40%, then 60%, 80%, and finally 100%. The state will be paying 500 million a year to this deficit over 30 years until the unfunded liability is paid off. This money will come from government growth.

How does the smaller pension program work?

Employees enter government service knowing the benefits they are going to receive. We are not going to degrade anyone's benefit, but future employees will not get the same benefits. The goal is to set the pension benefit early enough that people can make a decision about whether or not they want to work for the government. This program gives the pension service a chance to survive.

How do you deal with the political and public backlash?

We live in a different society and people see politics differently. The general population does not understand that we do not pay enough taxes for the services that are provided by the government. Our unfunded liability means that we have not been paying enough taxes for 30-40 years. It is important to convey that the government programs that are in place are not sustainable. Private sector, nonprofit programs are not government services. Taking away funding from these services is necessary when there is no money. There was a lot of discussion on increasing the GE tax by .5% to generate income, but that increases overall tax burden by 20%. The general public had to choose between paying more taxes and cutting the funds. There was an information campaign to try to get people to understand what their choices meant.

#### Sandy Baz: Best Practices in Grants and Performance Management

Sandy Baz, the Budget Director of the County of Maui, addressed the group on his observations of best practices that have been implemented in Maui to improve grants and performance management. Mr. Baz's full presentation has been included as Attachment 3.

Mr. Baz discussed the importance of several best practices that have helped the Maui Finance Office improve their grants management, financial operations, and performance measurement:

- Strategic Planning. Mr. Baz discussed the importance of both office-wide and county-wide strategic planning, and its impact in making sure that all parties are working towards common goals, and encouraging 'strategic thinking' among key stakeholders. Mr. Baz made the point that the outcome document is rarely as important as the process itself. Further, Mr. Baz made the point that strategic planning should be focused on the present, and should not attempt to make future decisions, or commit parties to future decisions.
- Performance Measurement. Mr. Baz highlighted the importance of thoughtfully determining
  what to measure, and then assessing progress. Mr. Baz helped to develop a performance
  measurement document entitled the "Priorities of Maui County" in 2011, which requires
  departments to maintain performance measures that link directly to county-wide strategic plan.
- Single Audits. Finally, Mr. Baz suggested that when addressing single audit issues it is often useful to begin with the end in mind. This notion applies to training, documentation, monitoring and corrective actions.

# Panel Discussion: Best Practices in Grants and Performance Management

Following Mr. Baz's presentation, a panel discussion was convened to discuss the relevancy of Mr. Baz's observations, as well as issues and challenges faced by the insular government finance offices. Six panelists participated, including Kathrine Kakigi (Guam), Juliet Jimmy (FSM National Government), Vicky Villagomez (CNMI), Levi Reese (American Samoa), Casmir Remengesau (Republic of Palau), and Sandy Baz (Count of Maui, Hawaii). Ms. Debbie Milks facilitated the panel discussion, asking each participant to discuss a particular federal compliance issue, and to discuss specific actions taken to mitigate it.

#### Cash Management Findings: Levi Reese and Uti Gebauer, American Samoa

Levi Reese first offered an overview of the current American Samoa Treasury. American Samoa has a new Treasurer, and does not currently have a Comptroller or Deputy Treasurer. From Levi's perspective, the current grant problem can be resolved by primarily changing the mindset of people involved in federal grants. The American Samoa Treasury is trying to grant recipients to consider the bigger picture of who and what programs are being affected by their money.

Uti Gebauer is in charge of streamline federal grants training to ensure that federal grant recipients across American Samoa can start to see the bigger picture. Uti commented that the Treasury has decided to start slowly. The Treasury collected data and began to get to know the key players within many federal grants. Also, there was a process of learning what the basic Standard Operating Procedures are. Treasury developed a system for basic processing of documents. The biggest obstacle was engaging many of the federal grant recipients, so Treasury worked to garner "buy-in," by invited inviting every group to openly share issues and problems with Treasury staff. Initially there were no clear answers and considerable discussion of "your job vs. my job" attitudes. Treasury reiterated that, without solutions, the government will not grow. In many cases, the central challenge was not that the employees did not want to do the necessary work, but there were personality issues that were blocking progress. Treasury now have a streamlined system with basic checklists that make the bigger picture work.

#### Period of Availability: Katherine Kakigi, Guam

Katherine Kakigi described several enhancements at the Guam Department of Administration which have helped with Period of Availability issues. When Guam designed their software enhancements, they took three common findings into consideration, including cash management. Guam needed a system to help them because they were underfunded and, therefore, every employee was doing the job of two people.

As of January 2015, Ms. Kakigi reported that Guam's federal accountants will able to access the accounts payable files to tag each invoice that needs to be paid. Then, when the funds are available, AP can see the accounts that need to be paid. This avoids period of availability problems.

Additional Period of Availability issues will be solved by tagging invoices so that technicians will notice if there are any problems with grant funds. If there are problems, the point person will be contacted and informed. This is intended to provide further control over grant cash.

Sandy Baz, Maui County Budget Director, shared his office's recent procurement of software called Amplifund, which tracks incoming and outgoing grants and works with the accounting system to get a consolidated report on spending. Grant managers can put data into the software to keep track of grant expenditure.

#### Fixed Assets: Juliet Jimmy, FSM National Government

Juliet Jimmy, representing the FSM National Government, described the process of logging fixed assets within her government. Once a fixed asset is processed by procurement, it is given to the various departments, but then returned to procurement for tagging. If the asset is a laptop, a name is required so that when the FSM conducts inventory every two years, the government know where that particular asset is located.

When audit findings relating to fixed assets arise, the main issue usually stems from fixed assets which were tagged a long time ago, before many current personnel were employed, and these assets cannot be loacted.

The FSM National government is in discussions with our Department of Justice how to properly take these lost assets off of their fix assets registry. For those assets that still have value, the government needs to sign off on them in order to remove these items. For assets purchased with federal funds, the government will have to communicate with the federal agencies that provided the funds.

#### Sub-Recipient Monitoring Issues: Vicky Villagomez, CNMI

According to Ms. Villagomez, the CNMI struggles with how to determine a sub-recipient for the Commonwealth. Pass-through grants require a sub-recipient monitoring agreement, and the CNMI developed and executed an agreement that outlines the administrative responsibilities for grants.

The CNMI executed a sub-recipient monitoring agreement in FY14, but needs to include an attachment that explains the purpose of the funds. In FY15, the CNMI executed another SMA with an attachment that defines the pass-through funding in order to comply with the sub-recipient monitoring funding requirements.

Ms. Marina Tinitali, Accountability and Insular Policy Specialist from the US Department of Interior's Office of Insular Affairs, noted that often the auditors claim that there is a sub-recipient relationship when in fact there was not one. When is sub-recipient monitoring needed? The easiest way to figure this out is though a MOA. Governments should monitor to ensure that the distributed funds are being spent in accordance with the granter.

#### Timely Reporting: Casmir Remengesau, Republic of Palau

Casmir Remengesau discussed audit findings issues that relate to timely reporting in the Republic of Palau. In order to ensure timely reporting, Palau has included timely reporting issues in the following areas of personnel management:

- Annual employee performance evaluations, including both self-assessments and assessments by supervisors
- Employee oversight frameworks and inter-employee dialogue
- Ensuring the ability to attach PDF files to grant accounts for continuity of reporting
- Annual performance reporting is inclusive of all grant reports

Establishing project management units responsible for recipients being in compliance

In addition, Palau is reorganizing the executive branch so that, by the end of December, checklists are in place to ensure program managers are in compliance with federal grant regulations. Finally, Palau is implementing measures which create personal liability and adverse action through performance evaluations when employees are responsible for grant reporting noncompliance.

# Government Accounting Standards Board Update: Outside the Pension Trifecta, Frank Crawford, CPA

Mr. Frank Crawford, from Crawford and Associates, addressed the IGFOA conference on the implementation of GASB Statements that don't deal with pension issues—namely GASB Statement 65 on Deferred Inflows of Resources and Deferred Outflows of Resources, GASB Statement 69 on Government Combinations, Acquisitions and Disposals, and GASB Statement 70, dealing with the accounting and financial reporting issues surrounding non-exchange financial guarantees. The full slides of Mr. Crawford's presentation have been included as Attachment 4.

# Department of Interior/Office of Insular Affairs Budget Update, Thomas Bussanich, Director, Budget and Grants Management Division, US Department of the Interior/Office of Insular Affairs

Mr. Thomas Bussanich, the Director of the Budget and Grants Management Division for the United States Department of the Interior's Office of Insular Affairs, delivered a presentation on OIA's 2015 budget request and budget outlook. Mr. Bussanich's full presentation is included as Attachment 5.

Mr. Bussanich first commented on the changing nature of the overall budget process in the United States federal government. In previous years, there was considerable cooperation between the House and the Senate, and, generally speaking, a much broader level of awareness of the islands. Today, apart from a few staff members of committees, there's very little knowledge of what's happening in the islands. This situation has only been exacerbated by the death of Senator Inouye, who, as the former head of the Appropriations Committee, maintained significant knowledge and awareness of island issues.

Mr. Bussanich reviewed the 2015 budget request from OIA. The 2015 request included a variety of components, including, Assistance to Territories, Compacts of Free Association (Current), Compacts of Free Association (Permanent), Palau Compact, and Fiscal Payments. Mr. Bussanich showed that the discretionary portion of OIA's budget is limited, and that the vast majority of the budget falls under the category of "current, mandatory spending." Given the nature of the small amounts of discretionary funds, Mr. Bussanich noted that very little of the OIA budget is within his direct control.

The specific budget numbers break down as follows:

#### Permanent Mandatory - \$585.9 million

- Compacts of Free Association \$257.5 million
- Fiscal Payments (Guam Section 30, VI Rum Taxes) \$328.4 million

Current Mandatory - \$27.7 million

Covenant CIP - \$27.7 million

#### Directed Appropriations - \$22.8 million

American Samoa Operations - \$22.8 million

#### Discretionary Assistance - \$32.0 million

- General Technical Assistance \$17.5 million
- Maintenance Assistance Fund \$2.9 million
- Brown Tree Snake Control \$3.0 million
- Coral Reef Initiative \$1.0 million
- Empowering Insular Communities-\$3.0 million
- Compact Impact Disc. \$1.3 million
- Federal Services \$2.8 million
- Enewetak \$500,000

#### OIA S&E-\$9.3 million

Office of Insular Affairs-\$9.3 million

Mr. Bussanich discussed the Covenant CIP funds that are distributed in the flag territories of Guam, CNMI, American Samoa and the United States Virgin Islands. One of the incentives that has grown out of OIA's desire to see better fiscal management in the islands is that the allocations of CIP money are dependent upon competitive criteria that score each of the island government's financial management. In 2015. \$27 million is anticipated to be spent on CIP funds in 2015.

The "Assistance to Territories" category is the area where OIA provides specific assistance to each of the island governments. In addition to general Technical Assistance and the Maintenance Assistance Fund, other programs include the Brown Tree Snake Control, the Coral Reef Initiative, Empowering Insular Communities, and Compact Impact. Mr. Bussanich noted that the Empowering Insular Communities has been utilized to fund alternative and sustainable energy projects, primarily through the ENREL program out of Colorado. While this is a small and competitive program, it is anticipated to grow in 2016 as it is becoming more a focus for OIA. Mr. Bussanich also commented on the Insular ABC's Program which, under the Maintenance Assistance Fund, which worked with the Army Corps of Engineers to evaluate the physical condition of every single school structure in the four U.S Territories, and to then submit a report to each government. From OIA's perspective, apart from measuring the structural integrity if schools, the programs are designed to improve the life and safety conditions at the schools and ensuring that students are not at risk.

Under the category of Technical Assistance, Mr. Bussanich noted that the Bureau of Economic Affairs was not sufficiently funded to produce economic statistics in the four territories, and as a result, OIA has begun funding this activity. Additional activities have included the Graduate School's PITI-VITI Program, the Close Up Foundation, Junior Statesman, the Pacific Basin Development Council, the 4 Atoll Health Care Program (RMI), the Prior Service Benefits Program, Judicial Training, CDC, ,CNMI Ombudsman's Office, CNMI Immigration, Labor and Law Enforce. & Forum Economic Labor Dev. (FELD) and, as mentioned previously, the ABC Schools Initiative.

Mr. Bussanich discussed the current \$2.8 million subsidy to the U.S. Postal Service, and noted that the actual costs of supplying mail to the Freely Associated States are well in excess of that amount, by many millions of dollars.

On the issue of Compact Impact, Mr. Bussanich noted that for 2015, OIA was required by the Compact Act to conduct a remuneration of the number of FAS individuals currently living Guam, CNMI, Hawaii and American Samoa. OIA allocated \$30 million to the four flag territories based on those ratios. Guam still has the majority of resident Micronesians, followed by Hawaii, CNMI and American Samoa.

After reviewing the permanent appropriations in the FSM and RMI, Mr. Bussanich discussed the current status of the Palau Compact. The Palau Compact extension which would provide funding through 2024, has been pending since 2011 before Congress. The current legislative proposal is for \$250 million, of which the direct assistance to Palau is \$229 million. While there is currently no opposition to extending the Palau Compact, the challenge has been in the minutia of budgeting and finding an equivalent "offset" within the US budget to provide such funding.

Mr. Bussanich noted that fiscal payments relating to the the rum tax in the Virgin Islands has increased dramatically, due primarily to the relocation of Captain Morgan's to Saint Croix.

Finally, Mr. Bussanich closed by showing the GDP figures for the four flag territories and the three Freely Associated States.

In response to a question from one of the IGFOA participants, Mr. Bussanich noted that, apart from sustainable energy and climate change, OIA's top TA priority is financial management training activities. OIA would like for governments to highlight the areas that need the most help. Mr. Bussanich suggested that governments start applications now for 2015 technical assistance grants, as OIA intends to obligate the money before the end of the fiscal year.

#### Ethics in Government: Ronald I. Heller

Mr. Ronald Heller addressed the group regarding Ethics in Government. The full content of his presentation is included as Attachment 6.

Mr. Heller provided an overview of common ethical issues, along with specific examples of ethical lapses that have occurred in both the private and public sector. Mr. Heller walked participants through the American Institute of CPA's (AICPA) Professional Code of Conduct which, in addition to a Code, also outlines a "conceptual framework" of ethical behavior and responsibility. The AICPA outlines standards which are designed to protect the profession's responsibility to the public, to clients, and to colleagues.

With regard to the application of the ethical principles, the AICPA offers specific guidance on consulting services, and underscores the importance of consultants and accountants maintaining independence. The relationship between Arthur Anderson and ENRON was provided as one example where more independence would have been beneficial.

Mr. Heller also covered several ethical issues which are common to the State of Hawaii. Hawaii State has a formal policy adopted which requires accountants to behave in a manner "consistent with nationally recognized standards of professional conduct." Potential disciplinary actions are outlined by the State for instances in which such standards have not been met. In addition, and in order to ensure that professional standards are maintained, Hawaii State also requires all licensed CPA firms to

undertake peer reviews. Maintaining liability insurance and engaging in ongoing ethical training is required of all state-licensed CPAs on an annual basis. Finally, strict rules governing the security of data, and outlining civil actions that may occur following data breaches, are embedded in the Hawaii code.

Mr. Heller spent some time discussing Hawaii State's handling of conflicts of interest. The State of Hawaii offers guidance as to when a conflict of interest exists, as well as remediable actions that can be taken to avoid conflicts of interest. Several specific examples were reviewed which provided potential conflict of interest scenarios.

When considering whether a potential action ethically sound, Mr. Heller recommended the "gut check test," in which you ask yourself three questions:

- "How would I feel if my decision were printed in the local newspaper?"
- "How would I feel if my family were to find out about my decision?"
- "How will this decision make me feel about myself?"

Questions and Answers following the Ethics in Government Presentation from Mr. Heller *If there is no mobility rule in Guam, can a US CPA prepare a Guam tax return?* 

Technically, that would not be allowed. However, Guam is one of the jurisdictions that will pass a mobility law soon.

Are these confidentiality rules and fines applicable to lawyers as well as CPAs?

Yes. These laws apply to any form that has a client's personal information on it.

What other kinds of personal information (other than SS number) are protected?

'Personal information' is defined in the law. The easiest way to understand it is to think of personal information in terms of: "Is this information that would assist someone in stealing another's identity?" Name of spouse, address, and/or social security numbers of children would be included under personal information while dollar amounts of accounts might not be. Confidential medical information is protected under another law.

If you sign a return knowing it is incorrect, but then subsequently make an amendment are you in violation of the law?

It is only a violation if you are aware of errors when you sign a return. You should refuse to sign an incorrect return. As an accountant, you have a duty of confidentiality to your client so you cannot report any wrong information to the IRS.

When do you cross the line when it comes to ethics? Do you violate confidentiality in certain situations?

It is hard to say. You have to use your personal judgment. There are professional standards and human standards. The courts have ruled against sticking to professional standards. I cannot really answer that question.

What do you suggest in regards to the issues around travel expenses that many of the governments are having?

It's not so much of an ethics issue, but it is always best to consider the bigger picture of the effects of any decision. Other things to consider: Is my decision the final one? Or does someone else have final approval?

Would you allow culture to interfere with professional judgment?

From an accounting standards viewpoint, the rules do not budge much to accommodate cultural norms.

#### FY13 Performeter Updates: Frank Crawford

In this session Frank Crawford, CPA with Crawford and Associates, offered an overview of the 2013 financial health and success of the islands collectively, as well as the respective "Performeter" score for each government. The complete slides for Mr. Crawford's Performeter presentation are included as Attachment 7.

Mr. Crawford reported that for most governments, the fiscal year ending September 30, 2013 was a relatively stagnant year, without much change in the overall scores. However, a few governments' score slightly increased, some governments slightly decreased, while others virtually stood at the exact same score as their prior year.

Mr. Crawford opened his presentation with an explanation of "Performeter":

- The Performeter measures the financial health and success of a government using a scale that everyone (including decision makers) can understand, 0-10, with 0 = poor, 5 = satisfactory, and 10 = excellent.
- It 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.

Mr. Crawford reminded participants that the Performeter was developed to enable analysis of financial information and enable governments to track their score and compare themselves to other governments of similar size.

Mr. Crawford also reminded participants of the "A.F.T.E.R. Analysis":

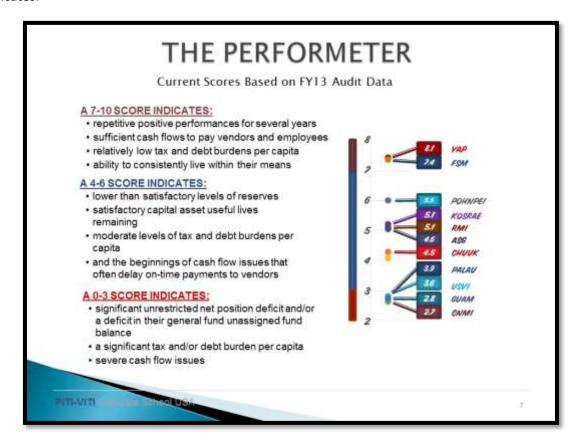
- The A.F.T.E.R. Analysis is very simply an analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions.
- This analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.

Specific to overall FY13 performance, Mr. Crawford offered the following general assessment of the financial health of the governments:

- One thing that was most noticeable across insular governments was the impact of the rise in the fair value of investments. For governments with compact trust fund monies, investment income and the change in fair values of those investments were in the millions.
- A few governments are continuing expense reductions that were instituted in prior years

- Pension plan or social security entitlement program woes continue for nearly all, some to a much greater extent than others
- Fund balance and/or deficits and net position and/or deficits increased for some, decreased for others, with a few remaining relatively stagnant.

Finally, Mr. Crawford provided an updated overall ranking of the insular governments, as the slide below indicates:



#### A Closer Look at the Government Pension Standards, Social Security Systems and Your Government's Finances: Frank Crawford, CPA

IGFOA participants reviewed changing GASB standards as they relate to each government's pension and social security systems throughout the insular areas. Mr. Frank Crawford, CPA, provided a comprehensive overview of the upcoming standards, as well as specific information relating to each government's unfunded pension liability, and liabilities related to other post-employment benefits (OPEB.)

This session dealt solely with the accounting and financial reporting issues brought about by GASB Statements 67, 68 and 71 (the pension trifecta). These standards require that governments begin reporting their proportionate shares of any unfunded liabilities of government-owned pension plans, in addition to beefing up note disclosures about the pension plans themselves.

The complete slides for this presentation have been attached to this document. However, the most recent information available regarding unfunded pension liabilities has been extracted in the table below. Collectively, the insular area governments have over \$4.9 billion in unfunded pension liabilities—a growing concern in many insular governments.

Government	Plan	Employer	Employee	Date	Unfunded Liability	Req Cont*	Funded Ratio
Virgin Islands	DB	17.5%	8%-11%	2011	\$1.72 bil	59%	46%
Guam	DB	23.2%	9.5%	2012	\$1.48 bil	36%	47%
Guam	DC	5.0%	5.0%	-	-	-	
CNMI	DC	0.0%	9.5%-11%	2010	\$1.57 bil	83%	6% - 13%
American Samoa	DB	8.0%	3.0%	2013	\$50.2 mil	14%	80%
Palau	DB	6.0%	6.0%	2011	\$104 mil	39%	26%

#### Government Action Planning

During a box lunch session, the IGFOA member government representatives assembled in small groups to develop action plans based on the following main topics:

- Audit Improvement
- Cash Management
- Performance Dashboard
- Departmental Outreach

Each government presented the results of their action planning to the group. Each government's action plan has been included as Attachment 10a through 10e of this document.

#### Conference Close-Out and Evaluations

At the conclusion of the conference, Stephen Latimer, the PITI-VITI Program Manager, distributed certificates to attendees. Mr. Latimer thanked the conference participants for their engagement, as well as representatives from the Department of the Interior's Office of Insular Affairs, for their continued support of IGFOA.

Conference evaluations were distributed to participants for completion. An evaluation summary has been included as Attachment 11 to these proceedings.

The next IGFOA Conference will be held in Philadelphia, Pennsylvania, in June, 2015.

#### Attachment 1: Conference Agenda

## Island Government Finance Officers' Association Meeting Agenda

December 2 - 4, 2014

#### Wailea Marriott Beach Hotel Wailea, Maui, Hawaii

The goals of the December 2014 IGFOA conference are to:

- Present and discuss best practices in federal program coordination, finance office performance improvement, single audit improvement, and cash management.
- Review new GASB accounting principles and standards and develop a plan for the implementation of these principles
- Provide training to IGFOA members on ethics and management.
- Exchange information on the latest *Performeter* analysis
- Build government specific plans to implement new GASB standards, improve communication and fiscal capabilities with federal program managers, enhance finance office performance measures, develop cash management plans, and improve management skills and capabilities.

#### Monday, December 1

2:00 – 4:00 pm Conference Registration

Registration table located on the Pavilion Lanai outside the Aulani

Ballroom

#### Tuesday, December 2

7:00 – 8:15 am Breakfast

South Pacific Lanai

8:30 – 9:00 am IGFOA Conference

South Pacific Ballroom, Mauna Loa Room

#### **Welcome Remarks:**

Elbuchel Sadang, Minister of Finance, Republic of Palau

Tom Bussanich, Director, Budget and Grants Management Division,

U.S. Department of Interior/Office of Insular Affairs

Review agenda and introductions

Stephen Latimer, Facilitator

9:00 – 9:30 am **Welcome Remarks** 

The Honorable Alan M. Arakawa

Mayor, Maui County

9:30 – 10:15 am **Government Update Presentations:** Status of Single Audits, Finance

Office Performance Measures, Communications with Federal Program

Managers, and Cash Management Plans

Moderator: Debbie Milks, CPA

Presentations (10 minutes each):

Guam

Commonwealth of the Northern Mariana Islands

Federated States of Micronesia

Chuuk Kosrae

Pohnpei Yap

10:15 – 10:30 am Break

10:30 – 12:00 pm **Government Update Presentations** (Continued)

Republic of the Marshall Islands

Republic of Palau U.S. Virgin Islands American Samoa

12:00 – 12:15 pm Group Photo

12:15 – 1:15 pm Lunch

Puakenikeni Room

"Hawaii Transition and Transformation: A recap and status of transformative financial initiatives in Hawaii State government over the last 5 years."

Speaker: Kalbert K. Young

Director, Department of Finance, State of Hawaii

**Questions and Answers** 

1:15 – 1:45 pm Best Practices in Finance Office Grants and Performance Management

Presenter: Sandy Baz, Budget Director, County of Maui

1:45 – 3:00 pm Panel Discussion: Best Practices in Grants and Performance

Management

Panelists:

Kathrine Kakigi, Guam

Juliet Jimmy, FSM National Government

Vicky Villagomez, CNMI Levi Reese, American Samoa

Casmir Remengesau, Republic of Palau

Sandy Baz, Maui

**Questions and Answers** 

3:00 – 3:15 pm Break

3:15 – 3:45 pm Government Break Out Sessions

Government working groups to develop ideas for eliminating findings

related to federal grants.

(Break-Out Rooms: Vanda and Ilima Rooms)

3:45 – 4:45 pm Government Accounting Standards Board Update: Outside the Pension

Trifecta

Frank Crawford, CPA

4:45 – 5:00 pm Review and Adjourn

5:30 pm Reception:

Pacific Terrace Rooftop

#### Wednesday, December 3

7:00 – 8:15 am Breakfast

South Pacific Lanai

8:30 – 8:45 am Review results from Tuesday and overview of today's agenda

Stephen Latimer, Facilitator

8:45 – 9:15 am **Department of Interior / Office of Insular Affairs Update** 

Tom Bussanich, Director, Budget and Grants Management Division, U.S.

Department of the Interior/Office of Insular Affairs

9:15 - 10:30 am Ethics in Government

Ronald I. Heller

10:30 – 10:45 am	Break
10:45 – 11:30 am	Ethics in Government (cont) Ronald I. Heller
11:30 – 12:00 pm	Small Group Work Ideas for addressing management and ethics issues in the Finance Office (Break-Out Rooms: Vanda and Ilima Rooms)
12:00 – 1:00 pm	<b>Lunch</b> South Pacific Lanai
1:00 – 2:15 pm	FY 2013 Performeter Updates Frank Crawford, CPA
2:15 - 3:00 pm	Summary of Single Audit Results for FY 2012-2013 Debbie Milks, CPA
3:00 – 3:15 pm	Break
3:15 – 4:45 pm	A Closer Look at the Government Pension Standards/Social Security Systems and Your Government's Finances Frank Crawford, CPA
4:45 – 5:00 pm	Review and Adjourn
5:30 pm	Lahaina Trip (Optional) Bus departs the Wailea Marriott at 5:30 pm.for an evening in Lahaina.

#### Thursday, December 4

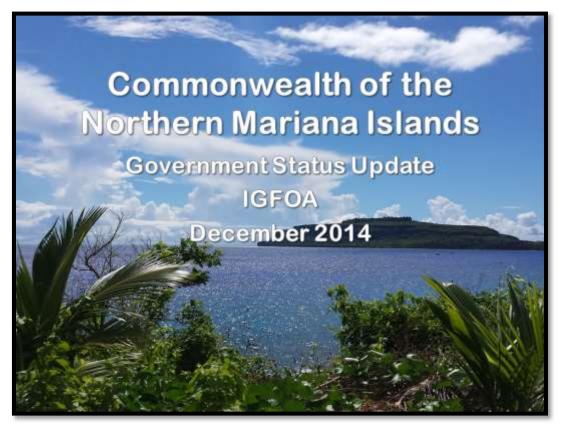
7:00 – 8:15 am	Breakfast South Pacific Lanai
8:30 – 8:45 am	Review results from Wednesday and overview of today's agenda Stephen Latimer, Facilitator
8:45 – 9:00 am	Marina Tinitali Accountability and Insular Policy Specialist U.S. Department of Interior/Office of Insular Affairs
9:00 – 10:00 am	Improving Finance Office Performance: Where do we go from here?

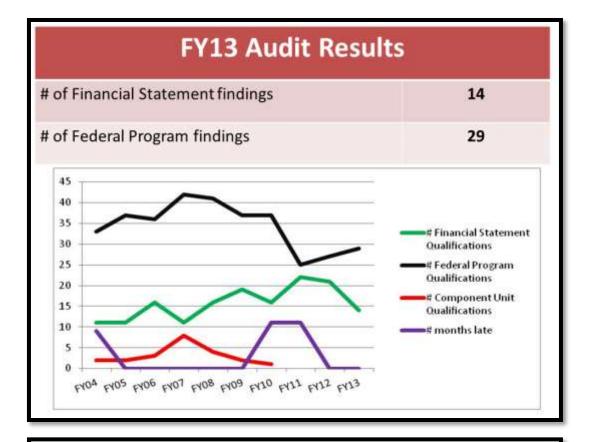
	Debbie Milks, CPA
10:00 – 10:15 am	Break
10:15 – 10:45 am	Stump the Chumps (CPAs/Auditors) Debbie Milks CPA, Frank Crawford CPA, Marina Tinitali
10:45 – 11:30 am	Action planning to address (1) audit improvements, (2) cash management plans (3) accounting standards updates, (4) federal grants coordination Government Groups, and (5) ethics training (Break-Out Rooms: Puakenikeni, Vanda, and Ilima Rooms)
11:30 – 12:30 pm	Working Lunch
12:30 – 1:15 pm	Report out: Government specific action planning
1:15 – 2:00 pm	<ul> <li>Conference Wrap-up</li> <li>Advancing the plans</li> <li>Summary of progress during this session</li> <li>Next steps</li> <li>Conference evaluatio</li> </ul>

2:00 pm

Adjourn

Attachment 2a: Government Update: Commonwealth of the Northern Marianas Islands





- Contract awarded Deloitte & Touche on October 16, 2014
- Expected issues include interpretation of Small Purchases/Micropurchases regulations
- CNMI Single Audit Committee created in June 2014. Committee includes all department heads and meets once weekly to resolve audit findings.
- FY 2014 Audit is ongoing
- Expected Audit Draft Completion = March 2015
- Expected Audit Submission = By June 30, 2015

# Federal Programs "Communicating on Island"

 Formal training and meetings were held during the year by The Graduate School and independent consultants

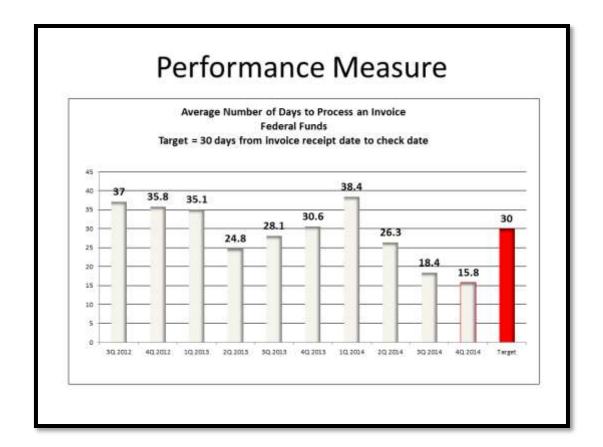
#### Discussions Included:

- Audits
- · Emerging Issues in Grant Management
- · Review of Omni-Circular (Super Circular)
- · Super circular discussion is scheduled for January 2015
- Various program managers attended trainings

#### Facilitators:

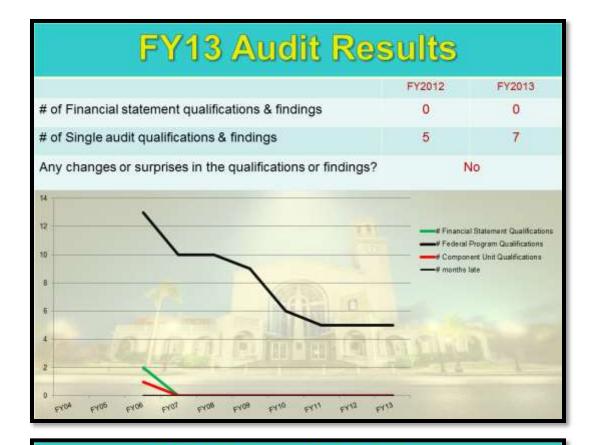
- · Mary Beth Saenz, The Graduate School
- · Charles Hester, Independent Consultant

Cash Management	Plan
Did your government have a cash management finding for FY2013?	YES
Have you completed the Bank Account Template?	NO
Have you documented the Federal Grant Disbursement Process?	YES
Have you documented the Federal Grant Drawdown Process?	YES
Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?	NO
Was the FY2013 Treasury State Agreement filed on time (if applicable)?	NO
Is the FY2014 Internal Control Checklist completed and approved?	NO
Is your Cash Management Plan finalized and approved?	NO



Attachment 2b: Government Update: Guam





Are the auditors currently engaged?

Not until mid-December.

Any expected issues or different requests from the auditors? None.

Any change of procedures or personnel dealing with the audit? No.

Does your government have an audit liaison or an audit committee? Yes, the Public Auditor from the Office of Public Accountability.

Status of the audit.

FY2013 - Complete.

FY2014 - Begins Mid-December 2014.

Expected completion date of the audit Before May 31, 2014.

# Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

Yes, Fixed Assets Policy and Procedures (November 2014).

What were the primary areas of discussion?

The Laws pertaining to Fixed Assets; the Agency's Roles & Responsibilities; and, the SOP required.

Have you discussed or have plans to review the new super circular with local federal program managers?

Yes. The University of Guam has invited our office to participate in the Super Circular Workshop, In attendance will be 6 Division of Accounts staff, and 7 from BBMR, DPW, Guam State Clearing House and GEDA.

How many attendees and/or how many federal programs were represented?

13 attendees. All were representatives of grantees, except for the DPW Federal Highway division.

Were the sessions conducted with the aid of external trainers as facilitators?

Do you have any follow up issues or changes to procedures as a result of the meetings?

None at the moment.

## Cash Management Plan

Did your government have a cash management finding for FY2013? Yes

Have you completed the Bank Account Template?

Have you documented the Federal Grant Disbursement Process?

Have you documented the Federal Grant Drawdown Process?

Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?

Yes

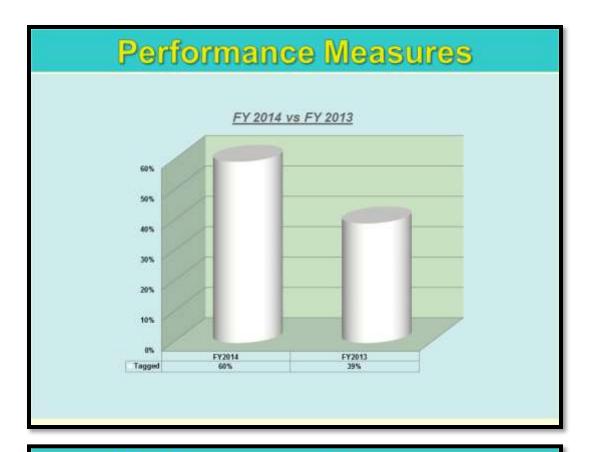
Was the FY2013 Treasury State Agreement filed on time (if applicable)? Filed 08-01-2014

Is the FY2014 Internal Control Checklist completed and approved?

No

Is your Cash Management Plan finalized and approved?

No



### Performance Measures

		2014	
	AS400	RedBeam	% Tagged
2008	242	103	43%
2009	96	80	83%
2010	251	95	38%
2011	91	45	49%
2012	182	113	62%
2013	402	82	20%
2014	755	686	91%
	2019	1204	60%

	Fixed As	2013	2013
	AS400	RedBeam	% Tagged
2007	219	65	30%
2008	242	103	43%
2009	96	80	83%
2010	251	95	38%
2011	91	45	49%
2012	182	113	62%
2013	402	82	20%
	1483	583	39%

#### Why is this measure important?

The measure is important to show the progress of the project. It is a tool that can be used to examine the triggers for any changes in performances. It is also a decision-making tool to evaluate the process.

#### What is our plan to improve this measure?

We plan to continue our bi annual fixed assets training. We plan to recruit permanent staffs to increase our man power for the reconciliation and tagging.

#### When do we expect to meet our goal?

Our goal is accomplish the task on or before September 2015



#### Attachment 2c: Government Update: Federated States of Micronesia

# FSM NATIONAL GOVERNMENT

Government Status Update
IGFOA
December 2014

### **FY13 Audit Results**

# of Financial statement qualifications & findings No qualifications

3 findings

# of Single audit qualifications & findings

3 qualifications

6 findings

Any changes or surprises in the qualifications or findings? None

### **FY14 Audit Status**

Are the auditors currently engaged?

Any expected issues or different requests from the auditors? None so far

Any change of procedures or personnel dealing with the audit? Does your government have an audit liaison or an audit committee?

Changes to personnel

FSM has an audit resolution committee

Status of the audit.

.Compliance Testing

Expected completion date of the audit

Target May 15, 2015

### Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

There has been no meetings with the federal program coordinators for the last six months

What were the primary areas of discussion?

Have you discussed or have plans to review the new super circular with local federal program managers?

How many attendees and/or how many federal programs were represented?

Were the sessions conducted with the aid of external trainers as facilitators?

Do you have any follow up issues or changes to procedures as a result of the meetings?

# Cash Management Plan

Did your government have a cash management finding for FY2013?

yes

Have you completed the Bank Account Template? yes

Have you documented the Federal Grant Disbursement

Process?

Yes. Need secretary's approval

Have you documented the Federal Grant Drawdown Process?

.yes. Already approved by the secretary

Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?

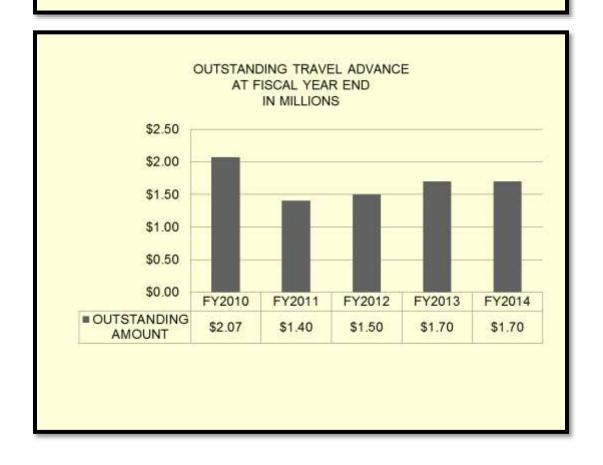
Covered in the draft cash management plan but may need to be a bit more detailed

Was the FY2013 Treasury State Agreement filed on time (if applicable)?

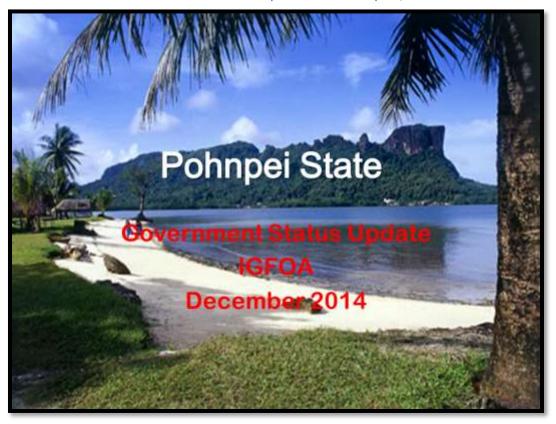
### Performance Measure

(insert the area measured where your government has the most problems—as suggested below.)

- Prepare a table or a graph of the change in the measure over the last several years
- Note your goal for the measure
- ·Briefly describe why the measure is important
- •DETAIL the plans your office has to improve the measure.



Attachment 2d: Government Update: Pohnpei, FSM



# of Single audit qualifications & findings  4  Any changes or surprises in the qualifications or findings? Yes (Period of Availability – this w
never tested before and very strict revie of vendors as natu of their business.)

# A.F.T.E.R. Analysis

	2009	2010	2011	2012	201
Number of F.S. Opinion Qualifications/exceptions	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	0	0	0	0	0
Number of F.S. Findings		1.00		545	
A. Internal Control and compliance	0	0	0	0	0
B. Internal Control Only	0	0	0	0	1
C. Compliance Only	0	0	0	0	0
Total	0	0	0	0	1
Percentage of findings repeated	%	%	%	%	0%
Number of A-133 Findings					
A. Internal Control and Compliance	1	1	1	1	4
B. Internal Control Only	0	0	0	0	0
C. Compliance Only	0	0	0	0	0
Total	1	1	1	1	4
Percentage of A-133 Findings repeated	100%	100%	100%	100%	25%
Number of months Y/E the F.S. were released	9	9	9	9	9
Number of qualifications/exceptions related to C.U.	0	0	0	0	0
S of Questioned costs-current year	\$0	\$0	\$0	\$0	\$121,682
S of Questioned Costs-Cummulative	\$0	\$0	\$0	\$0	\$0
\$ of Questioned Costs Resolved - Current year	\$0	50	\$0	\$0	\$0

Are the auditors currently engaged? Yes

Any expected issues or different requests from the auditors? Yes (Bidding issues, Federal Compliance – CHC)

Any change of procedures or personnel dealing with the audit? No

Does your government have an audit liaison or an audit committee? Yes (But audit committee is not active to pursue the FY13 questioned costs)

Status of the audit. - Substantive testing on-going.

Expected completion date of the audit - Before June 30, 2014

### Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings. — No formal trainings/meetings conducted. Plan to have a formal training in the next 2 months on new Super Circular.

What were the primary areas of discussion? - None

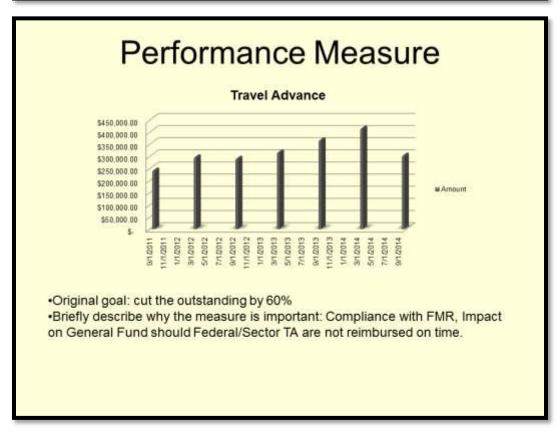
Have you discussed or have plans to review the new super circular with local federal program managers? – To be discussed

How many attendees and/or how many federal programs were represented? n/a

Were the sessions conducted with the aid of external trainers as facilitators? n/a

Do you have any follow up issues or changes to procedures as a result of the meetings? n/a

Cash Management	Plan
Did your government have a cash management finding for FY2013?	None
Have you completed the Bank Account Template?	Yes
Have you documented the Federal Grant Disbursement Process?	Yes
Have you documented the Federal Grant Drawdown Process?	Yes
Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?	Yes
Was the FY2013 Treasury State Agreement filed on time (if applicable)?	n/a
Is the FY2014 Internal Control Checklist completed and approved?	No
Is your Cash Management Plan finalized and approved?	Not yet approved

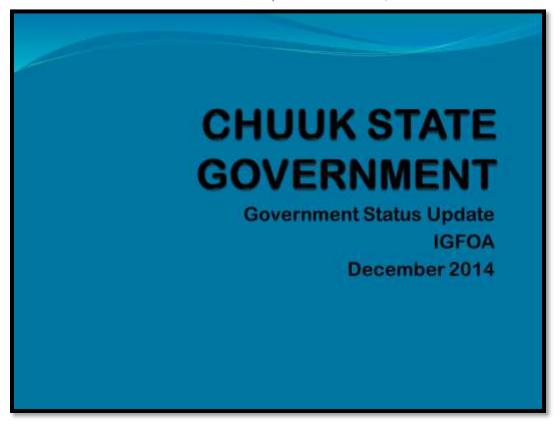


### Detail plans

DETAIL the plans your office has to improve the measure:

- · Review the list of the Tas
- Recommend write-off of accounts for those not-connected with Government and payroll allotment for those who are still employed with Government.
- Strict enforcement of the TA policy

Attachment 2e: Government Update: Chuuk, FSM



of Financial statement qualifications & findings	S 2
of Single audit qualifications & findings	3
	Our question cost of 194,238.00

Are the auditors currently engaged? Yes

Any expected issues or different requests from the auditors? None

Any change of procedures or personnel dealing with the audit? None Does your government have an audit liaison or an audit committee? None

Status of the audit.

Reports and samples were provided and auditors already started with their field work

Expected completion date of the audit

Before June 30, 2014.

# Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

None

What were the primary areas of discussion?

Have you discussed or have plans to review the new super circular with local federal program managers?

How many attendees and/or how many federal programs were represented?

Were the sessions conducted with the aid of external trainers as facilitators?

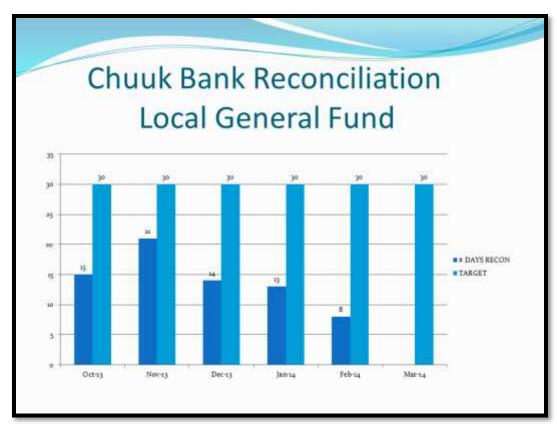
Do you have any follow up issues or changes to procedures as a result of the meetings?

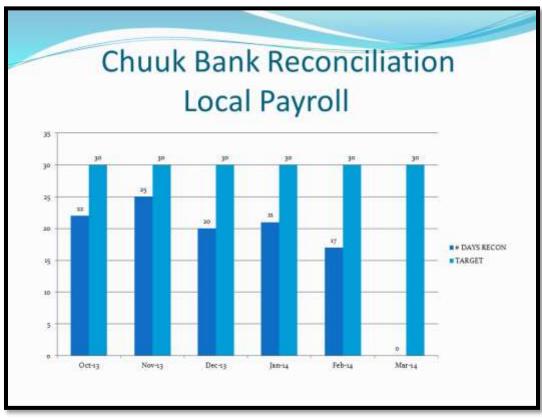
# Cash Management Plan

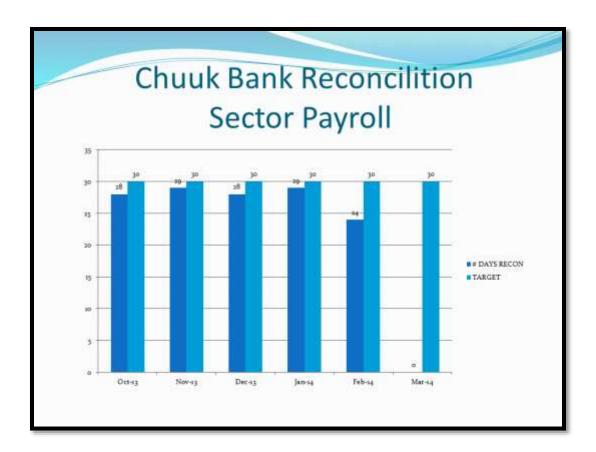
Did your government have a cash management finding for FY2013?	Yes
Have you completed the Bank Account Template?	Yes
Have you documented the Federal Grant Disbursement Process?	Yes
Have you documented the Federal Grant Drawdown Process?	Yes
Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?	Yes
Was the FY2013 Treasury State Agreement filed on time (if applicable)?	Not Applicable
Is the FY2014 Internal Control Checklist completed and approved?	No
Is your Cash Management Plan finalized and approved?	No

# Performance Measure Chuuk Bank Reconciliation

- •Below are 3 measures of our 4 major bank accounts
- •Sector Payroll, Non-Sector Payroll, Local General Fund and Sector General Fund
- •1 account is missing because data were not provided on time
- •As for our goal for the 3 measures, we did meet our goals where we were able to reconcile within our targeted number of days.
- •Our goal is to reconcile every month within 30 days
- •Data from April 2014 to September 2014 were not provided because recon is not done on a timely manner
- •This measure is important so we'll be able to identify our weaknesses and be able to make improvement
- •Other reponsibilities were taken away, a partner was immdiately hired to assist, roles had to be identify and inputted in the recon procedure

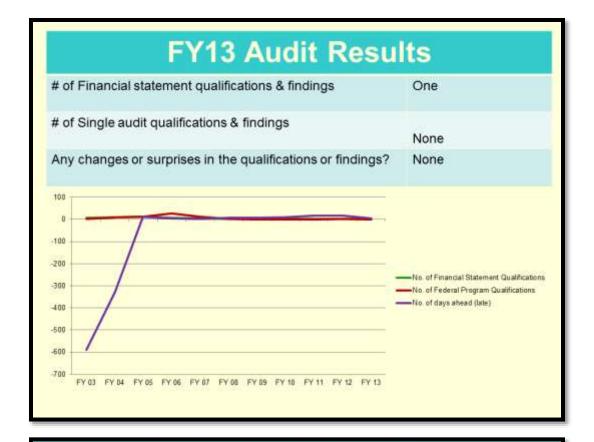






Attachment 2f: Government Update: Kosrae, FSM





Are the auditors currently engaged?

Deloitte was engaged to perform the FY 2014 Single Audit

Any expected issues or different requests from the auditors?

Since FY2014 is a full year that KSG managed US Federal Pass through Grants; more concentration on the major programs such as Special Education is expected.

Any change of procedures or personnel dealing with the audit? Does your government have an audit liaison or an audit committee?

NONE.

Status of the audit.

On going; the external auditor is currently on site doing the field work.

Expected completion date of the audit

We will target completion before June 30, 2015.

### Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

Conducted workshop on October 15, 2014; the discussions were centered on current procedures on Finance and Budget. For Federal, the allowable and unallowable costs are further discussed.

What were the primary areas of discussion?

The primary areas discussed were budget preparation including reprogramming, procurements, receiving and related compliance requirements, inventory of fixed assets and non-capitalized assets, payroll and travel, review of account classifications, balances and reconciliation, quarterly reporting and other administrative matters.

Have you discussed or have plans to review the new super circular with local federal program managers?

YES

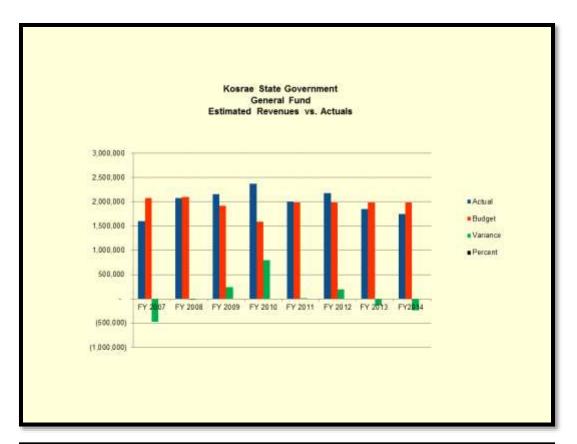
How many attendees and/or how many federal programs were represented? 22 overall attendees; 4 local federal program

Were the sessions conducted with the aid of external trainers as facilitators?

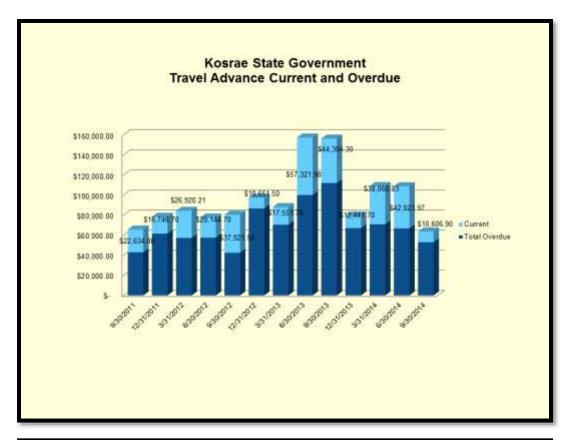
Do you have any follow up issues or changes to procedures as a result of the meetings? No changes as of today, but expecting changes as soon as the revised FMR will be finalized and super circular

## Cash Management Plan

Did your government have a cash management finding for FY2013?	None
Have you completed the Bank Account Template?	YES
Have you documented the Federal Grant Disbursement Process?	YES
Have you documented the Federal Grant Drawdown Process?	YES
Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)?	YES
Was the FY2013 Treasury State Agreement filed on time (if applicable)?	
Is the FY2014 Internal Control Checklist completed and approved?	Pending completion and finalization of cash management plan



#### Performance Measure GOAL **IMPORTANCE** PLAN . The State maintains its goal of · To have available resources to The leadership of Kosrae meeting the estimated revenues. finance Government's obligations has requested the FSM National (payroll and non-payroll). To Government leaders for the continue the delivery of services to temporary change in the FSM its constituents without funding Revenue shares distribution limitations. To avoid operating the formula from 50%-50% into much government in a deficit mode. higher distribution like 80%-20% in favor of the State; pending the URA implementation. Pro-active approach in support of foreign investment to boost the private sector. Ensure for FSM National Government's immediate implementation of all infrastructure projects in Kosrae. Infrastructures triggers increase in both local and FSM taxes.

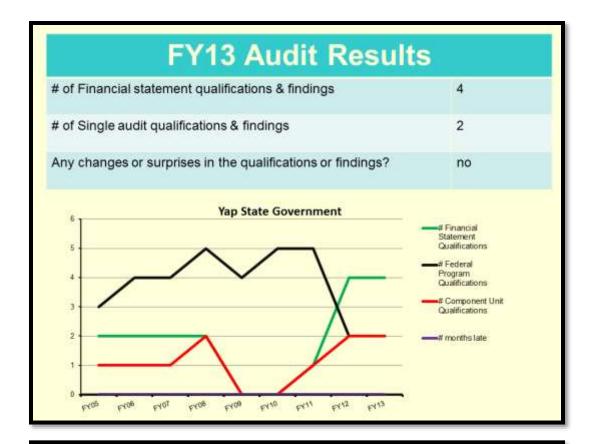


#### Performance Measure GOAL **IMPORTANCE** PLAN . 50% reduction in overdue travel · The management believes that · The State's Financial advances. meeting the target that has been Management Regulation (FMR) is set is a measure of good currently being reviewed and governance and its performance. revised putting emphasis on several issues including travel advances. The revision is expected to be completed by January 2015. In consultation with the State's Attorney General; nonfiling and non-payment of outstanding advances and overdrawn TA; will be dealt with through any available legal means.

### Attachment 2g: Government Update: Yap, FSM

## Yap GOVERNMENT

Government Status Update IGFOA December 2014



Are the auditors currently engaged? yes

Any expected issues or different requests from the auditors? no

Any change of procedures or personnel dealing with the audit? Does your government have an audit liaison or an audit committee? <u>Aim to hire temporary accounting expertise to put together financial statements for two component units.</u>

Audit committee not active for past three years.

Status of the audit.

Field work yet to begin.

Expected completion date of the audit

Before June 30, 2015.

# Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

What were the primary areas of discussion? <u>Finance office continues to work with local federal program managers to reconcile and produce monthly, quarterly, and close out reports for federal grants.</u>

Have you discussed or have plans to review the new super circular with local federal program managers? We have requested counterpart at FSM National Govt to coordinate training for the whole FSM.

How many attendees and/or how many federal programs were represented? No formal trainings conducted yet.

Were the sessions conducted with the aid of external trainers as facilitators? No

Do you have any follow up issues or changes to procedures as a result of the meetings? We hope to coordinate future trainings and continue collaboration with grant managers.

# Cash Management Plan

Did your government have a cash management finding for FY2013? yes

Have you completed the Bank Account Template? yes

Have you documented the Federal Grant Disbursement Process? yes

Have you documented the Federal Grant Drawdown Process? yes

Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)? yes

Was the FY2013 Treasury State Agreement filed on time (if applicable)? not applicable

Is the FY2014 Internal Control Checklist completed and approved? yes

Is your Cash Management Plan finalized and approved?



#### Why is this measure important?

Outstanding travel advances will become uncollectible when a grant expires or when a traveler leave government. When an advance cannot be collected, the general fund bears the expense even if grant funds could have been utilized.

#### What is our plan to improve this measure?

 We deny perdiem advances to employees who have outstanding expense reports for prior travel advances and would only release their advances when they fill out a payroll allotment application or file the report. We will collect from paychecks when expense reports are not filed or withhold from perdiem due to traveler when they request travel advance.

#### When do we expect to meet our goal?

 4<sup>th</sup> Quarter FY2015. This specific item had been quite problematic for us. At first we were tracking both the outstanding travel advance and the travel accounts receivable together. Then at the end of FY2013, we segregated the two and kept track of the outstanding travel advances only. Unfortunately, we were not able to segregate the data for those before 9/30/13.

Attachment 2h: Government Update: Republic of the Marshall Islands



# **Outline of Presentation**

- · Audit status and audit finding resolution;
- •Cash Management Plans;
- Outreach to federal grant managers and federal program coordinators on island;
- Finance Office Performance Measures; and
- Action Plan Updates

#### FY2013

Completion Date	Likely to be Unqualified?	Total # of findings	No. of repeated findings	Cumulative Questioned Costs
October 30, 2014	Financial Yes	Financial 15	Financial 7	\$ 2,355,004
	A-133 Yes	A-133 7	A-133 5	Total QC for FY13 \$71,297

#### FY2014

Expected Completion date	Major issues to address for the upcoming audit	Any expected changes in audit qualifications or findings?
June 2015	Yes, replacement of financial advisor and potential delay of same component unit	None

# Cash Management Update

Document	Completed?	Reference (regulation #, procedure, etc)
Government Cash Policy	On-going	
Bank Account Template	Complete	
General Cash Procedures	Complete	
Treasury State Agreement	On-going	
Average Clearance Pattern	On-going	
Federal Cash drawdown tracking sheet	On-going	
Federal Cash drawdown procedures	Complete	
Cash Internal Control checklist	On-going	

Fixed asset physical inventory	Travel Advance Collections	Bank Reconciliations	Invoice Processing Days
Was the physical inventory completed as of 9-30-2014?	% of travel advances over 30 days as of 9-30-14	What is the status of your bank reconciliations as of 9-30-14? All funds except GF still outstanding	How many days does it take to process a federal invoice: April 2014 = 4
Any fixed asset findings on the audit? Yes, repeated	How much improvement is this over the % as of the previous year? Quantity	Any audit issues related to bank reconciliations?Untmely	What is your target # of days? 10 working days
Does your government have a plan to complete the fixed asset inventory, if not yet completed?	Any new policies or procedures initiated to collect advances?t Policy on set amount of payroll deduction ranging from 75-	Any action steps initiated to ensure timely reconcitations?	What does your office do to reduce the time it takes to get an invoice from a department into finance for processing?

# Federal Program Updates

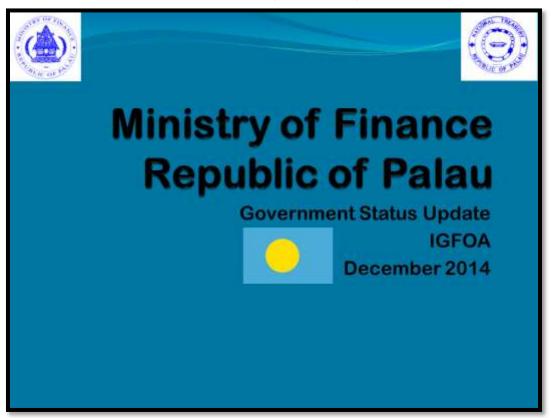
- Ongoing quarterly meeting with RMI Fiscal Officers Association
- Capacity building
- · Indirect cost negotiated rate

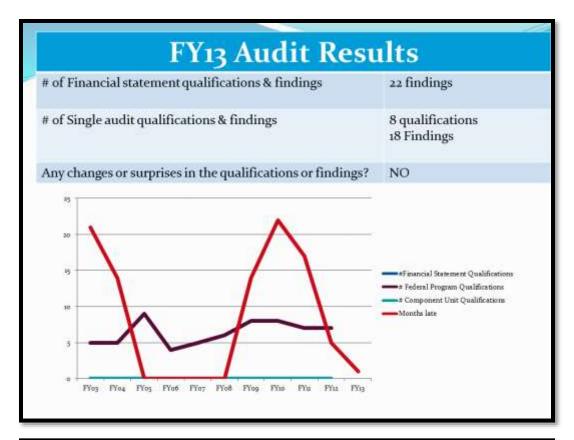
#	Task	Responsibility	Target Date	Dec. 2014us Stat	Comments
1	Complete the Cash Plan	Clarence	Sept. 30	On-going	There remains works to be done
2	Employee Engagement	Clarence	Sept. 30	On-going	Work with the lean team and link with performance measures/Working with PSC
	Conduct an employee satisfaction survey		Sept. 30	On-going	
3	Uniform Grant Guidelines				
	Review and train on changes in grants management	Kayo	Sept. 30		Link with SOPs under development
4	Pension Plan				
	Develop a plan to amend the contribution levels and benefits (including a redefinition of "dependents") of the RMI Social Security system	Minister Ading	Sept. 30		
5	Travel Policy	Jim Hicklins	Sept. 30		With Cabinet for approvl
6	Indirect Cost	Jim Hicklins			The state of the s
7	Imprest Fund Policy	Clarence		Final review by MOF,	
8	Lean PR/PO process	Kayo/Clarence	Sept. 30	Completed	Implemented Oct. 2014 or FY

# Kommol tata!

Q&A

Attachment 2i: Government Update: Republic of Palau





FY14 Audit Status	
Are the auditors currently engaged?	Yes
Any expected issues or different requests from the auditors?	Minor issues
Any change of procedures or personnel dealing with the audit? Does your government have an audit liaison or an audit committee?	No. However, we are in the process of forming an audit committee
Status of the audit.	Ongoing compliance audit Trial balance, schedules, etc, will be submitted end of Dec 2014
Expected completion date of the audit  Before June 30, 2014.	May 2014

# Federal Programs "Communicating on Island"

Describe below any formal training or meetings your office had with your local federal program managers in the last 6 months. Discuss plans you have for future meetings.

\*Meetings with Program managers MOH

-FY2013 Compliance Audit Report

What were the primary areas of discussion?

\*Findings mainly question cost

Have you discussed or have plans to review the new super circular with local federal program managers? "We have sent via email the information about it, but we have not schedule a meeting to discuss. We would need help from DOI to do a training course in Palau or give invitation to us for future training on the new super circular so that the program managers and MOF can attend.

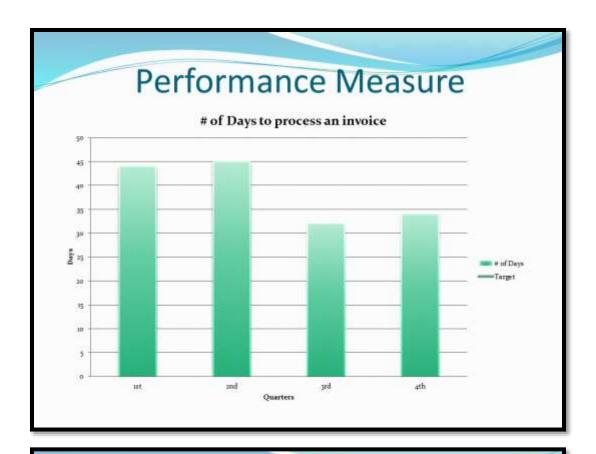
How many attendees and/or how many federal programs were represented?

\*Most of the Program managers attended the meeting including their Budget officers and AO's

Were the sessions conducted with the aid of external trainers as facilitators?

Do you have any follow up issues or changes to procedures as a result of the meetings?

#### Cash Management Plan Did your government have a cash management finding for Yes FY2013? Have you completed the Bank Account Template? Yes Yes Have you documented the Federal Grant Disbursement Process? Have you documented the Federal Grant Drawdown Process? Yes Have you documented Other cash procedures (bank reconciliation, deposits, returned checks)? Was the FY2013 Treasury State Agreement filed on time (if N/A applicable)? Is the FY2014 Internal Control Checklist completed and approved? No Yes. We've submitted it Is your Cash Management Plan finalized and approved?



# # of Days to process an invoice

#### Why is this measure important?

The "days to process" should measure if we perform within our goal of 20 days to process federal grants invoice. Invoices that require advance payments or within three days are also included in this measure.

Federal grants invoices should be paid within grants budget period and liquidation period. Anything beyond those periods will result in non-compliance of Period of Availability.

# # of Days to process an invoice

#### What is our plan to improve this measure?

Last meeting we noted that:

- •To re-establish the process that vendors will directly send the invoices to Finance-Accounts payable section instead of giving them to the government agency and then the agency sends them to finance.
- •The accounts payable supervisor and staff will work with Chief of DF&A and identify any issues that cause delays of processing and improve them.
- Chief of National Treasury continue to identify payments that are over due within 30 days and disburse payments within that given time.

# Performance Measure # of Days to process an invoice

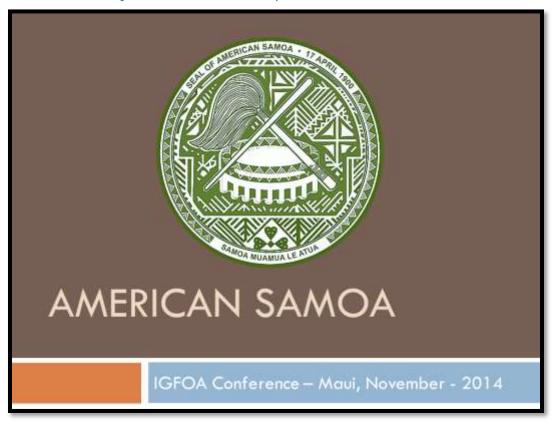
- Update:
- Currently working with vendors to send invoices directly to MOF.
- We have segregated grants invoices from all other invoices to be processed as soon as possible.
   Grants invoices are priorities when submitted.
- Invoices get paid when ready for disbursements

#### When do we expect to meet our goal?

May 2015



Attachment 2j: Government Update: American Samoa



#### Introduction

- Uti Gebauer, Cash Management Specialist / Analytical Unit Manager
- Levi Reese, Chief Accountant / Accounting Manager
- Carri-Lee Magalei, Senior Accountant / Audit Coordinator

#### FY13 Audit Results:

- 1 financial statement qualification (component unit)
- 7 financial statement findings
- 11 single audit qualifications
- 10 single audit findings

Surprises? FY13 CMIA not completed

#### FY14 Audit Status:

- Auditors currently engaged
- Different requests: Analysis worksheets
- Audit liaisons: Carri-Lee and Uti
- Status of Audit: In process
- Expected completion date: Before June 30, 2014

# Cash Management Plan:

- Yes, we had a finding for FY2013.
- Yes we completed the Bank Account Template
- Yes we have documented the Federal Grant Disbursement Process
- Yes we have documented the Federal Grant Drawdown Process
- FY2014 control checklist completed and approved
- CMIA 2014 is finalized and approved.

101101	mance	Measur	C3:	
Measures:	Goal	Current	Trend 2014 -	Status
		Measures	2015	
Grant reconciliations completed on a timely basis	No more than 30 days past due	1	Steady Improvement	
Reconciliation and Reduction in Federal Grant Receivable balance	Daily Recon	0 % reduction Oct 1 – Nov 30, 2014	No significant improvement	

# Outreach Program

- First Training Session
  - □ Held on 9/16/2014
    - Participants: 5 Grant Analyst, Chief Accountant, Cash Management Specialist (7 participants)
  - Review of Standard Operating Procedures
    - Internal Treasury Policies and Procedures
    - Expected workflow (Analysts are the driving force)
  - Introduced Formal Notices to Grantees
    - 15 day Notice cut off for GL entries
    - 30 day Notice pending closure of program
      - Communication to Director, Treasurer, Grants Supervisor & Department Financial Officer / Program Managers

# Follow up Tasks & Issues

- Monitor Departments with timely submission of reconciliation reports.
- If reports are not turned in, Grant Analysts are to remind Department Financial Officers of duties and responsibilities.
- Get to know existing and new Financial Officers; gauge their skill level.
- Schedule departmental training on grant draw downs.



Grants Analyst Team

## Second Training:

- Second Training Session (10/15 10/17/2014)
  - Goal: foster open communication between
     Department Officers and designated Grant Analysts.
- Introduce Department Financial Officers to "Check Lists."
- Establish database for Department Financial Officers.



# Summary of Outreach

- Create monitoring system to keep Grantees in compliance.
- Develop network of Department Financial Officers to share best practices.
- Develop specialized training to promote better communications between Grant Analysts and designated
   Department Financial Officers.



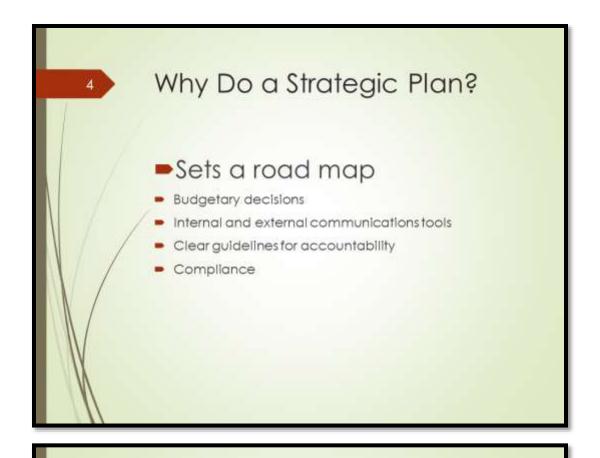
Attachment 3: Slides—Best Practices in Finance Office Grants and Performance Management, Sandy Baz, Budget Director, County of Maui





Strategic Planning

Why Do a Strategic Plan?
What is Strategic Planning?
How Strategic Planning Works?
Countywide Priority Results
Strategic Thinking
Strategic Planning Process
Developing a Strategic Plan Document
Implementing Strategic Plans



## What is Strategic Planning?

- A systematic process through which an organization agrees on, and builds commitment among key stakeholders to, priorities that are essential to its mission and are responsive to its environment. (Allison & Kaye, 2005)
- A creative process for identifying and accomplishing the most important actions in view of organizational strengths, weaknesses, opportunities and threats. (A.D. Chandler, 1962)
- A systematic way to manage change, create the best possible future, and guide the acquisition and allocation of resources to achieve Countywide priorities. (Connelly, 2005)

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## What is Strategic Planning?

Simple Strategic Planning Model

Interest + Environment = Strategy

Where:

Interests = what the organization wants to achieve

Environment = conditions controlling decisions

Strategy = plan for attaining interests given environmental opportunities and constraints

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## What is Strategic Planning?

- Elements of Strategic Planning:
  - Formulation of the mission in light of a changing external environment
  - Development of a strategy to achieve the mission
  - Creation of an organizational structure to deploy resources to accomplish goals

What Strategic Planning is not?

Strive to understand the future but does not attempt to make future decisions

Involves anticipating the future but decisions are made in the present

Set county code or regulation

Creative process – the decisions made today may after those made yesterday

# Key Concepts

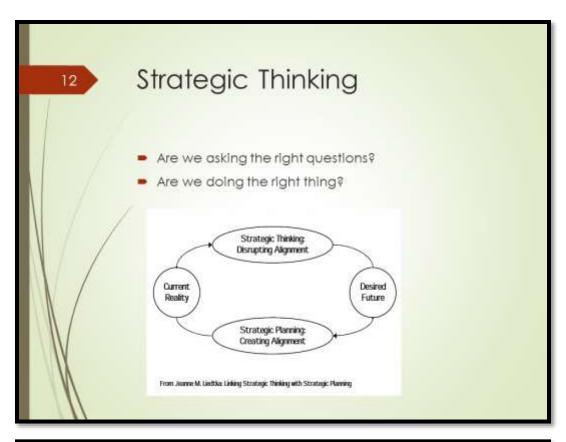
- Leads to action
- Builds a shared vision value based
- All inclusive participatory process
- Externally focused sensitive to the external environment
- Based on data
- Openness to questioning the status quo
- Key part of effective management

How Strategic Planning
Works?

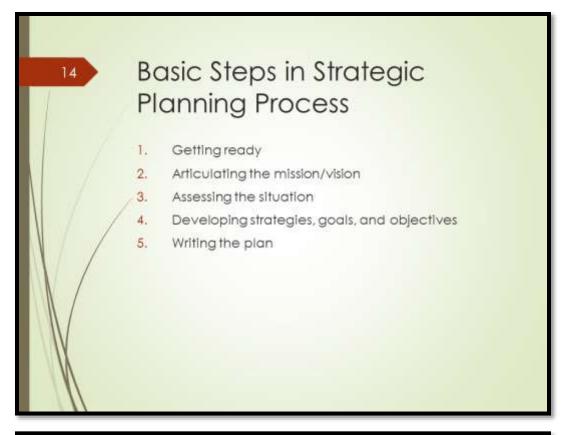
Sets the base of your existence
The process calls for an order and a pattern to keep focused
It implies that some decisions and actions are more important than others
Can be challenging, complex and messy

How Strategic Planning
Works?

Planning Involves:
Setting goals
Understanding what we do now
Predicting future scenarios
Determining the best responses to the future
Understanding and prioritizing resources
Linkage to the Countywide's Priority Results



# Strategic Planning – Process Considerations Aligned Goal-oriented Fact-based Based on Broad Thinking Focused Agreed upon Engaging Adaptable Implementable



Basic Steps in Strategic
Planning Process

1. Getting ready

Is there time to plan?

Who will participate?

Will funds be needed?

Gather data

Identify the data to be collected

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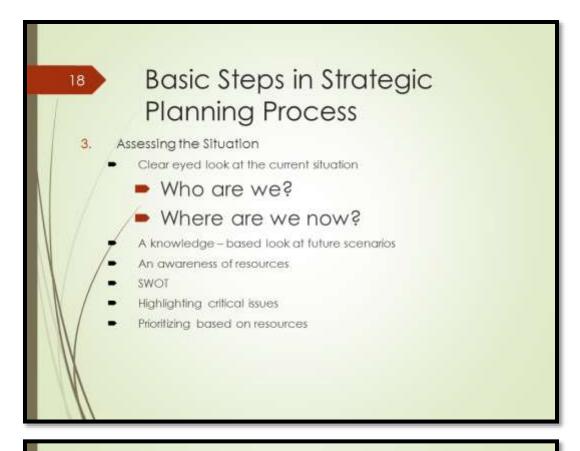
# Basic Steps in Strategic Planning Process

- 1. Getting Ready (Cont'd):
  - Planning Team: Director, deputy, division chiefs
  - Timeframe: Two Weeks to One Month
  - Format: Regular weekly meetings, at minimum
  - Guidance: Budget Director and Budget Staff
  - Input: core staff, decision makers, users
  - Research (Internal): Historical budgets, expenditures, resource summaries
  - Research (External): Economic outlook
  - Products: Budget projections, a final written plan

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# Basic Steps in Strategic Planning Process

- Articulating the mission/vision
  - Are they relevant for the work of the organization?
  - Do they reflect the work of the organization?
  - Are the purpose and values still relevant?



Basic Steps in Strategic
Planning Process

4. Developing Strategles

Strategies - broad approaches

Goals - general and specific results sought

Objectives - who, how and when

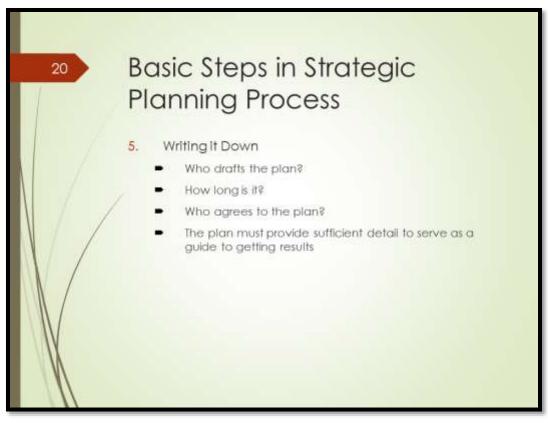
Can take time and flexibility

Leadership must agree on priorities

New insights may emerge at this step

May change the thrust of the mission statement

Overall outline of the organization's directions





Developing a Strategic Plan Document Mission Statement 2. Vision Statement Values 3. External Challenges and Opportunities 5. Internal Capacity and Financial Health Performance Analysis 6. Goals Objectives Strategles Performance Measures

Developing a Strategic Plan
Document

- 1. Mission Statement
  - What is a mission statement?
    - Brief, high-level description of your desired outcomes and values
    - Includes the business of the organization to achieve its purpose

# Developing a Strategic Plan Document 1. Mission Statement: Finance (County of Maul): fo continuously strive towards excellence in managing the county's financial and physical resources by providing quality financial services

# Developing a Strategic Plan Document 2. What is a Vision Statement? Statement of values that guide the accomplishment of the mission The most global concept The successful accomplishment of the mission

# Developing a Strategic Plan Document 3. Values A statement of the organization's beliefs and behaviors

 Helps establish a reference for how members and employees carry out their work

Developing a Strategic Plan
Document

4. External Challenges and Opportunities

• Assessment of opportunities and threats (outward looking)

• What opportunities are made available for implementing a strategic plan?
(i.e. cost savings from eliminating duplication of effort, improved decision support, access to cost-sharing programs, etc.)

• If we do not implement the strategic plan, what are the threats? (i.e., in an emergency, we're less prepared to respond, ineligible for federal grants, etc.)

# Developing a Strategic Plan Document 5. Internal Capacity and Financial Health Assessment of strengths and weaknesses (in-ward looking) What are our other strengths? (i.e. experienced staff, funding, authority, political support, communications infrastructure, marketing, etc..) What are our weaknesses? (i.e. lack of staff, lack of funding, lack of expertise, disagreement on goals and priorities, etc..)

# Developing a Strategic Plan Document 6. Performance Analysis Tells the story of how the department intends to bridge the distance between where it is today and where it would like to be in the future Describes the nature of those gaps

# Developing a Strategic Plan Document 7. Goals Broad, high-level, issue-oriented Statements of outcomes that an organization will strive to achieve Should fit well with the mission statement and values Must answer the question; What must we do to accomplish our mission or achieve a result?

Developing a Strategic Plan
Document

8. Objectives

Breaks down the goals into smaller, more specific pieces

Describe measurable results

Provide an operational way to know if your strategies are successfully moving toward your goal.

# Developing a Strategic Plan Document 9. Strategies Statements of methods to achieve an objective State "HOW" goals and objectives will be achieved Guides the near-term work and activities to achieve goals and objectives.

# Developing a Strategic Plan Document 10. Performance Measures Numeric descriptions of an agency's works and results Based on data Tells a story about whether a department or agency or activity is achieving the desired objectives, and if progress is being made to attain goals

# Developing a Strategic Plan Document 10. Performance Measures (Cont'd) Example County of Maui Department of Finance Handout

# Implementing Strategic Plans Ist step: Think about "how" you will approach the Implementation of your Strategic Plan. How will you "divide and conquer" by prioritizing strategic goals? Who is responsible for delivering on each goals?

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## Implementing Strategic Plans

- 2nd Step: Phasing and Milestones
  - Identify what is feasible in the operating climate you are working within.
  - Establish a schedule for implementing your goals.
  - What is the breakdown of proposed phases and a timeline with major milestones?
  - Based on available time, and in consideration of resources, what is realistically achievable?
  - Are we looking at a phased implementation?
  - What are the target dates for the completion of each phase?

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## Implementing Strategic Plans

- 3rd Step: Budget Plan
  - Address how you propose to obtain funding required to implement your plan.
  - Understand the budget cycle.
  - How are we funded?
  - → How can we redirect existing funding to achieve our goals?
  - How can any other required staff positions be allocated and funded?

# Implementing Strategic Plans 4th Step: Action Plans and Operational Plans Ask divisions or business units to prepare action plans or division work plans. Provide concrete steps to implement the agency's selected strategies Help management track effectiveness and success.

# Performance Measurements What is a Performance Measurement? Why We Should Measure Performance? How We Use Performance Measurement? Where are We? Where We Want to Go? How You Can Get There?

What is a Performance
Measurement?

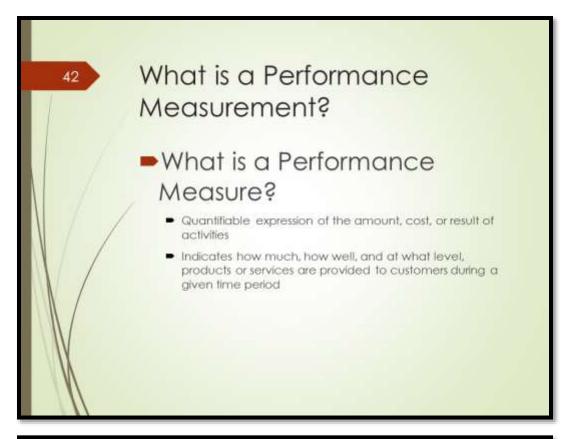
Involves determining what
to measure, identifying data
collection methods, and
collecting the data.

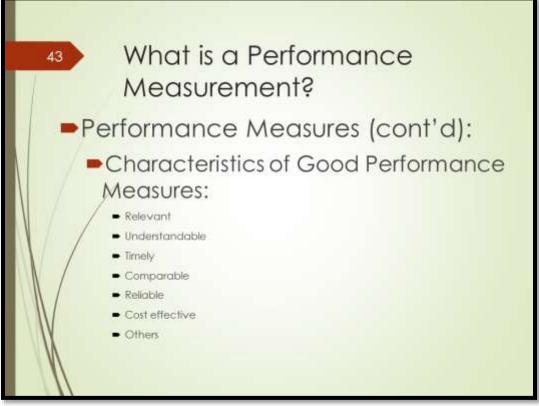
Evaluation involves assessing
progress toward achieving
performance expectations.

What is a Performance
Measurement?

Performance Measurement
and Evaluation:

Components of performance-based management, a
systematic application of information generated by
performance plans, measurement, and evaluation to
strategic planning and budget formulation.





Why We Should Measure
Performance?

Performance Measurement:

Improves the management and delivery of products and services
Improves communications internally and externally
Helps justify programs and their costs
Demonstrates accountability of taxpayer resources.

Possible compliance with laws

How We Use Performance Measurement?

- Three basic purposes:
  - Providing measurable results to demonstrate progress towards goals and objectives
  - Determining the effectiveness of your department
  - Characterizing the performance of a work process

Where are We?

In 2011 Budget Office and Department of Management began the process of becoming more "results-oriented" by developing the "Priorities of Maui County"

Where We Want to Go?

- Develop departments or agencies
   Strategic Plan
  - Departments must have performance measurement systems to support their own planning and evaluation activities
- Develop a Performance-Based Budget that links with the County's Strategic Plan

# 1. Where to Look: Performance Linking 2. Looking Up: Tying Into Departmental Systems 3. Looking In the Mirror: Measuring Performance 4. Looking Down and Across: Coordinating Your Measures 5. Looking In: What Performance Measures Won't Tell You

Where to Look: Performance Linking

"What's the use of running fast if you're not on the right road?"

Old German Proverb

Where to Look: Performance
Linking

Internal – within the department, divisions, programs, employees, etc.

Annual budget
County's Priority Results
other programs
Other departments
External – e.g. customers, contractors, other organizations

Looking Up: Tying Into
Departmental Systems

"You got to be careful if you don't
know where you're going
because you might not get
there."

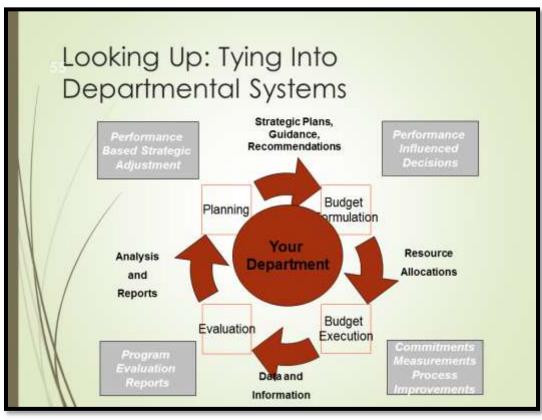
Yogi Berra

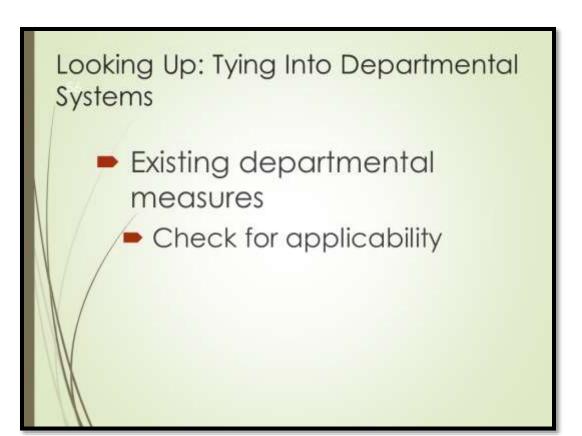
# Looking Up: Tying Into Departmental Systems

- Strategic Management System
  - Department's performance measurement system is automatically part of the Countywide's Strategic Plan









Looking In the Mirror:
Measuring Performance

"If you don't keep score, you're only practicing."

Tom Malone, President
Milliken Company

# Looking In the Mirror: Measuring Performance

- Frameworks for developing organizational performance measures
- 2. Developing program performance evaluations
- 3. Steps to developing performance measures
- 4. Quality Assessment

# Looking In the Mirror: Measuring Performance

- Frameworks for developing organizational performance measures:
  - Consider conceptual frameworks to stimulate thought about what should be measured
  - Needed to organize your thoughts, identify common vocabulary, and ensure appropriate coverage

# Looking In the Mirror: Measuring Performance

- Frameworks for developing organizational performance measures (cont'd):
  - Examples of Useful Frameworks:
    - "Sink and Tuttle" Framework
    - "Performance Improvement Measurement Methodology" Framework
    - "Balanced Scorecard" Framework
    - "Family of Measures" Framework
    - "Program Logic Model" Framework

# Looking In the Mirror: Measuring Performance

- Developing Program Performance Evaluations
  - Subjective Assessments
  - Future Outcomes
  - Research Roundtable Methodology

# Looking In the Mirror: Measuring Performance

- 3. Steps to Developing Performance Measures
  - Use a collaborative process
  - Describe your department processes
  - Design the measurements
  - Collect data
  - Use the data
  - Continually improve the measurement process

# Looking In the Mirror: Measuring Performance

- Quality Assessment
  - Determination of how well the department has implemented a performance based management system

Looking Down and Across:
Coordinating Your Measures

"Coming together is a beginning.
Keeping together is progress.
Working together is success"

Henry Ford, Founder,
Ford Motor Company

# Looking Down and Across: Coordinating Your Measures

- Identify challenges
- Partner with all affected parts of the department
- Focus on desired outcomes
- Improve communications

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Looking In: What Performance Measures Won't Tell You

- The cause and effect of outcomes are not easily established
- 2 Poor results do not necessarily point to poor execution
- Numerical quotas do not fix defective processes

Looking In: What Performance Measures Won't Tell You (Cont'd)

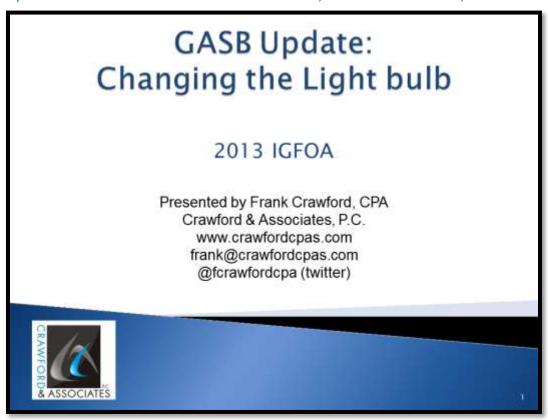
- Measurements only approximate the actual system
- Performance measures do not ensure compliance

### Historical Performance Measures in Finance Department Accounts Program **FY 10** FY 11 FY 12 Projection Projection Actual **Performance Measures** A/P checks processed 50,000 49,246 50,000 Average days to process payments 30 45 30 Number of payroll checks 62,746 58,000 62,000 processed 7 7 7 Average days to process premium





Attachment 4: Slides—Government Accounting Standards Board Update: Outside the Pension Trifecta, Frank Crawford, CPA



# What we will cover in this session (that they have only given me 60 minutes to cover...)

- GASB Statement 60 Service Concession Arrangements
- GASB Statement 61 The Financial Reporting Entity Omnibus
- GASB Statement 62 Codification of Pre-1989 FASB and AICPA Pronouncements
- GASB Statement 63 Reporting of Deferred Inflows, Deferred Outflows and the Statement of Net Position
- GASB Statement 65 Items Previously Reported as Assets and Liabilities
- Statement 66—Technical Corrections—2012, an amendment of GASB Statements No. 10 and No. 62
- GASB Statement 67 and 68 Pension Accounting and Reporting (discussed later in a separate session)
- GASB Statement 69 Government Combinations and Disposals of Operations
- GASB Statement 70 Non-exchange Financial Guarantees



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# Effective Dates—September 30

- September 30, 2013
  - Statement 60—Accounting and Financial Reporting for Service Concession Arrangements
  - Statement 61—The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)
  - Statement 62—Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements
  - Statement 63—Reporting Deferred Outflows, Deferred Inflows and Net Position
- September 30, 2014
  - Statement 65—Items Previously Reported as Assets and Liabilities
  - Statement 66—Technical Corrections—2012, an amendment of GASB Statements No. 10 and No. 62
  - = Statement 67 Accounting for the pension plan
  - Statement 70 Non-exchange Financial Guarantees
- September 30, 2015
  - Statement 68 Employer pension accounting
  - Statement 69 Government Combinations and Disposals of Operations



# GASB Statement 60 - Service Concession Arrangements



# What is a Service Concession Arrangement (SCA)?

- Type of public-private or public-public partnership
- Public-private partnership can be:
  - Service arrangement
  - Management arrangement
  - SCA



## Components of SCAs

- Transferor (insular government) conveys to an operator the right and related obligation to provide services to the public through the operation of a capital asset, in exchange for significant consideration
- Operator collects and retains fees from third parties
- Insular government entitled to significant interest in the service utility of the capital asset at the end of the agreement
- Insular government determines or has the ability to modify or approve:
  - Services the operator required to provide
  - To whom services will be provided
  - Prices or rates that will be charged



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## Examples of SCAs

- Operator designs and builds a facility and obtains right to collect fees from third parties
- Operator provides significant consideration in exchange for right to access existing facility and collect fees from third parties for usage
- Operator designs and builds facility, finances construction costs, provides services, collects fees, and conveys facility to Insular government at end of arrangement



# Examples of SCAs – Which of these could be?

- Toll roads/bridges
- ·Bookstore/cafeteria operations
- Golf courses
- Prisons
- ·Hospitals
- Parking lots
- Administration buildings
- Convention centers
- Public education
- Garbage collection
- Landfills
- •Public safety police and fire operations



# GASB Statement No. 61

The Financial Reporting Entity: Omnibus



## Financial Reporting Entity Concept

- Elected officials are accountable to their constituents for their actions
  - Including the actions of other officials that they appoint
  - And the actions of entities that are tied to their apron strings
- Different from private-sector consolidation based on control



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# **Project Objectives**

- Determine whether the standards for defining and presenting the financial reporting entity in Statement 14, as amended:
  - Include the organizations that should be included
  - Exclude organizations that should not be included
  - Display and disclose the financial data of component units in the most appropriate and useful manner
  - Are consistent with the current conceptual framework



## Overview

- The most significant effects of the proposal would be to:
  - Increase the emphasis on financial relationships
    - · Raises the bar for inclusion
  - Refocus and clarify the requirements to blend certain component units
  - Improve the recognition of ownership interests
    - Joint ventures
    - · Component units
    - Investments



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GASB Statement 62 -Codification of Pre-1989 FASB and AICPA Pronouncements



# **Key Highlights**

- Early application is likely to occur since there will be little change from current practice;
- Now all applicable pre-FASB Codification standards before FAS-102 (November 30, 1989) will be included in government GAAP
  - Significance of November 30, 1989 Date of Jurisdiction Determination by FAF reaffirming GASB as official standard setter for governments
- FASB and AICPA references eliminated in the notes to the financial statements
- No more GASB-20 Paragraph 7 Election



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GASB Statement 63 - Reporting Deferred Outflows, Deferred Inflows and Net Position



## Background

- Initiated in May 2010
- Concepts Statement 4 identifies 5 elements that make up a statement of financial position:
  - Assets
  - Liabilities
  - Deferred outflows of resources
  - Deferred inflows of resources
  - Net position
- Differs from composition required by Statement 34, assets, liabilities and net assets



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## Definitions

- Deferred outflows of resources
  - A consumption of net assets by the government that is applicable to a future reporting period
  - Has a positive effect on net position, similar to assets
- Deferred inflows of resources
  - An acquisition of net assets by the government that is applicable to a future reporting period
  - Has a negative effect on net position, similar to liabilities
- Net position
  - The residual of all elements presented in a statement of financial position
  - = assets + deferred outflows liabilities deferred inflows



# Display Requirements

- Deferred outflows should be reported in a separate section following assets
- Deferred inflows should be reported in a separate section following liabilities
- Net position components resemble net asset components under Statement 34, but include the effects of deferred outflows and deferred inflows
  - · Net investment in capital assets
  - Restricted
  - Unrestricted
- Governmental funds will still continue to report fund balance, but will use the new elements when applicable



Station on	mple City r of Net Pesition ther 31, 20X1				
	Primare Government				
	Governmental	Business- Type		Component	
7/19/20	Activities.	Activities	Lotal	Units	
ASSETS					
Cash and cash sownleres	\$11,712,829	310,516,820		\$303.935	
Lorentmenn	29,250,291	64.375	29.314.966	7,A28,952	
Decknote australient rate strap	1,040,483	- 37007	1,040,482	- 334537	
Exceptivables (text)	11.792,658	3,609,613	15,402,265	4.043,290	
Lean read Indiana wa	313,765	-313,768	1000000		
Intransocies	322.14#	135.674	+48.823	03.697	
Equal cases:	2,303,296		2,303,286		
Land, in provements, and construction in progress	25,435,025	6.408.150	34.843.175	751.219	
Other capital assets, met of depreciation.	141,597,792	130,990,401	292,588,336	35,993,547	
Total capital assets	170,022,768	157,366,751	327,411,511	37,744,798	
Total source	226,758,189	171,392,667	396,150,853	49,603,660	
DEFERRED OUTFLOWS OF RESOURCES	272.250000				
Accumulated decrease in fair value of hedging derivatives		121,520	127,520	0.00	
LIABILITIES					
Account payable and accrued expenses	7,330,343	659.392	0.190.135	1,000,312	
Advances from margors	1,435,596		1,435,599	16,611	
Forward contract		127,520	127,520		
Long-turns liabilities:	000000				
Due midais I year	9,236,000	4,426,286	13.662.296	1,426,619	
Due is more than I year	83,302,328	74,485,573	157,784,651	27,106,751	
Total list@ner	101,512,520	79,695,671	111,201,191	10,375,033	
DEFERRED INFLOWS OF RESOURCES					
Accumulated increase in fair value of hedging derivatives	1,040,462	54	1,040,412	95 94	
Dieferred service concession arrangement on receipts	-	4.467,336	4,467,536	diameter 1	
Total deferred inflows of essources	1,040,482	4,467,536	5,509,018	E	
NET POSITION					
Net investment in capital assem	109,711,386	79.085.574	152,799,960	15,996,392	
Examination:		2000	2010/2010	10000000	
Transportation and public works	10,655,737		10,655,737		
Debt service	3.076.526	1.451.996	4,529,625		
Housing and community redevelopment	6.545.628		6.841.629		
Other grappes s	1,483,387		1.483.387	492,445	
Unremoted (deficit)	41,567,785	6,816,410	5,246,625	2,829,799	
Total net position.	\$124,205,183	187,356,980	\$211,562,165	\$19,228,627	
TU-004 22 (UMAC) TU-004	recipional designation of	mention and an included in	Management of the later of the	(market minutes arranged and	

## Disclosures

- Provide details of different types of deferred amounts if components of the total deferred amounts are obscured by aggregation on the face of the statements
- If the amount reported for a component of net position is significantly affected by the difference between deferred inflows or outflows and their related assets or liabilities—provide an explanation in the notes



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## Current and Future Standards with Deferred Outflows/Inflows

- CURRENT:
  - Statement 53 Accounting and Financial Reporting for Derivative Instruments
  - Statement 60 Service Concession Arrangements (this year)
- FUTURE:
  - Statement 65 (next)
  - Statements 67 and 68 Pension Plans (Plan and Employer)
  - Statement 69 Government Combinations



## **Effective Date**

- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by reclassifying the statement of net position and balance sheet information for all periods presented
- In the first year, you should disclose the nature and effect of any reclassifications
- If you don't reclassify this information for the prior periods presented, you should disclose why



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GASB Statement 65 - Items
Previously Recognized as Assets
and Liabilities



# Project Approach

- Review balances to see if they meet the definition of an asset or a liability as defined in Concepts Statement
- If not, do they meet the definition of a deferred outflow or deferred inflow of resources
- Concepts Statement 4 provides that recognition of a deferred inflow or outflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after due process



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# Project Approach

- Statement 53—requires the reporting of a deferred outflow or inflow of resources for the changes in fair value of hedging derivative instruments.
- Statement 60—requires the reporting of a deferred inflow of resources by a transferor government in a qualifying service concession arrangement.
- This statement amends the financial reporting elements previously classified as assets and liabilities to be consistent with the definitions in Concepts Statement 4.



#### Definitions you haven't seen yet

#### >Assets

-Resources with present service capacity that the government presently controls

#### >Outflow of resources (expenses)

-A consumption of net assets by the government that is applicable to the reporting period

#### >Liabilities

-Present obligations to sacrifice resources that the government has little or no discretion to avoid

#### >Inflow of resources (revenues)

-An acquisition of net assets by the government that is applicable to the reporting period



26

#### Some Items That Retain the Classification as an Asset

- ➤ Prepayments
- ➤ Grants paid in advance of meeting eligibility requirements (other than timing)
- ➤ Rights to future revenues acquired from outside the reporting entity
- >"Regulatory" assets (capitalized incurred costs)
- Pension asset (Plan net assets exceed total liabilities)



# Some transactions in which the resulting item should be reported as a deferred outflow of resources (currently classified as assets)

- Grant paid in advance of meeting timing requirement
- Deferred amounts from the refunding of debt (debits)
- Costs to acquire rights to future revenues (intra-entity)
- ➤ Deferred loss from sale-leaseback



28

# Some transactions in which the resulting item should be reported as an outflow of resources (currently classified as assets)

- >Debt issuance costs (other than insurance)
- >Initial direct costs incurred by the lessor for operating leases
- >Acquisition costs for risk pools
- >Loan origination costs



#### Some Items That Retain the Classification as a Liability

- Resources received in advance of an exchange transaction
- > Derived tax revenue received in advance
- Premium revenues (risk pools)
- ➤ Grants received in advance of meeting eligibility requirements (other than timing)
- > Refunds imposed by a regulator



30

# Some transactions in which the resulting item should be reported as a deferred inflow of resources (currently classified as liabilities)

- >Grants received in advance of meeting timing requirement
- >Taxes received in advance
- ➤ Deferred amounts from refunding of debt (credits)
- >Proceeds from sales of future revenues
- ➤ Deferred gain from sale-leaseback
- >"Regulatory" credits (gains or other reductions)
- >"Unavailable" revenue in governmental funds



# Some transactions in which the resulting item should be recognized as an inflow of resources (currently classified as liabilities)

- Loan origination fees (excluding points)
- Commitment fees (after exercise or expiration)



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## **Effective Date**

- Effective for financial statements for periods beginning after December 15, 2012
- Earlier application is encouraged
- Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented



# **GASB Statement 66**

 Technical Corrections—2012, an amendment of GASB Statements No. 10 and No. 62

SKIP

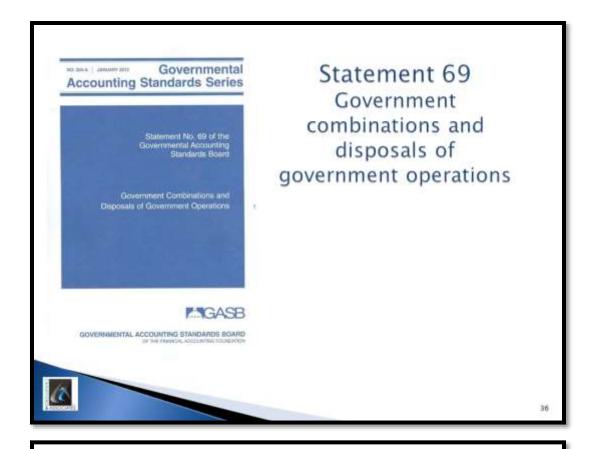


34

# Statement 67 and 68

 Government pension plans and employer accounting

> SKIP (covered later)



# Combinations, Transfers & Disposals

- What: new standards for mergers, acquisitions, and transfers and disposals of operations
- Why: becoming more common, but no government-specific guidance
- When: fiscal years ending December 31, 2014 and later



# Scope and Terminology

- Combinations in which no consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which consideration is provided
  - Government acquisitions
- Disposal of government operations
- Not included:
  - Assets and liabilities comprising less than an operation
  - Obtaining control of another organization that remains a legally separate entity (already addressed in Statement 14)
  - Acquisition of equity interest (already addressed in Statement 14)



# What Is a Government Combination?

- Government combinations are arrangements that meet the definition of a government merger, government acquisition, or transfer of operations and involve the continuance of the provision of services
- Service continuation means that the new or continuing government resulting from the combination has an obligation or responsibility to continue to provide services that were provided by the formerly separate governments or operations



## GASB Statement No. 70

Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions



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#### Issue

- Governments occasionally extend or receive financial guarantees on obligations of other entities without receiving or paying equivalent value for the guarantees (nonexchange financial guarantees)
- Current guidance in GASB Statement No. 62 is based on private sector guidance (exchange transactions)
  - FASB Statement No. 5
  - FASB Interpretation No. 14
  - FASB Interpretation No. 34



## Scope

- Applies to governments that:
  - Extend a nonexchange financial guarantee on an obligation of anther party (a government, not-forprofit, private entity, or an individual)
  - Receive a guarantee from another party on its obligations
- Does not apply to:
  - Financial guarantees provided as part of an exchange transaction, including guarantees related to special assessment debt



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## Recognition

- An extended nonexchange financial guarantee should be recognized as a liability when qualitative factors indicate that it is more likely than not (more than 50%) that a payment will be required to be made as a result of the guarantee
- Qualitative factors include, but are not limited to:
  - Initiation of bankruptcy or financial reorganization
  - Breach of debt contract on guaranteed obligation
  - · Other indicators of financial difficulty





Attachment 5: Slides—Department of Interior Office of Insular Affairs Budget Update, Tom Bussanich, Director, Budget and Grants Management Division, U.S. DOI-OIA



#### 2015 Budget Request Office of Insular Affairs

- 2015 Budget Request Summary
- · The Big Picture
  - Mission
  - Resources
- 2015 Budget Presentation
  - Assistance to Territories
  - Compacts of Free Association (Current)
  - Compacts of Free Association (Permanent)
  - Palau Compact
  - Fiscal Payments

2

The Big Picture

# **OIA's Mission**

 98% of OIA's budget is financial assistance which:

#### **Empowers Insular Communities**

- ➤Improves Quality of Life
- ➤ Creates Economic Opportunity
- ➤ Promotes Efficient & Effective Governance



# The Big Picture

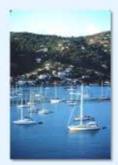
#### Total 2015 Budget Request

(Dollars in Thousands)

Budget Authority	2013Actual	2014 Enacted	2015 President's Budget	2015 Change from 2014
Current Discretionary	59,942	61,574	64,525	+2,951
Current Mandatory	40,867	40,867	27,720	-13,147
Total Current	100,809	102,441	92,245	+10,196
Permanent	546,966	538,242	585,882	+47,640
Total OIA	647,775	640,683	678,127	+37,444
FTEs*	37	40	40	0







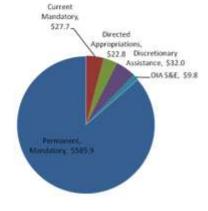
St. Thomas, USVI



Yap, FSM

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## OIA 2015 Current Budget Request - \$678.1 Million



#### The Big Picture

#### Discretionary Assistance -\$32.0 million

- •General Technical Assistance - \$17.5 million
- •Maintenance Assistance Fund - \$2.9 million
- •Brown Tree Snake Control -\$3.0 million
- Coral Reef Initiative \$1.0 million
- •Empowering Insular Communities-\$3.0 million
- Compact Impact Disc. \$1.3 million
- •Federal Services \$2.8 million
- Enewetak \$500,000

#### OIA S&E-\$9.3 million

•Office of Insular Affairs-\$9.3 million

#### Permanent Mandatory - \$585.9 million

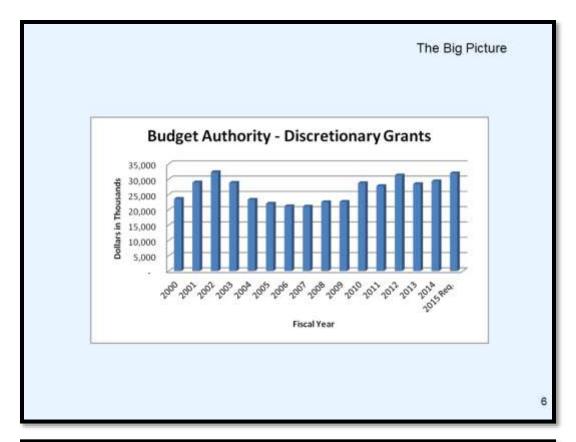
- Compacts of Free Association \$257.5 million
- Fiscal Payments (Guam Section 30, VI Rum Taxes) - \$328.4 million

#### Current Mandatory - \$27.7 million

•Covenant CIP - \$27.7 million

#### Directed Appropriations - \$22.8 million

American Samoa Operations - \$22.8 million



FY 2015	Budget a	t a Glance			
	of Insula				
(D	offices in Thousa	ends)			
(32)			Pixed Costs		
			dr. Hwiste d	Program	
	2013 Ac had	2014 Enacted	Changes	Changes	2015 Reques
Assistance to Territories	0.000			Central West	OCTOR NOT A SECURE
- American 5 apres Operations	22,706	22,782	. 0	0	22,753
Coverant Grants	27,720	37,730	0	0	27,720
Territorial Assistance					
Office of Insular Affairs	6,768	9,446	+16	+313	9,779
General Technical Assistance	12,475	14,504	. 0	+3,000	17,804
Maintenance Assistance	740	1,081	0	+1,776	2,857
Brown Treesnake Control	2,994	3,500	0	-500	3,000
Coral Rest Initiative	996	1,000		α	1,000
E impo we ring Insular Communities	2,965	2,971	0	0	2,971
CompactImpactDisc.	4,990	3,000	. 0	4,656	1,344
Total, Assistance to Tenitories	84,356	85,976	+18	+2,933	88,925
Compact of Fine Amociation - Current					
Federal Services	2,508	2,816			2,816
Environetalic	496	200		0	500
Palau Compact Extension	13.147	13.142	2	43.147	
Total, Compect of Free Association - Current	16,433	16,465	0	-15,147	3,310
Total Current Discretionary/Mandatory	100,509	102,441	+15	-10,214	92,245
Compact of Fase Association Marshall Islands Compact	68,090	71.825	0	+4.247	75,772
Te departed States of Discrore sta Compact	US 2003 W	107,990	2573	+1.543	109.793
Palau Compact (Legislative Proposali	100,003	100,930		+41,545	41,545
Fateral Services Permanent	11.0		1.0		II.5000
Compact Impact	50,000	30,000	0	- 4	30.000
Judicial Training	347	350			365
Total Compact (Permanent)	205,100	209,825		+47,640	237,463
Fiscal Payments	200,700	. 2007,000		40,74400	207,400
Guan Section 30 Income Taxes	76.736	65.267			65.297
VI Riom Excise Taxes	263,130	263.130	3072		263 130
Total, Fiscal Payments (Permanent)	341,566	10000			326,417
Grand Total - Office of Insular Affairs	647,775	640,653	+15	+37,426	679,125

#### Assistance to Territories

#### 2015 Budget Request

	2013	Actual	20141	nacted		Costs & Changes		hanges	2015 8	Sequest		ngu from 14 (=(-)
Activity Selectivity	FTE	Amount	FIE	Amount	FTE	Amount	FTE	Amount	FIE	Annut	FTE	Amount
ASSISTANCE TO TERRITORIES								103-00-101				
American Samoa Operations	. 2	22,706	2	22,752		-	-	3 7		22,752	1.4	

- · American Samoa Operations 2014 usage
  - Education \$14.0 million
  - LBJ Hospital \$7.9 million
  - High Court of American Samoa \$855,000





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#### Assistance to Territories

#### 2015 Budget Request

1	2013 Actual		2014 Enacted		Fixed Costs & Related Changes		Changes		2015 Sequest		Change from 2014 (+i-)	
Activity Salactivity	FTE	Amount	FIE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
ASSISTANCE TO TERRITORIES												
2. Coresant Grants - Mandatory					l							
Northern Mariana Islanda Coustraction		8,732	1.0	8,815	l			750		9,365	100	750
American Samoa Construction		9,964		10,047	1	E :	-	(750)	19	9,297	-	(750)
Guerri Construction		6,128	1	5,878		50 5		(83)	0.3	5,795	10-4	(83)
Virgin Islands Construction		2,896		2,980						3,063		
Fotal Consense Grants		27,728		27,720			-			27,720		

- Covenant CIP
  - General infrastructure construction including water, sewer, power, schools and hospitals
  - Competitive Criteria



Leone HS Classroom Building, American Samoa



2 Million Gallon Water Reservoir, Guam



CUC 500k Gallon Fuel Tank, Saipan CNMI



Dorothea Fire Station Generator, St. Thomas USVI

#### Assistance to Territories

#### 2015 Budget Request

	2013	Actual	2014 Enacted		Fixed Costs & Related Changes		Program Changes		2015 Request		Change free 2014 (+/-)	
Acresty Subactivity	FIE	Amount	FTE	Amount	PTE	Amount	FIE	Amount	FIE	Amount	FTE	Amount
ASSISTANCE TO TERRITORIES  3. Territorial Assistance	1	-310-70				2-2-1 (J.), 1-2°	5001-2			YES		
Office of Ironlar Affairs	34	8,768	38	9,448		18	- 2	313	38	9,779	1.2	533

- · Office of Insular Affairs
  - Requested net increase of \$331,000
  - Oversight resources are crucial



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#### Assistance to Territories

#### 2015 Budget Request

	2013	2013 Actual		2014 Enacted		Fixed Costs & Related Changes		Program Changes		2015 Request		nge firem 14 (+/-)
Activity Subactivity	FTE	Arnount	FTE	Amount	FTE	Amount	FIE	Amoun	210	Amount	FIE	Ameest
ASSISTANCE TO TERRITORIES						-						
3. Territorial Assistance												
General Technical Assistance		12,475		14,504			-	3,000	-	17,304	-	3,00
Maintenance Association Food.		740		1,081	l .			1,776		2,857		1,77
Brown Tree Sealer Control		2,994		3,300				(500)		3,000		(500)
Cocal Reef Initiative		998		1,000			- 1		-	1,000		
Empowering Testals: Communities		2,965		2,971			-	, ,		2,971	10.00	
Compart Depart - Discretionary	-	4,990		3,000		44 3	-	(1,656)		1,344		(1,656

- · General Technical Assistance
  - \$3 million Increase for insular grants
- Maintenance Assistance Fund
  - Requesting \$1.8 million increase
  - "Insular ABCs"
- · Brown Tree Snake Control
  - \$500,000 decrease; one year bump up for automated aerial bait delivery system in 2014
- Compact Impact Discretionary
  - \$1.7 million decrease
  - Education purposes





insular ABC's Assessment Underway

1

#### Assistance to Territories

#### 2015 Budget Request

#### **Technical Assistance** Grant Awards 2013/Estimate for 2014 & 2015 (Dollars in Thousands)

Recipited	2013 Amerika	2014 Ertmals	2006 Extraore
Direct Genera to Insular Areas			
Asimirasi Tasata	102	TRD	190
Northers Mariana Scienda (CMMS)	1,000	TND	TRE
Outs	102	TED	790
U.S. Virgin lidards	1.139	190	750
Federard Dates of Navembers (FSN)	197	TED	TRID
Republic of the Manufact Irlands (RMD)*	815	THD	TRE
Regulation of Palma	- 4	TRD	THE
Total, Direct Grants to Involue Areas	\$4,598	\$8,514	\$10,004
Other TAF (Provides Desertio to Modigie Lausier Areas)	1813 Avurds	2614 Extensis	2016 Estimate
Grid. School PITS VITS sever pickvisting -burnder PAS Compact was support projects	\$1,500	\$2,500	\$1,500
U.S. Buress of Commerce, DEA (for GCF date)	3760	16	\$750
Closs Up Foundation	\$3,100	\$1,100	\$1,790
NEPA review and Compliance for OSA grams (114To facilet from closure of potor year grants)	\$31 (\$246)	\$250	\$130
Turker Statement	1494	\$464	9494
Pacific Basic Dienetopoers Council	1190	\$100	\$100
4 And Health Care Program (RAD)	\$1,025	\$1,025	\$1,025
Print Dervice Senatts Program	\$5,000	\$100	\$800
Redicted Training	8020	\$330	\$320
CDC .	350	\$50	130
CSSA Ostrudusar's Office	\$250	10	30
COSE Insulgation, Labor and Law Robins & Force: Robinski Labor Dec (FRLD)	\$2.00	\$130	THE
ABC Schools Institutive		\$1,500	
Total, Multiple Jurisdiction Programs	\$7,877	\$8,190	57,490
Total, Technical Austrianus Appropriations	\$12,476	\$14,504	\$17,504

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#### Assistance to Territories

#### 2015 Budget Request

	2013	Actual	2014	Inacted		Costs & Changes		banges	2015	Request		ngs from (14 (=/-)
Activity Subscrivity	FTE.	Amount	FTE	Annet	FTE	Amount	FTE	Amount	PTE	Anoust	FTE	Anoust
ASSISTANCE TO TERRITORIES												
3. Tecritorial Assistance												
General Technical Assistance	1	12,475		- 14,594		3	-	3,000		17,364	1.0	3,000
Maintenance Assistance Fund		740		1,081		50.		1,776		2,857	11.5	1,776
Brown Tree Snake Control	1 3	2,994		- 3,500		2 4		(500)		3,000		(500)
Coral Reef Initiative		998		- 1,000				-		1,000	154	
Empowering Insular Communities		2,965		2,971						2,971		-
Contpact Impact - Discretionary		4,990		3,000				(1,654)		1,344		(1,656)

- Budget authority unchanged from 2014 Enacted level
- · Sustainable energy Plans completed in 2013





<sup>\*</sup>holudes funds awarded für Runt Done. ™ABCs Schools Intlative will be funded through the Islantenance Assistance Program in 2015.

#### Compacts of Free Association - Current

#### 2015 Budget Request

	2013	Actual	20141	Inacted	Re	Costs & based unges	0.0000	gram gram	20151	Request		uge from [4 (+/-)
	FIE	Anount	FTE	Assount	PIE	Amount	FIE	Amount	FTE	Amount	FIE	Amount
COMPACT OF FREE ASSOCIATION - CURRENT				0 100	-		3000		100			
1 Federal Services	9.5	2,800		2,818	2	125	-			2,811	-	
2 Enewetak	-	498	-	300		-	-			- 300	-	

- Federal Services
  - Budget authority unchanged from 2014 for USPS mail service
  - Funding shortfall
- Enewetak
  - In line with 2014 Congressional appropriations





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#### Compacts of Free Association

#### 2015 Budget Request

	2013 Actual		2014 Enacted		Fixed Costs and Related Changes	0.000000.000.00		2015 Request		Change from 2014 (+/-)	
Activity/Subactivity	FIE	Amount	FIE	Amount	FTE Amount	FIE	Amount	FTL	Amount	FIE AT	nount
COMPACT OF FREE ASSOCIATION - PERMANENT Compact Impact		30,000		30,000	0		0		30,000		0

- Compact Impact
  - New Compact Impact enumeration completed
  - Updated allocations will begin in 2015

#### **Compact Impact Enumeration Summary**

	- 3	2008 Enume	ration	201	3 Enumera	tion	Change from 2008 to 2013					
	COFA Population	Percent of Total	Compact Impact Funding	COFA Population	Percent of Yotal	Compact Impact Funding	Population	COFA Percent of Population	Compact Impact Funding			
Total	32,635	100%	30,000,000	34,555	100.0%	30,000,000	+1,920					
Hawaii	12,215	37%	11,228,742	14,700	43%	12,762,263	+2,485	+5.1%	+1,533,521			
Guarn.	18,305	56%	16,827,026	17,170	50%	14,906,671	-1,135	-6.4%	-1,920,356			
CNM	2,100	616	1,930,443	2,660	8%	2,309,362	+560	+1,3%	+378,925			
AS .	15	0%	13,789	25	0%	21,705	+10	+0.0%	+7,93			



#### Compacts of Free Association

#### 2015 Budget Request

Activity/Subactivity	2013 Act	95.0	2014 Enacted	Fixed Costs and Related Changes FTE Amount	A 400 A	2015 Request	Change from 2014 (+/-) FTE Amount
COMPACT OF FREE ASSOCIATION - PERMANENT							
Assistance to the Marshall Islands:	- 22	470				200000	
Sector Grants	35	523	37,525	0	- 52	37,577	52
Audit		500	500		0	500	0
Trust Fund	13	307	13,985		832	14,817	832
Rongelap Resettlement	- 88	0	0		0	. 0	0
Kwajalem Lease Payment	17	256	18,000		3,337	21,337	3,337
Enewetak		504	1.515		26	1,541	26
Subtotal, Marshall Islands Assistance	- 68	090,3	- 71,525	- 0	- 4,247	- 75,772	- 4,247
Assistance to the Federated States of Micronesia (FSM)							
Sector Grants	81	169	81,345		447	81,792	447
Trust Fund	24	,004	26,105	0	1,396	27,501	1,396
Audt	355	500	500		0	500	. 0
Subtotal, FSM Assistance	- 100	5,663	- 107,950	- 0	- 1,843	- 109,793	- 1,843
Judicial Training		347	350	0	5	355	5

· Summary of RMI and FSM assistance



#### Compacts of Free Association - Palau

#### 2015 Budget Request

sortingel took - A sest	2013	Actual	10.7	014 acted	Fixed Costs and Related Changes	Pr	ogram nanges	1233	1015 equest	from	n 2014 +/-)
Activity/Subactivity	FTE	Amount	FTE	Amount	FIE Amount	FTE	Amount	FTE	Amount	FIE	Amount
Palau Compact Extension		13,147		13,147	.0		+13,147		0	( )	-13,147
Palau Legislative Proposal		. 0		0	0		41,545		41,545		41,545
Subtotal, A suistance to the Republic of Palau-	-	13,147		13,147	- 0		28.398		41,545		28,398

- Palau Legislative Proposal totals \$250.0 million over 15 years
- Transmitted to Congress on January 14, 2011
- Introduced by the Senate as S. 343 (S. 1268 in the 113th Congress)
  - 2015 enactment funding scenario



#### Fiscal Payments

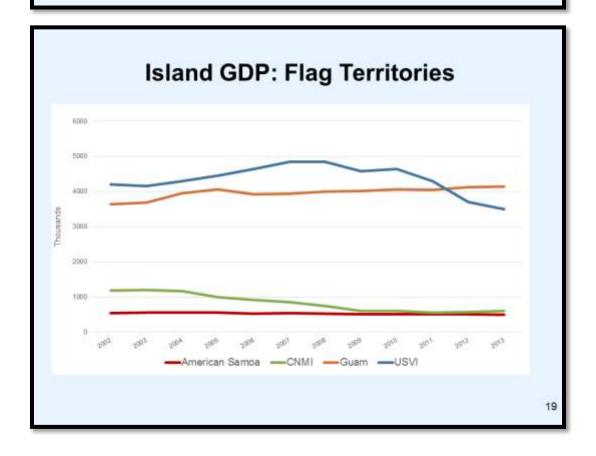
#### 2015 Budget Request

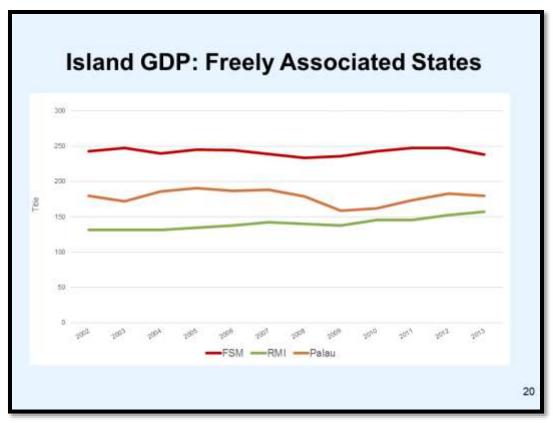
	201	3 Actual		014 acted	Fixed Costs and Related Changes	P	ogram hanges	2015	Request	Change from 2014 (+/-)
Activity/Subactivity		Amount	FIE	Amount	FTE Amount	FIE	Amount	FIE	A mount	FTE Amount
Guam Section 30 Income Taxes		78,736		65,287	0		-0		65,287	- 6
VI Rum Excise Taxes		263,130		263,130	0		0		263.130	9
Subtotal, Fiscal Payments	-	341,856	-	328,417	- 0	-	. 0		328,417	- (

- · Summary of Fiscal Payments
  - Projected increases
  - military buildup on Guam
  - relocation of Captain Morgan to St. Croix











Attachment 6: Slides—Ethics in Government, Ronald I. Heller

#### Current Issues In Ethics For CPAs

Hawaii 2014

by Ronald Heller, Attorney & CPA

Thanks to Lisa Snyder, CPA, Director, AICPA Professional Ethics Division

# Thanks to Cal CPA and

# Everyday Ethics Doing Well by Doing Good

Ronald J. Baker, CPA

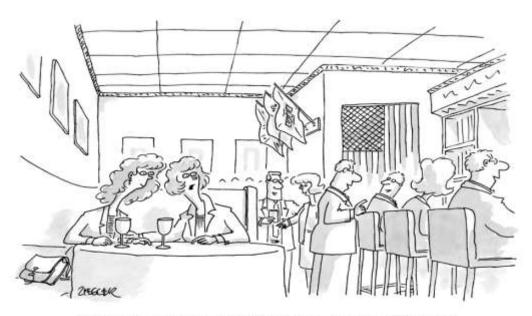
Daniel D. Morris, CPA

# Thanks also to:

# PROFESSIONAL ETHICS FOR HAWAII CPAS

Gilbert B. Blumenthal, CPA

http:ethics4cpas.com



"Being an accountant gives him that extra aura of danger."

# Where to get help

#### ETHICS HOTLINE

The AICPA Professional Ethics Team maintains a hotline for members to make inquiries about the Code of Conduct, and for advice when facing situations that challenge their professional ethics. To access the Ethics Hotline dial 1-888-777-7077 and follow the prompts to be routed to the Ethics team.

## Do we need ethics?

Honesty and ethical standards do not always pay off. They often have costs. For moral reasons alone, these costs are worth paying. Also for business reasons, too, since reputation is a priceless asset, and loss of that reputation is the single biggest risk a company faces. Consider the Johnson and Johnson Credo that the company turned to during the two Tylenol poisonings in 1982 and 1986, which had a cumulative effect of \$140 million in write-offs. Founder R.W. Johnson wrote this Credo in 1943 and it has often been cited as precedent for ethical decisions made since then, and is carved in stone at the company's New Brunswick, New Jersey, headquarters:

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# From J & J Credo

We believe that our first responsibility is to the doctors, nurses, hospitals, mothers, and all others who use our products. Our products must always be of the highest quality. We must constantly strive to reduce the cost of these products. Our orders must be promptly and accurately filled. Our dealers must make a fair profit.

Our second responsibility is to those who work with us—the men and women in our plants and offices. They must have a sense of security in their jobs. Wages must be fair and adequate, management just, hours reasonable, and working conditions clean and orderly. Employees should have an organized system for suggestions and complaints. Supervisors and department heads must be qualified and fair-minded. There must be opportunity for advancement for those qualified and each person must be considered an individual standing on his own dignity and merit.

# J & J Update

Johnson & Johnson to pay \$2.2 billion in drugmarketing settlement (Nov. 4, 2013)

Johnson & Johnson will pay \$2.2 billion to resolve civil and criminal allegations involving the allegedly improper marketing of prescription drugs for off-label, unapproved uses, Justice Department officials announced. The cases involve alleged kickbacks to doctors and pharmacies to promote the use of certain drugs. The agreement was one of the largest health-care fraud settlements in U.S. history.

#### DELOITTE'S FORMER CHIEF RISK OFFICER HIT WITH TWO-YEAR SUSPENSION

The SEC accused Deloitte's former chief risk officer of violating the auditor independence rules because of \$478,000 in loans he allegedly took out from a casino. Deloitte said it cooperated with the investigation and that the violations ran against the firm's policies.

The allegations against James Adams, who retired from Deloitte in May 2010, resulted in a two-year suspension from doing audit work for public companies. Adams consented to the order without admitting or denying the findings, the SEC said.

"Deloitte fully cooperated with the SEC in its investigation," the audit firm said in a statement. "This former partner's conduct plainly violated Deloitte's policies, and he lied to Deloitte to conceal his actions. Mr. Adams is no longer part of our organization, and we strongly condemn his conduct."

"Auditor independence is critical to the integrity of the financial reporting process," said Scott Friestad, associate director in the SEC's Division of Enforcement, in a statement. "Through his extensive use of casino markers, Adams clearly violated the rules and put his own desires ahead of his client's interests."

#### What is a profession?

#### The Characteristics of a Profession

According to Kimball:

By the beginning of the twentieth century, the term [profession] denoted a dignified vocation with three fundamental characteristics. One topic concerns the body of functional knowledge, or expertise, associated with a profession and involves issues of epistemology, utility, and education. A second topic concerns the profession's organization into an association and involves such issues as autonomy, exclusion, licensing, and certification. The third fundamental topic is the ethic of professional service.

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## **Professional Ethics**

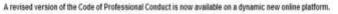
Two Latin phrases sum up the ethic of service that is another core value of a profession: Non sibi sed allis, "Not for ourselves but for others" and Pro bono publico, "For the public good." Because society grants professions monopoly status, it expects members of that profession to put the interests of the public ahead of its own member's interests.

In fact, the AICPA Code was modified January 12, 1988 and a public interest principle was added, which states that conflicts are to be resolved in favor of the public. Even in the absence of codes and principles promulgated by a professional body, individual members and firms have been known to hold themselves to higher standards.

#### "Trade" vs. "Profession"

"Trade", as a noun, is not a technical word and in ordinary language is used in three senses: (1) in that of exchanging commodities by barter or by buying and selling for money; (2) in that of an occupation generally; (3) in that of a mechanical employment, in contradistinction to the learned professions, agriculture, or the liberal arts (87 C. J. S., Trade, p. 202). People v. Polar Vent of America, Inc. 174 N.Y.S.2d 789,793 (1957), cited in Black's Law Dictionary, 5th Ed.

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Revised Online Code of Professional Conduct.

The PEEC adopted a revised Code that is effective December 15, 2014. The Conceptual Framework for Members in Business and the Conceptual Framework for Members in Public Practice are effective December 15, 2015. The revised Code and conceptual frameworks maybe implemented early.

Learn more about how the AICPA Effect Codification Project led to changes in the Professional Code of Conduct

http://pub.aicpa.org/codeofconduct/Ethics.aspx

# Basic Philosophy

#### Preamble to the AICPA Code of Professional Conduct:

- .01 Membership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a certified public accountant assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.
- .02 These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

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# Applying the principles

#### Does Consulting Impair Auditor Independence?

One of the most contentious issues in the auditing profession is whether or not accounting firms that perform consulting services to their clients impair the independence of the audit function. For instance, Enron paid Arthur Andersen \$25 million for its audit and \$27 million for consulting services. This debate has been going on for a long time, and was even debated in the 1925 issue of the Journal of Accountancy.

## Another view

But as John Madonna, former CEO of KPMG, states:

If Andersen didn't get a dollar of consulting from Enron, David Duncan [Andersen's lead partner on the Enron account] still would have been under enormous pressure to keep a \$25 million audit client (Ibid: 14).

Of course, the Sarbanes-Oxley Act of 2002 makes the consulting debate moot, at least for auditors of public companies, since it prohibits offering consulting services to audit clients.

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# Types of Issues

According to Professor Steven Mintz, at least three situations create ethical dilemmas for accountants:

- Technical accounting or ethics rules may be unclear;
- There may be a conflict between the interests of the stakeholders;
- Conflict exists between the accountants' self-interest and what moral principles indicate ought to be done; service and the public trust should not be subordinated to personal gain and advantage (Mintz, 1997: 21).

# Hawaii State Issues

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§466-1 Purpose. It is the policy of this State, and the purpose of this chapter to promote the reliability of information that is used for guidance in financial transactions ... The public interest requires ... that the professional conduct of persons licensed as having special competence in accountancy be regulated in a manner consistent with nationally recognized standards of professional conduct;

- **§466-9 Disciplinary action.** (b) In addition to any other grounds for disciplinary action authorized by law, any one or more of the following shall constitute grounds for disciplinary action:
- (5) Dishonesty, deceit, fraud, or gross negligence in the practice of public accountancy or in the filing or failure to file a licensee's or firm's own income tax returns; ...
- (7) Violation of any provision of professional conduct established by the board under this chapter;
- (10) Any conduct reflecting adversely upon the licensee's or permit holder's fitness to engage in the practice of public accountancy.

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§466-12 Ownership of accountant's working papers. All statements, records, schedules, working papers, and memoranda made by the licensee, partner, shareholder, officer, director, or employee incidental to, or in the course of rendering services to a client in the practice of public accountancy, except reports submitted by the licensee to the client and except for records that are part of the client's records, shall be and remain the property of the licensee in the absence of an express agreement between the licensee and the client to the contrary. No statement, record, schedule, working paper, or memorandum shall be sold, transferred, or bequeathed, without the consent of the client or the client's personal representative or assignee, to anyone other than one or more surviving partners or stockholders or new partners or stockholders of the licensee, or any combined or merged firm or successor in interest to the licensee or operation of law.

#### §16-71-8 Definitions. As used in this chapter:

"Not in a public accounting practice" or "not in public practice" means the status of a certified public accountant licensed under section 466-5, HRS, or a public accountant licensed under section 466-6, HRS, or a public accounting firm under section 466-7, HRS, that:

- (1) Does not have a permit to practice under chapter 466, HRS, or this chapter; or
- (2) Is not engaged in any form of public accounting in this State.

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# §466-10 Prohibited acts. (a) Use of title "certified public accountant":

(1) Except as otherwise provided in subsection (d) of this section, no person shall assume or use the title or designation "certified public accountant" or the abbreviation "CPA" or any other title, designation, words, letters, sign, card, or device likely to be confused with "certified public accountant" or "CPA" or tending to indicate that the person is a certified public accountant, unless the person holds a current license of certified public accountant issued under this chapter and a current permit to practice issued under this chapter

- (d) Nothing contained in this chapter shall prohibit any person:
- (1) Who holds a current license of certified public accountant issued under this chapter from assuming and using the title and designation "certified public accountant" or "CPA"; provided that if the person does not also hold a current permit to practice issued under this chapter, the person shall clearly indicate in assuming and using said title that the person does not hold the person's self out to be in the practice of public accountancy

LICENSE NUMBER
CPA - 1822
STATE OF HAWAII DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
CERTIFIED PUBLIC ACCOUNTANT

PERMIT TO PRACTICE

RONAID I HFIIFR

KAILUA HI 96734

(SIGNATURE OF LICENSEE)

FPTP - 385

12/31/2015

STATE OF HAWAII DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS FIRM PERMIT TO PRACTICE

RONALD I HELLER

KAILUA HI 96734

(SIGNATURE OF LICENSEE)

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#### **CPA Mobility Quiz**

#### **Mobility Basics**

Question: If you have a client in another state and provide services under CPA mobility, can that state's Accountancy Board sanction you? (Also E & O coverage questions)

Question: If I go to a state that allows mobility, can I practice and work on behalf of any client on any issue?

Question: True or false, all boards of accountancy use the same list of states that they deem substantially equivalent?

Question: True or false, I'm moving from Hawaii to California so I can rely on mobility to practice without the need to get a California CPA license.

Question: True or false, no states penalize Hawaii for not having adopted CPA mobility.

Question: If I prepare a tax return or provide other tax services, does mobility apply to me?

Question: True or false, if I utilize mobility to serve a client in Washington, I must also comply with that state's continuing professional education requirements?

Question: Do out-of-state CPAs performing services for Hawaii clients have to pay the General Excise Tax?

§466-13 Peer review. (a) Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 shall undergo a peer review every three years on the firm's Hawaii attest work and submit evidence of such peer review at the time of the renewal of the firm's permit to practice under section 466-7.

Enacted in 2010; effective 1 yr. after Rules adopted by Board – Must be enrolled by 2015, review completed by 2017

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October 7, 2014

Ronald I. Heller, CPA

Dear Mr. Heller.

Your firm has enrolled in the AICPA Peer Review Program and you have advised us that the firm does not perform engagements covered by Statements on Auditing Standards, Statements on Standards for Accounting and Review Services; Statements on Standards for Attestation Engagements, Government Auditing Standards (the Yellow Book) issued by the U.S. Governments Accountability Office; and audits of non-SEC issuers performed pursuant to the standards of Public Company Accounting Oversight Board (PCAOB). Since your firm does not perform these services, you will not be required to have a peer review.

However, we will ask you annually to confirm that you do not have an accounting and auditing practice. If you perform any of the engagements listed above, your firm will be required to have a peer review completed ordinarily within 18 months. Therefore, please notify Hawaii Society of CPAs if you accept such an engagement.

Sincerely, Kathy Castillo Executive Director Firm No. 8427896





T: (808) 537-9475 E: peerreview@hscpa.org

#### CPE

### §16-71-33 Basic requirements of study hours.

(b) The applicant shall include within the eighty hours of continuing professional education programs, at least four hours of continuing professional education in the subject area of ethics or professional conduct; provided that these hours may also be used to simultaneously fulfill the requirements to renew the license of a certified public accountant or public accountant under section 16-71-2.

Effective 2010

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§16-71-4.5 Minimum insurance requirements for a professional corporation. (a) Pursuant to section 415A-11, HRS, a professional accounting corporation may provide security for professional responsibility by procuring errors and omissions insurance or a surety bond issued by an insurance company, or any combination thereof, as the corporation may elect. (b) The minimum amount of errors and omissions insurance or surety bond issued by an insurance company for a professional accounting corporation shall be \$100,000 for each shareholder; provided that the minimum amount for each professional accounting corporation shall not be less than \$250,000.

ACT 166 (2009) House Bill 1739 Tax Return Preparer Penalty HRS §231-36.5

HRS §231-36.5 enacted by 2009 Act 166 (House Bill 1739), generally effective July 1, 2009 but applicable to any return where the statute of limitations has not expired.

Preparer penalty: \$500 for understatement based on unreasonable position \$1,000 if based on willful or reckless understatement Civil action for injunction may also be brought

Generally interpreted in accordance with federal guidance relating to IRC Section 6694

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#### Penalty for Promoting Abusive Tax Shelters HRS § 231-36.7

Applies to organizing or selling, or participating in organizing or selling, any partnership, plan or arrangement; and making a false or fraudulent statement, or gross valuation overstatement, with respect to the tax benefits of the partnership, plan or arrangement.

Penalty applies if person making the statement "knows or has reason to know" that it is false or fraudulent or a gross valuation overstatement Penalty is greater of 100% of the gross income from the activity or \$1000.

Each separate transaction is subject to the penalty

"Gross valuation overstatement" means valued stated exceeds correct valuation by more than 200%

# Act 166, 2009, Section 17

13 "9231-7 Hearings and subpoenas. (a) The director of
14 taxation, and any representative of the director duly authorized
15 by the director, may conduct any inquiry, investigation, or
16 hearing, relating to any assessment, or the amount of any tax,
17 or the collection of any delinquent tax, including any inquiry
18 or investigation into the financial resources of any delinquent
19 taxpayer or the [collectibility] collectability of any
20 delinquent tax.

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§487R-2 Destruction of personal information records. (a) Any business or government agency that conducts business in Hawaii and any business or government agency that maintains or otherwise possesses personal information of a resident of Hawaii shall take reasonable measures to protect against unauthorized access to or use of the information in connection with or after its disposal.

#### "Reasonable measures" include:

- (1) burning, pulverizing, recycling, or shredding of papers containing personal information;
- (2) destruction or erasure of electronic media and other nonpaper media containing personal information;
   and
  - (3) having written policies.

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§487N-2 Notice of security breach. (a) ... any business that conducts business in Hawaii that owns or licenses personal information in any form (whether computerized, paper, or otherwise), ... shall provide notice to the affected person that there has been a security breach following discovery or notification of the breach. The disclosure notification shall be made without unreasonable delay, consistent with the legitimate needs of law enforcement as provided in subsection (c) of this section, and consistent with any measures necessary to determine sufficient contact information, determine the scope of the breach, and restore the reasonable integrity, security, and confidentiality of the data system.

§487J-2 Social security number protection. (a) Except as otherwise provided in subsection (b), a business or government agency may not do any of the following:

- Intentionally communicate or otherwise make available to the general public an individual's entire social security number;
- (2) Intentionally print or imbed an individual's entire social security number on any card required for the individual to access products or services provided by the business or government agency;
- (3) Require an individual to transmit the individual's entire social security number over the Internet, unless the connection is secure or the social security number is encrypted. For purposes of this paragraph, "encrypted" means that an algorithmic process has been used to transform data into a form in which the data is rendered unreadable or unusable without the use of a confidential process or key;
- (4) Require an individual to use the individual's entire social security number to access an internet website, unless a password or unique personal identification number or other authentication device is also required to access the internet website; or
- (5) Print an individual's entire social security number on any materials that are mailed to the individual, unless the materials are employer-to-employee communications, or where specifically requested by the individual.

- **[§487J-3] Penalties; civil action.** (a) Any business that violates any provision of this chapter shall be subject to penalties of not more than \$2,500 for each violation. The attorney general or the executive director of the office of consumer protection may bring an action pursuant to this section. No such action may be brought against a government agency.
- (b) In addition to any penalty provided for in subsection (a), any business that violates any provision of this chapter shall be liable to the injured party in an amount equal to the sum of any actual damages sustained by the injured party as a result of the violation. The court in any action brought under this section may award reasonable attorneys' fees to the prevailing party. No such action may be brought against a government agency.
- (c) The penalties provided in this section shall be cumulative to the remedies or penalties available under all other laws of this State.

## **CPA Firm Names**

#### Names that are considered misleading -

- Including the name of individual who is not a CPA if title "CPAs" is included in the firm name
- Including "& Company" or "& Associate if the firm does not include, in addition to named partner/owner or member, at least one other unnamed partner/owner, member, or employee
- Including name of owner whose license is revoked for disciplinary reasons by the Board
- Any representation that would likely cause a reasonable person to have a false/unjustified expectation of favorable results or capabilities

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Key provisions of Circular 230: (excerpts; see <a href="https://www.irs.gov/pub/irs-pdf/pcir230.pdf">www.irs.gov/pub/irs-pdf/pcir230.pdf</a> for full text of Circular 230.

#### § 10.20 Information to be furnished.

- (a) To the Internal Revenue Service.
- (1) A practitioner must, on a proper and lawful request by a duly authorized officer or employee of the Internal Revenue Service, promptly submit records or information in any matter before the Internal Revenue Service unless the practitioner believes in good faith and on reasonable grounds that the records or information are privileged.

The proposed regs didn't contain a definition of "Federal Tax Matter." Under final Reg § 10.37(d), a Federal tax matter is any matter concerning the application or interpretation or (1) a revenue provision as defined in Code Sec. 6110(i)(1)(B), (2) any provision of law impacting a person's obligations under the internal revenue laws and regs, including but not limited to the person's liability to pay tax or obligation to file returns, or (3) any other law or reg administered by IRS.

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Practitioner Competence. Prop Reg § 10.35 provided that a practitioner must possess the necessary competence to engage in practice before the IRS, and that competent practice requires the appropriate level of knowledge, skill, thoroughness, and preparation necessary for the matter for which the practitioner is engaged.

In response to comments, the competence standard in final Reg § 10.35 contemplates that practitioners may become competent in a variety of ways, including, among other things, consulting with experts in the relevant area and studying the relevant law. (Reg. § 10.35 (a)) Whether consultation and/or research are adequate to make a practitioner competent in a particular situation depends on the facts and circumstances of the particular situation. (T.D. 9668, 06/09/14)

§ 10.21 Knowledge of client's omission. A practitioner who, having been retained by a client with respect to a matter administered by the Internal Revenue Service, knows that the client has not complied with the revenue laws of the United States or has made an error in or omission from any return, document, affidavit, or other paper which the client submitted or executed under the revenue laws of the United States, must advise the client promptly of the fact of such noncompliance, error, or omission. The practitioner must advise the client of the consequences as provided under the Code and regulations of such noncompliance, error, or omission.

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#### § 10.23 Prompt disposition of pending matters.

A practitioner may not unreasonably delay the prompt disposition of any matter before the Internal Revenue Service.

§ 10.27 Fees.(a) In general. A practitioner may not charge an unconscionable fee in connection with any matter before the Internal Revenue Service.

#### § 10.28 Return of client's records.

In general, a practitioner must, at the request of a client, promptly return any and all records of the client that are necessary for the client to comply with his or her Federal tax obligations. The practitioner may retain copies of the records returned to a client. The existence of a dispute over fees generally does not relieve the practitioner of his or her responsibility under this section.

## § 10.33 Best practices for tax advisors.

(b) Procedures to ensure best practices for tax advisors. Tax advisors with responsibility for overseeing a firm's practice of providing advice concerning Federal tax issues or of preparing or assisting in the preparation of submissions to the Internal Revenue Service should take reasonable steps to ensure that the firm's procedures for all members, associates, and employees are consistent with the best practices set forth in paragraph (a) of this section.

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## § 10.36 Procedures to ensure compliance.

- (a) Any individual subject to the provisions of this part who has (or individuals who have or share) principal authority and responsibility for overseeing a firm's practice governed by this part, ... must take reasonable steps to ensure that the firm has adequate procedures in effect for all members, associates, and employees for purposes of complying with subparts A, B, and C of this part, as applicable. ...
- (b) Any such individual who has (or such individuals who have or share) principal authority as described in paragraph (a) of this section will be subject to discipline for failing to comply with the requirements of this section ...

## § 10.37 Requirements for written advice.

Former Section 10.35 "covered opinion" rules eliminated – now one set of standards for all written advice.

Section 10.37 sets forth standards to which a practitioner must adhere when providing written advice on any federal tax matter.

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## Section 10.37 allows flexibility in format.

Does <u>not</u> specifically require that the practitioner describe the relevant facts, identifying representations and assumptions.

Does <u>not</u> expressly require that the practitioner discuss relevant legal authorities and relate the law to the relevant facts. (But advice must be based on reasonable factual and legal basis)

Instead, extent to which facts and law should be set forth may depend on scope of engagement, type of advice sought by client, and all other facts and circumstances.

## Definition of written advice for 10.37

Does not include submissions to a government entity on matters of general policy. For example, comments on proposed regulations.

Does not include materials for Continuing Professional Education seminars, where the seminar is solely for the purpose of enhancing the participants' knowledge. (If the seminar is a disguised commercial promoting or marketing some transaction or investment, this exception does not apply.)

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## Audit Risk and Possibility of Settlement

Practitioner may <u>not</u> give advice based on (or even suggesting) the possibility that a tax return may not be audited or that a particular transaction may not be examined in an audit

The first proposed version of 10.37 said that a practitioner could not give advice based on the possibility that an issue might be settled if raised on audit. This was revised: rule now allows discussion of legitimate hazards of litigation and the possibility that the presence or absence of such hazards may make settlement more or less likely. Indeed, this may be a material issue on which the practitioner has a duty to inform the client.

#### Circular 230 Disclaimers

To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication is not intended to be, and cannot be, used for the purpose of (1) avoiding penalties that may be imposed on the taxpayer, or (2) promoting, marketing, or recommending to another party any transaction addressed herein.

The IRS Office of Professional Responsibility will send letters asking practitioners to stop using Circular 230 disclaimers saying the disclaimer is required, OPR Director Karen Hawkins said on June 17, 2014 on a Tax Talk Today webcast.

"My only concern and my message is, if a disclaimer says 'The Internal Revenue Service says' or 'I am required under Circular 230,' I can promise you that you will get a letter from my office asking you to cease and desist using that kind of language because I don't want taxpayers to be misinformed," Hawkins said. "We do not require that language after last week."

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#### § 10.29 Conflicting interests.

- (a) Except as provided by paragraph (b) of this section, a practitioner shall not represent a client before the Internal Revenue Service if the representation involves a conflict of interest. A conflict of interest exists if
  - The representation of one client will be directly adverse to another client; or
  - (2) There is a significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client, a former client or a third person, or by a personal interest of the practitioner.
- (b) Notwithstanding the existence of a conflict of interest under paragraph (a) of this section, the practitioner may represent a client if —
  - (1) The practitioner reasonably believes that the practitioner will be able to provide competent and diligent representation to each affected client;
  - (2) The representation is not prohibited by law; and
  - (3) Each affected client waives the conflict of interest and gives informed consent, confirmed in writing by each affected client, at the time the existence of the conflict of interest is known by the practitioner.

# Four categories of tax practitioner misconduct which may be subject to disciplinary action by the OPR:

- Misconduct while representing a taxpayer;
- Misconduct related to the tax practitioner's own return;
- Giving a false opinion, knowingly, recklessly, or through gross incompetence; and
- Other types of tax practitioner misconduct not directly involving IRS representation.

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In 2011, the Internal Revenue Service promulgated the Registered Tax Return Preparer Rule, which imposed – for the first time – mandatory federal licensing requirements and standards of conduct on approximately 600,000 unenrolled tax return preparers. Three such preparers brought suit, claiming that the new regulations fell outside the scope of the IRS's statutory authority. The USDC for the District of Columbia agreed and enjoined the IRS from enforcing its regulatory scheme. See Loving v. IRS, 917 F. Supp. 2d 67 (D.D.C. 2013), and the D.C. Circuit subsequently affirmed. See Loving, 742 F.3d 1013.

In a separate opinion in Loving, denying the IRS's interim motion to stay the injunction pending appeal, the Court observed that its ruling did not "requir[e] the IRS to dismantle its entire scheme." Loving v. IRS, 920 F. Supp. 2d 108 (D.D.C. 2013). Instead, the agency "may choose to retain the testing centers and some staff, as it is possible that some preparers may wish to take the exam or continuing education even if not required to." Id. The Court further remarked that "[s]uch voluntarily obtained credentials" might allow preparers to "distinguish" themselves. Id.

The court also modified its order to clarify that the injunction does not affect the requirement for all paid tax return preparers to obtain a preparer tax identification number (PTIN).

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The AICPA claimed that the Program, even if voluntary, will allow uncredentialed preparers to "advertise their credentials in a way that suggests they have special training from the IRS," are "preferred vendors" of the IRS, or are "endorsed" by the Service. The Court noted that a preparer is permitted to state only that she "holds a valid Annual Filing Season Program Record of Completion for that calendar year and that ... she has complied with the IRS requirements for receiving the Record of Completion," and found that "confusion is unlikely to result from any such advertisement." The AICPA's claim was dismissed.

American Institute of CPAs v. IRS, et al., 114 AFTR 2d 2014–6451, (DC Dist.), 10/27/2014

If a tax practitioner is not participating in the implementation of the professional advice he or she has given or has no contractual obligation to report the effects of future changes, the tax practitioner is not required to communicate changes that affect the advice the tax practitioner had previously given. Addressing this in the engagement letter is a good idea.

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Interpreting ABA Model Rule of Professional Conduct 1.6 the ABA Standing Committee on Ethics and Professional Responsibility has recognized that the Rule requires attorneys to use reasonable care to protect the confidentiality of client information. This includes information which is contained in E-mail communications. A recent ABA ethics opinion advises attorneys that they have a duty to caution their clients about the lack of privacy when using an employer's technology device (such as work computer; email account; iPad, etc.).

"Unless otherwise specifically agreed, you authorize us to communicate with you using un-encrypted e-mail, and using cellular telephones, wireless networks, or other means of electronic transmission. You understand that there is a possibility that such communications could be intercepted or monitored by third parties without our knowledge, but you accept that risk and agree that we may use these means of communication. If you wish to change these instructions at any time, you will advise us in writing."

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§ 10.21 Knowledge of client's omission. A practitioner who, having been retained by a client with respect to a matter administered by the Internal Revenue Service, knows that the client has not complied with the revenue laws of the United States or has made an error in or omission from any return, document, affidavit, or other paper which the client submitted or executed under the revenue laws of the United States, must advise the client promptly of the fact of such noncompliance, error, or omission. The practitioner must advise the client of the consequences as provided under the Code and regulations of such noncompliance, error, or omission.

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In general, a practitioner must, at the request of a client, promptly return any and all records of the client that are necessary for the client to comply with his or her Federal tax obligations. The practitioner may retain copies of the records returned to a client. The existence of a dispute over fees generally does not relieve the practitioner of his or her responsibility under this section.

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#### § 10.29 Conflicting interests.

- (a) Except as provided by paragraph (b) of this section, a practitioner shall not represent a client before the Internal Revenue Service if the representation involves a conflict of interest. A conflict of interest exists if —
  - The representation of one client will be directly adverse to another client; or
  - (2) There is a significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client, a former client or a third person, or by a personal interest of the practitioner.
- (b) Notwithstanding the existence of a conflict of interest under paragraph (a) of this section, the practitioner may represent a client if
  - The practitioner reasonably believes that the practitioner will be able to provide competent and diligent representation to each affected client;
  - (2) The representation is not prohibited by law; and
  - (3) Each affected client waives the conflict of interest and gives informed consent, confirmed in writing by each affected client, at the time the existence of the conflict of interest is known by the practitioner.

#### representing Husband and Wife

This engagement would be to represent both of you jointly. I believe that I have a duty to point out to you that each of you is entitled to retain your own separate attorney if you wish to do so. Whether or not you choose to do so is up to you – I am merely pointing out that you have that option. Of course, each of you is free to consult independently with other legal counsel to review your personal objectives and to obtain advice concerning whether it is in your interests to consent to my representation of both of you jointly. If you have any doubts or concerns about this, I encourage you to seek such independent advice now.

Query - is this adequate?

- Tarasoff v. Regents of Univ. of California, 17 Cal. 3d 425 (1976)
- The principal defendant was a psychiatrist. One of his patients was a disturbed young man, who had fantasies about attacking his ex-girlfriend. When the young man actually did attack and kill the girlfriend, her family sued the psychiatrist for failing to warn the girlfriend that she was in danger. The doctor argued that (1) he had no duty to a person who was not his patient; and (2) it would have violated the rules of doctor/patient confidentiality to tell a third party about the discussions between himself and his patient. The doctor lost the case.

- Helling v. Carey, 83 Wash. 514, 519 P.2d 981 (1974).
- We find this to be a unique case. The testimony of the medical experts is undisputed concerning the standards of the profession for the specialty of ophthalmology. . . The issue is whether the defendants' compliance with the standard of the profession of ophthalmology, which does not require the giving of a routine pressure test to persons under 40 years of age, should insulate them from liability under the facts in this case where the plaintiff has lost a substantial amount of her vision due to the failure of the defendants to timely give the pressure test to the plaintiff.

- Under the facts of this case reasonable prudence required the timely giving of the pressure test to this plaintiff. The precaution of giving this test to detect the incidence of glaucoma to patients under 40 years of age is so imperative that irrespective of its disregard by the standards of the ophthalmology profession, it is the duty of the courts to say what is required to protect patients under 40 from the damaging results of glaucoma.
- We therefore hold, as a matter of law, that the reasonable standard that should have been followed under the undisputed facts of this case was the timely giving of this simple, harmless pressure test to this plaintiff and that, in failing to do so, the defendants were negligent, which proximately resulted in the blindness sustained by the plaintiff for which the defendants are liable.

Brockhouse v. U.S., 83-1 USTC ¶ 9410 (N.D. III. 1983) [Preparer penalty upheld where professional corp. deducted interest expense but sole shareholder did not report interest income]

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Note that filing a false tax return (or knowingly preparing one) is a federal crime even if there is no understatement of taxable income or the tax due. See U.S. v. DiVarco, 484 F.2d 670 (7th Circuit 1973), cert. denied 415 U.S. 916.

Deliberate mis-statement regarding the source of income is a crime even if the amount is correctly reported. Suppose a client wanted to deliberately, and falsely, report more income than he actually earned, so that he could give a copy of his tax return to the bank and get a loan?

Horne v. Peckham, 158 Cal. Rptr. 714 (Cal. App. 1979). When a general-practice attorney undertook to draft a "Clifford" trust – a type of work generally done by tax specialists – the attorney was held to the standards of a specialist for purposes of determining malpractice liability.

- Proper Hiring Practices and Employee
   Supervision
- Verify, Verify, Verify (e.g., transcripts to prove education, verify licenses)
- Document training and CPE
- Adequate supervision and review
- Be alert for alcohol/substance abuse

# The gut-check test

"How would I feel if my decision were printed in the local newspaper?"

"How would I feel if my family were to find out about my decision?"

How will this decision make me feel about myself?"

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# Some examples - objectivity

- A member has been asked to perform litigation services for the plaintiff in connection with a lawsuit filed against a client of the member's firm.
- A member has provided tax or personal financial planning (PFP) services for a married couple who are undergoing a divorce, and the member has been asked to provide the services for both parties during the divorce proceedings.
- In connection with a PFP engagement, a member plans to suggest that the client invest in a business in which he or she has a financial interest.

# Tougher questions?

- A member serves on a city's board of tax appeals, which considers matters involving several of the member's tax clients.
- A member has been approached to provide services in connection with the purchase of real estate from a client of the member's firm.
- A member refers a PFP or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement to do so.

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## Role of the Professional Ethics Division

- Establish independence and ethics standards for the CPA profession
  - AICPA Code of Professional Conduct
  - Non-authoritative guidance (e.g., FAQs)
- Enforcement investigate potential violations of the Code
  - Bylaws require members comply with Code
  - Joint Ethics Enforcement Program
- Educate members on ethics standards
  - · Ethics hotline
  - · Presentations at conferences, etc.

# Other U.S. Ethics Standard-Setters/Regulators

- · State boards of accountancy
- Public Company Accounting Oversight Board (PCAOB)
- Securities and Exchange Commission (SEC)
- · Government Accountability Office (GAO)
- · Department of Labor (DOL)
- · Banking regulators

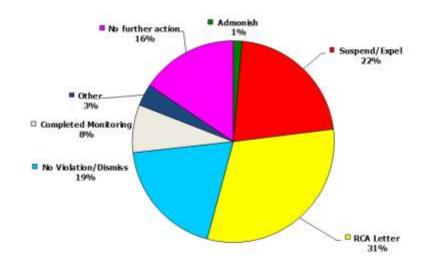
71

## **Ethics Division Case Statistics**

Total cases at 1/1/2010	844
Add: cases opened 2010	370
Less: cases closed 2010	( <u>430)</u>
Total cases at 12/31/2010	784

 Total cases at 12/31/10 includes 177 cases in litigation deferral

# Disposition of Closed Cases - 2010



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### What causes tax claims:

- ▶ Election Errors 37%
- Filing Errors (deadlines) 22%
- Computation Errors 20%
- Engagement Scope 8%
- Misappropriation/Fraud 6%
- Incorrect Advice 5%

# PEEC Projects

### AICPA Ethics Codification Project

The AICPA's Professional Ethics Executive Committee (PEEC) restructured the Institute's ethics standards to improve the AICPA Code of Professional Conduct (Code) so that members and others can apply the rules and reach correct conclusions more easily and intuitively. To achieve this, PEEC restructured the Code into several parts each organized by topic, edited the Code using consistent drafting and style conventions, incorporated a conceptual framework for members in public practice and in business, revised certain Code provisions to reflect the "conceptual framework" approach (also known as the "threats and safeguard" approach) and where applicable, referenced existing non-authoritative guidance to the relevant topic. The Proposed Revised AICPA Code of Professional Conduct was exposed for comment on April 15, 2013. Comments on the Exposure Draft were accepted until August 15, 2013.

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# Codification - Project Objective

#### Old Code

- Was not topically organized and could be difficult to navigate
- Some parts could be written in clearer language
- Goal: Create a more user friendly, intuitively arranged Code that contains all relevant guidance by topic
  - Authoritiave Rules remain unchanged
  - · Heighten awareness of nonauthoritative guidance

# Codification - Project Overview

- Considered the international format (IESBA Code)
  - Part 1 applicable to members in public practice
  - Part 2 applicable to members in B&I
- Other matters considered
  - Impact on state boards that incorporate AICPA rules
  - International convergence
- On-line Codification with enhanced functionality

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## AICPA Code of Professional Conduct

- Principles
  - · Provide framework for the Rules
- Rules
  - · Govern performance of services by members
  - Changes require vote by AICPA membership
- Ethics Interpretations
  - · Provide guidance on scope/application of Rules
  - · Changes require exposure to membership
- · Ethics Rulings
  - Summarize application of Rules and Int. to specific set of facts and circumstances
  - · Changes require exposure to membership

## AICPA Code of Professional Conduct

- Rule 101 Independence
  - · Must be independent of attest clients
- Rule 102 Integrity & Objectivity
  - Must maintain integrity and objectivity in all services, be free of conflicts of interest and not knowingly misrepresent facts or subordinate judgment to others
- Rule 201 General Standards
  - Must exercise competence, due care, adequately plan & supervise, obtain sufficient relevant data
- Rule 202 Compliance with Standards
  - Must comply with professional standards (e.g., audit, tax)

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## AICPA Code of Professional Conduct

- Rule 203 Accounting Principles
  - Must not state f/s are in conformity with GAAP if contain departures from GAAP
- Rule 301 Confidential Client Information
  - · Must not disclose confidential client info
- · Rule 302 Contingent Fees
  - · Prohibits contingent fees for certain attest clients
- Rule 501 Acts Discreditable
  - Must not commit an act discreditable to profession

## AICPA Code of Professional Conduct

- Rule 502 Advertising & Other Forms of Solicitation
  - Must not advertise/solicit clients in misleading or deceptive manner
- Rule 503 Commissions & Referral Fees
  - · Prohibits commissions for certain attest clients
- · Rule 505 Form of Organization & Name
  - Must practice in a form of organization permitted by law/regulation and conform to Council resolution; cannot practice under a misleading firm name

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# Case Study 1 - Phil the Controller

Phil is a CPA and Asst. Controller in a mid-sized company. In January, his friend Mary, Dir. of Sales, takes Phil to lunch to celebrate making their sales goal...Back at the office John, the Accountant, tells Phil that the accounting department has not received all of the December sales contracts. Phil reviews the contracts and agrees that they are indeed short. Phil's boss Leslie happens to walk by and asks what's up. Phil explains the situation, but without letting him finish, Leslie instructs Phil to 'just book it' and walks away. Phil takes a moment to take a deep breath as he watches John go back to his desk to record the transactions. What should Phil do?



"Run it by legal."

"Run it by accounting."

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# **AICPA** conferences

# Case Study 1 - Phil the Controller Applicable Guidance - AICPA Code

Int. 102-1—Knowing misrepresentations in the preparation of financial statements or records.

A member shall be considered to have knowingly misrepresented facts when s/he knowingly—

- Makes/permits/directs another to make, materially false and misleading entries in an entity's f/s or records; or
- Fails to correct an entity's f/s or records that are materially false and misleading when s/he has the authority to record an entry; or
- Signs/permits/directs another to sign, a document containing materially false and misleading information



# **AICPA** conferences

# Case Study 1 - Phil the Controller

Int. 102-4-Subordination of judgment by a member.

- Rule 102 prohibits member from knowingly misrepresenting facts or subordinating his/her judgment when
  performing services.
- If member and his/her supervisor have a disagreement or dispute relating to the preparation of f/s or the recording of transactions, the member should take the following steps to avoid subordination of judgment:
  - Consider whether the entry or failure to record transaction in the records, or (b) the f/s presentation or nature/omission of disclosure in the f/s, as proposed by supervisor, is acceptable alternative and does not materially misrepresent the facts. If matter has authoritative support and/or does not result in material misrepresentation, don't need to do anything else.
- If the member concludes that the financial statements or records could be materially misstated, the member should make his or her concerns known to the appropriate higher level(s) of management within the organization (for example, the supervisor's immediate superior, senior management, the audit committee or equivalent, the board of directors, the company's owners). The member should consider documenting his or her understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.
- If, after discussing his or her concerns with the appropriate person(s) in the organization, the member concludes that appropriate action was not taken, he or she should consider his or her continuing relationship with the employer. The member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's (former employer's) external accountant. In this connection, the member may wish to consult with his or her legal counsel.
- The member should at all times be cognizant of his or her obligations under interpretation 102-3



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# **AICPA** conferences

# Case Study 1 - Phil the Controller

The member should take the following steps (cont'd):

- If the member concludes that the f/s or records could be materially misstated, s/he should make his/her concerns known to the appropriate higher level(s) of management (e.g., supervisor's immediate superior, senior management, audit committee, the board of directors, owners).
  - Consider documenting his/her understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.
- If, after discussing concerns with appropriate person(s) in company, member concludes appropriate action was not taken, s/h should consider his/her continuing relationship with employer.



# **AICPA** conferences

# Case Study 1 - Phil the Controller

The member should take the following steps (cont'd):

- Member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's external accountant.
  - Member may wish to consult with his or her legal counsel.
- Member should at all times be cognizant of his/ her obligations under Int. 102-3
  - In dealing with his/her employer's external accountant, member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts.



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## **AICPA** conferences

# Case Study 2 - Lori the Controller

- Lori is Controller of ABC Co., a troubled company with < 6 months of cash left and liabilities mounting
- XYZ Co. is performing due diligence and plans to acquire ABC and save it from bankruptcy
- XYZ's consultants prepared pro forma financial projections and submitted them to XYZ but Lori believes them to be overstated (Lori was not involved)
- Lori is not certain they are materially misstated but suspects they might be
- Lori wants to be fair to XYZ but also wants to be fair and loyal to her employer, colleagues and ABC's shareholders
- What should Lori do?



# **AICPA** conferences

# Ethical Decision-Making Model

#### Step 1. Recognize the Ethical Issue

 As controller Lori is torn between helping her employer and ensuring XYZ has complete and accurate information. Lori is experiencing a conflict: loyalty to her employer vs. full/fair disclosure to XYZ

#### Step 2. Gather the Critical Facts

- It is clear that Lori does not have all of the facts-whether the information is material to the ABC financial projection is a critical piece of data. Lori should determine this before proceeding.
  - It is critical because if the financial projections are overstated by a miniscule amount, will likely have little or no bearing on XYZ's decision.



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# **AICPA** conferences

# Ethical Decision-Making Model

### Step 3. Identify the Stakeholders

- Let's assume Lori takes further action and determines that the projection is overstated by a material amount
- Next, Lori should identify the stakeholders-i.e., those who will benefit or be harmed by her decision and actions
  - ABC and its owners/employees, XYZ and its owners/employees; creditors of ABC, customers/vendors of ABC and XYZ; XYZ's consulting firm



# Ethical Decision-Making Model

#### Step 4. Consider Alternatives

- Option 1. Arrange a meeting with XYZ to discuss concerns
- Option 2. Arrange a meeting with the ABC's CFO to discuss concerns
- Option 3. Send an anonymous letter to XYZ's consulting firm describing concerns
- Option 4. Take no action



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# **AICPA** conferences

# Ethical Decision-Making Model

#### Step 5. Consider the Effect on Stakeholders

- Option I would involve bypassing her superior at ABC, which would likely jeopardize/damage her employment situation
- By avoiding discussion with the CFO of ABC, Lori does not allow the CFO the chance to respond to her concerns
- On the other hand, if the financial information is incorrect, she may help XYZ avoid a costly error-their shareholders, creditors, and other stakeholders would likely benefit from her disclosure. It may also prevent future litigation against ABC for providing misleading information to XYZ
- However, without the acquisition, ABC would likely file for bankruptcy protection and her colleagues would be out of work



# Ethical Decision-Making Model

#### Step 5. Consider the Effect on Stakeholders

- Option 2 allows Lori to air her concerns within ABC and gives her superior the opportunity to respond before deciding whether to go to anyone else
- On the other hand, if meeting with the CFO is unsatisfactory and she still believes XYZ would be relying on inaccurate financial information, she would have delayed disclosure to XYZ
- Option 3 is similar to Option 1 since it involves Lori reporting her concerns to a party outside ABC
- However, the consultants will likely approach ABC to obtain more information and could affect the transaction since it will raise concerns about ABC's integrity



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# **AICPA** conferences

# Ethical Decision-Making Model

### Step 5. Consider the Effect on Stakeholders

- . Option 4, which would maintain the status quo-
- XYZ may purchase ABC on the basis of what they believed to be true and reliable information
- If the information was misleading, XYZ's purchase of ABC may cause its owners/employees to suffer financial loss
- This option could possibly result in litigation between the parties and between XYZ and its consultants.
- XYZ or its consulting firm may bring ethics charges against Lori and the CFO of ABC



# Ethical Decision-Making Model

#### Step 6. Consider Your Comfort Level

- If Lori had to discuss her decision in public, would she be concerned about how it reflects on her ethics?
- Regarding Options 1 and 3, would Lori feel embarrassed that she did not have the nerve to raise these concerns within ABC before going outside the organization?
- Is Lori very uncomfortable with Option 4-doing nothing?
- Does Lori feel she could explain taking Option 2; does this feel like a correct decision-at least at this time?
  - Remember: Option 2 may be only a partial solution; depending on her meeting with the CFO, she may need to take additional action



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# **AICPA** conferences

# Ethical Decision-Making Model

#### Step 7. Consider Rules, Regulations, and Laws

- Are these options consistent with applicable professional ethics rules, regulations, and laws?
- Do not want to take a course of action inconsistent with the profession's rules of conduct
- Lori must weigh her ethical requirements against all proposed alternative actions
  - For example, would the ethics rules allow her to divulge information to outside parties in these circumstances?
- If uncertain of the professional, regulatory, or legal implications of her actions, Lori should seek appropriate counsel

What's the right decision???



# Ethical Decision-Making Model

#### Step 8. Make a Decision

- So Lori makes her decision-and it is Option 2-she will meet with the CFO, explain her concerns, and see where that leads
- Generally, in these situations you should exhaust all of your options and gain as much information as possible before you consider disclosing information to outside parties
- Of course, if that meeting does not resolve the issue, Lori has some more thinking to do!



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# **AICPA** conferences

# Ethical Decision-Making Model

#### Step 9. Document Your Efforts

 Once Lori has made a decision, and while it is fresh in her mind, she should consider documenting her understanding of the facts, the names of any persons with whom she consulted and their professional affiliations (if relevant), and her decision

#### Step 10. Evaluate the Outcome

 Once time has passed, it may be instructive for Lori to reevaluate the decision and consider whether, given the outcome of events, she would have done anything differently



# Network Firms

- Network = association of firms that cooperate to enhance capabilities to provide services and share one or more of the following:
  - Common brand name as part of the firm name
  - Common control
  - Profits or costs excludes costs of operating association, audit methodologies, manuals, training, immaterial costs
  - Common business strategy ongoing collaboration amongst firms, responsibility for implementing strategy, accountability



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# **AICPA** conferences

#### Network Firms

- Network firm definition (con't)
  - Significant part of professional resources
  - Common QC policies/procedures firms required to implement, monitored by association
- Definition is consistent with international (IESBA) standard



#### **Network Firms**

- If part of a network, must be independent of all other network firms' audit/review clients
- Network firms cannot have following relationships with audit/review clients of other network firms:
  - Firm cannot have financial interests (does not extend to individuals in firm unless they work on or can influence the engagement);
  - Provide prohibited nonaudit services to other network firms' audit/review clients;
  - Have partners/employees serve as directors/ officers



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# **AICPA** conferences

#### Network Firms

- For all other attest clients consider threats firm has reason to believe may be created by other network firms
  - If threats are significant, apply safeguards to reduce threat to acceptable level
- If subset of firms in association share network firm characteristics (e.g., common brand name), only that subset is a network
- Effective for engagements covering periods beginning on or after July 1, 2011.



# Rule 301 - Confidential Client Information Categories of Information

- Client information that is in the public domain
  - Not considered confidential; client consent not required
- Client information not in the public domain
  - Considered confidential; client consent required even if information is de-identified
- Other information in the member's possession
  - Any information relating to the member's judgments, decisions, and actions; client consent not required
    - e.g., actual/budgeted audit hours by class of audit team member, risk assessments, materiality levels



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# **AICPA** conferences

### Clarifications to Interpretation 101-3, Nonattest Services

General Activities that would impair independence:

Establishing or maintaining internal controls, including performing ongoing monitoring activities for a client.

- "Designing and implementing" clearer than "establishing"
- Accepting responsibility for designing, implementing and maintaining internal control..."
  - Clarify that activities under permitted nonattest services can be provided even if may be viewed as "establishing" a control for client



# Clarifications to Interpretation 101-3, Nonattest Services

- Management "functions" vs. "responsibilities"
  - General Req't no. 1: The member should not perform management functions or make management decisions for the attest client.
  - Management responsibilities is clearer than management functions
    - Includes guidance in IESBA Code on "management responsibilities"
    - General activities merged into examples of management responsibilities



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# **AICPA** conferences

### Clarifications to Interpretation 101-3, Nonattest Services

- Incorporate non-authoritative guidance (FAQs)
  - Clarify certain services performed as part of the attest engagement would not be nonattest services (i.e., not subject to Int. 101-3)
  - Independence not impaired if member prepares a reconciliation (e.g., bank) that identifies reconciling items for client's evaluation



# Int. 101-19, Permitted Employment With Client Educational Institution

- Limited exception to prohibiting employment with client
  - PEEC believes in public interest for members to offer their expertise by serving as adjunct faculty members
- Permits members to serve as adjunct faculty at an educational institution client provided member -
  - Does not hold a key position
  - Does not participate on the attest engagement team,
  - Is not in a position to influence the attest engagement,
  - Is employed on a part-time and nontenure basis, and
  - Does not assume management responsibilities



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# **AICPA** conferences

#### Definition: Member in B & I

Member in business and industry – A member employed or engaged on a contractual basis or volunteer basis in an executive, staff, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, regulatory bodies, or professional bodies. This does not include members while engaged in the practice of public accounting.

 Allows for the fact that a member in public practice may simultaneously also be a member in B&I (e.g., serve as volunteer board member)



# 501-9—Confidential information obtained from employment

- Applies to all members
- Covers confidential information pertaining to a current or previous employer as well as entities for which member works in volunteer capacity
- Confidential employer information = any proprietary information pertaining to the employer that is not known to be in the public domain or available to the public and is obtained as a result of an employment relationship



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# **AICPA** conferences

# 501-9—Confidential information obtained from employment

- A member would be considered to have committed an act discreditable if the member uses any confidential information acquired as a result of employment relationships without consent of the employer unless legal or professional responsibility exists
  - Not intended to prohibit member from using expertise gained through prior employment relationships



# 501-9—Confidential information obtained from employment

- Disclosure is permitted to—
  - Initiate a complaint with, or respond to inquiry made by disciplinary or regulatory body;
  - Protect member's interests in legal proceedings;
  - Report concerns on questionable accounting, auditing, or other matters to employer's confidential complaint hotline or those charged with governance.
  - Obtain financing with lenders; deal with vendors, clients, customers, etc. on behalf of employer



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# **AICPA** conferences

#### 501-10-Financial interests

- Addresses threats to integrity and objectivity due to a member in B&I or their immediate/close family member's financial interest in or other relationship with employer
  - Does not prohibit members from having financial interests in employer
- Examples of circumstances that may cause threats:
  - Holding financial interest in employer and value is directly affected by decisions made by member
  - Being eligible for profit/performance-related bonus and value is directly affected by decisions made by member
  - · Qualifying for share options if certain targets are achieved



#### 501-10—Financial interests

- Significance of any threats should be evaluated and safeguards applied, when appropriate and reasonable, to eliminate the threat or reduce it to an acceptable level
- In evaluating significance of threat, member should evaluate nature and significance of financial interest
- Examples of safeguards include:
  - Consultation with relevant professional bodies
  - Up-to-date education on ethical issues and legal restrictions



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# **AICPA** conferences

#### 501-10-Financial interests

- Examples of safeguards include (cont'd):
  - Policies and procedures for a committee independent of member to determine level or form of remuneration
  - Consultation with superiors and/or those charged with governance
  - Disclosure of relevant interests and any plans to trade in relevant shares to those charged with governance
  - Internal and external audit procedures
  - Current knowledge of regulations, e.g., insider trading and fraud



501-11 - False, misleading, or deceptive acts in promoting or marketing professional services

- A member in B&I would be considered to have committed an act discreditable if the member promotes or markets their abilities to provide professional services or makes claims about their experience or qualifications in a manner that is false, misleading, or deceptive
- Includes any claim/representation that would cause a reasonable person to misunderstand or be deceived
- Includes representation about CPA licensure or other professional certification or accreditation

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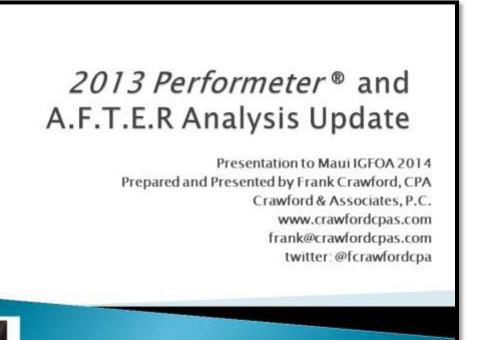
#### The Torkildson Katz Firm

Founded more than 60 years ago, the firm originally concentrated on labor law, representing management. Today, labor and employment law is still the firm's largest practice area, but Torkildson Katz offers a wide range of legal services to business clients: corporate law, tax law, tax litigation, real estate law (including zoning, land use, and construction matters as well as real estate financing), contracts, immigration law, mediation and arbitration, health care law, partnership and LLP/LLC law, bankruptcy matters (representing creditors), insurance law, and business/commercial litigation. The firm's business clients range from individual sole proprietors to some of the world's largest multi-national corporations. Visit the Torkildson Katz website at www.torkildson.com

#### Ronald I. Heller phone 808 523 6000 fax 808 523 6001

Ronald I Heller practices in the areas of tax litigation, business/commercial litigation, taxation and business law, including the defease of CPA malpractice claims. He received both JD and MBA degrees from the University of Michigan, and is a licensed Certified Public Accountant as well as an attorney. Mr. Heller is a Fellow of the American College of Tax Counsel, and a past Chair of the Tax Section of the Hawaii State Bar Association. He has litigated tax cases at the county, state, and federal levels. See, e.g., Air Tour Acquisition Corp. v. US, 781 F. Supp 669 (D Hawaii, 1991), US v. Vellalos, 780 F. Supp 705 (D Hawaii 1992), affirmed two published opinion 990 F2d 1265 (9th Cir. 1993). He has also handled a wide variety of other business disputes in litigation or arbitration proceedings. In 2005, he was appointed by Governor Linda Lingle to the Tax Review Commission of the State of Hawaii, and was subsequently elected Vice Chairman of the Commission. In 2004, Mr. Heller received the "Small Business Champion" award for the State of Hawaii from the National Federation of Independent Business, then went on to win the Small Business Champion award for the 7-state Southwest U.S. region. He has served on the Board of Directors of the Hawaii Society of Certified Public Accountants since 1988, and served as the Society's President for 1994-95. Mr. Heller served as one of the two Hawaii representatives on the Council of the American Institute of Certified Public Accountants in 1994-96 and 2002-04, and was elected again in 2011 Mr. Heller has also served as an appointed member of the AICPA's national 'committee on Accountants' Legal Limbility. He has served as a member of the Panel of Arbitrators (Commercial) of the American Arbitration Association, and a court-appointed arbitrator in the Court-Assexed Arbitration Program of the Circuit Court of the First Circuit, State of Hawaii. He has been an Adjunct Professor at the University of Hawaii School of Law, and has taught a number of continuing professional education courses for attorneys, CPAs, and others. Mr. Heller has been listed in The Best Lawyers in America for more than 15 years. His email address is the SENDING E-MAIL DOES NOT CREATE AN ATTORNEY-CLIENT RELATIONSHIP.

### Attachment 7: Slides—FY13 Performeter Updates, Frank Crawford



# Topics for today

- A brief review of what the Performeter and A.F.T.E.R Analysis is (and what it is not...)
- Review of factors and circumstances contributing to the 2013 scores and causes
- Provide an update on the most recent 2013 Performeter scores and A.F.T.E.R findings for 2013



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# A brief review...

- The Performeter measures the financial health and success of a government using a scale that all users (including decision makers) can understand, 0-10, with 0 = 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



# A brief review...

The A.F.T.E.R. Analysis is very simple analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions; this analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.



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#### Factors and Circumstances for 2013

- For most, the fiscal year ending September 30, 2013 was a relatively stagnant year, without much change in the overall scores. However, a few governments score slightly increased, some governments slightly decreased, while others virtually stood at the exact same score as their prior year.
  - One thing that was most noticeable, was the impact of the rise in the fair value of investments. For governments with compact trust fund monies, investment income and the change in fair values of those investments were in the millions.
  - A few governments are continuing expense reductions that were instituted in prior years
  - Pension plan or social security entitlement program woes continue for nearly all, some to a much greater extent than others
  - Fund balance and/or deficits and net position and/or deficits increased for some, decreased for others, with a few remaining relatively stagnant



### Factors and Circumstances for 2013

- Most governments, even when considering component units, are receiving unmodified (formerly known as unqualified or clean opinions) on their financial statements
- A few are even receiving unqualified opinions on their compliance with federal program monies (Single audit)
- A few even have no questioned costs, or very little questioned costs
- What we used to refer to "net assets" is now referred to as "net position", so don't get confused



6

### THE PERFORMETER

Current Scores Based on FY13 Audit Data

#### A 7-10 SCORE INDICATES:

- repetitive positive performances for several years
- · sufficient cash flows to pay vendors and employees
- · relatively low tax and debt burdens per capita
- · ability to consistently live within their means

#### A 4-6 SCORE INDICATES:

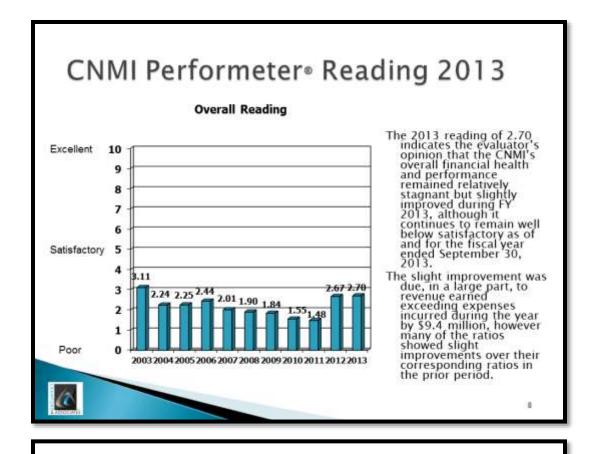
- · lower than satisfactory levels of reserves
- satisfactory capital asset useful lives remaining
- moderate levels of tax and debt burdens per capita
- and the beginnings of cash flow issues that often delay on-time payments to vendors

#### A 0-3 SCORE INDICATES;

- significant unrestricted net position deficit and/or a deficit in their general fund unassigned fund balance
- · a significant tax and/or debt burden per capita
- · severe cash flow issues



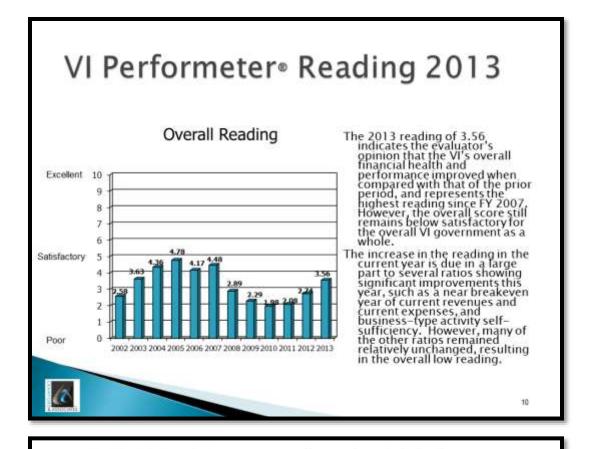
WITH VAT



# A.F.T.E.R. CNMI 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opnion Quelifications/Exceptions	9	10	4	2	1	6	3	
Number of Major Pederal Program Qualifications/Exceptions	7	6	- 5	3	.5	8	5	7
Number of F. S. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	2 14 0 26	10 1 11	15 1 16	18 1 19	15 1 16	19 3 22	2 18 - 20	2 11 0 13
Percentage of Findings Repeated	75%	82%	62.5%	78.9%	100%	72.7%	72.7%	300%
Number of A-133 Findings A. Internal Control and Compliance B. Internal Control Only C. Corrollance Only TOTAL	36 : : :36	42 - - - 42	41	37 - : 37	37 - - 37	22 - 3 25	28 - ± 28	0 29 1 30
Percentage of A-133 Findings Repeated	69.4%	46%	30%	75.7%	51.4%	36%	36%	50%
Number of months V/E the F.S. were Released	9	- 6	9	0	20	20	.17	- 9
Number of Qualifications/Exceptions Related to C.U.	3		4	2	1	6	2	7
\$ of Questioned Costs-Current Year	\$1,468,273	\$2,213,809	\$7,165,461	\$4,817,001	\$5,483,038	\$4,223,661	\$6,620,692	\$10,288,89
\$ of Questioned Costs-Cumulative	\$5,035,505	87,249,314	\$7,249,314	\$19,231,836	\$24,714,864	\$28,938,525	\$35,559,217	\$45,948,10
\$ of Questioned Costs Resolved - Current Year	80	90	90	80	50	60	50	\$0

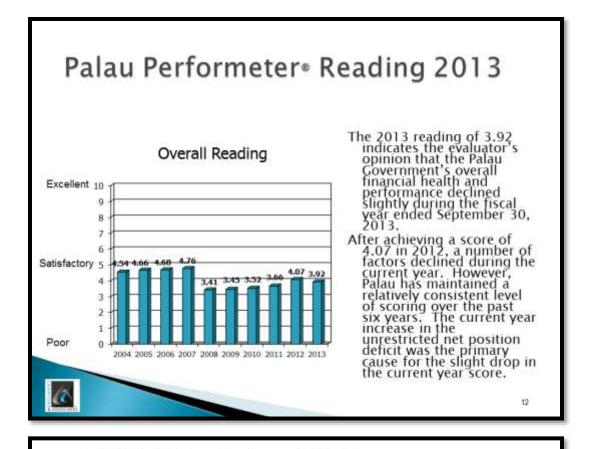




# A.F.T.E.R. Virgin Islands 2013

	2906	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	2	9	7	8	9	9.	. 2	6
Number of Major Federal Program Qualifications (Exceptions	6	n	7	8	- 6	5	2	3
Number of F.S. Findings A. Internel Control and Compliance B. Internel Control Only C. Compliance Only TOTAL	3 0 1 4	0 11 1 12	1 10 0 11	1 10 9 11	1 8 0 9	1 7 0 8	9 0	0 8 0 8
Percentage of Findings Repeated	Unable to determine	Unable to determine	100% (estmate)	100% (estmate)	#00% (adambio)	100% (estimate)	350% (estimate)	300% (estinate)
Number of A-133 Findings A. Sistemal Control and Compliance B. Internal Control Only C. Compliance Cnly TOTAL	22 D Q 22	50 0 0 9	50 0 0 0 9	12 34 0 46	26 0 0 20	7 19 9 26	13 - - 13	14 0 0 14
Percentage of A-133 Findings Repeated	Unable to determine	Unable to determine	58%	56.5%	65.4%	Unable to determine	Unable to determine	Unable to determine
Number of months after Y/E the F.S. were Released	30	25	24	22	26	24	15	9
Number of Qualifications/Exceptions Related to C.U.	5	- 6	3	3	4	3	5	.4.
\$ of Questioned Costs-Current Year	\$3,829,679	\$3,484,494	\$3,487,561	\$57,293,304	\$744,885	\$2,490,612	\$3,128,464	\$0
§ of Questioned Costs-Cumulative	Unable to determine	Unable to determine	Unable to determine	\$60,104,177	\$59,957,932	\$3,235,497	\$5,730,775	60
of Questioned Costs Resolved – Current Year	Unable to determine	Unable to determine	\$6,276,416	\$8,944,995	\$891,130	557,721,390	\$833,186	\$5,730,77

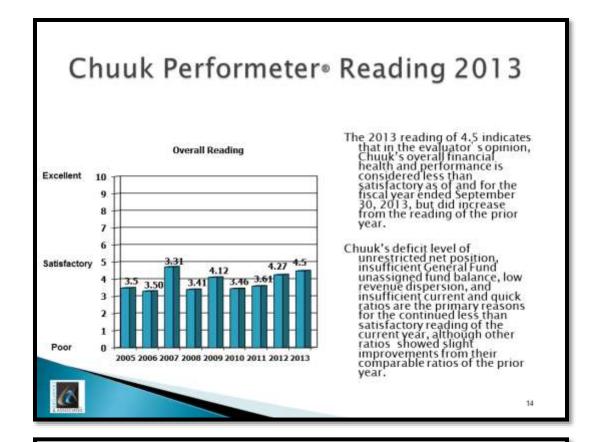
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# A.F.T.E.R. Palau 2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	άE	a	· o	0	0	0	0	0	.0
Number of Major Federal Program Qualifications/Exceptions	9	4	3	6	8	8	7	:7	- 72
Number of F.S. Findings A. Internal Control and Compilance B. Internal Control Crity C. Compilance Crity TOTAL	5. 6. 9. 12	5 8 0 13	0 11 2 14	3 3 6	0 8 4 12	0 7 3 10	0 5 9 5	D 3 8 11	0 3 9 2
Percentage of Findings Repeated	30%	30.8%	71%	33%	25%	80%	90%	80%	0%
Number of A-133 Findings A. Infernal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	31 0 0 31	15 0 0 15	7 5 0	35 1 0 17	33 0 0 2 33	25 2 1 28	5 1 2 7	13 0 0 23	19 0 0 19
Percentage of A-133 Findings Repeated	32.3%	15.2%	67%	39%	40%	60.1%	57%	57%	47%
Number of months after 1/E the F.S. were Released	90	9	9	9	34	22	37	13.9	30
Number of Qualifications/Exceptions Related to C.U.	0	0	0	.0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$331,204	\$99,755	953,691	\$577,977	\$967,990	\$1,668,099	\$336,302	\$763,348	\$183,006
# of Questioned Costs-Cumulative	\$1,184,207	#993,451	\$801,692	\$801,692	\$2,352,870	\$3,214,066	\$3,550,368	\$2,754,296	\$2,690,16
of Questioned Costs Resolved – Current Year	\$5,374	\$290,311	\$255,650	\$1,379,669	\$0	\$557,949	\$557,949	\$1,559,418	\$247,141

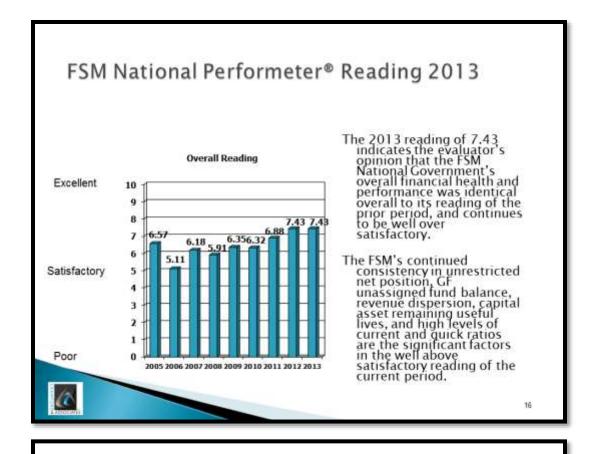




# A.F.T.E.R. Chuuk 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications, Exceptions	14	11	7	3	1	1	1	2
Number of Major Federal Program Qualifications/Exceptions	4	1	a	1	1	G	0	1
Number of F. S. Findings A. Internal Control and Congliance B. Internal Control Only C. Congliance Only 1077AL	0 17 9 17	0 11 2 13	0 2 0 2	0 3 0	0 1 0	0 5 0 5	0 4 0 4	0 5 Q 5
Percentage of Findings Repeated	64.7%	18%	50%	67%	0%	20%	50%	60%
Number of A-133 Fridings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	14 0 9 14	8 0 0/8	1 0 1 2	7 0 9 2	1 0 0 1	1 0 0	1 0 0	3 1 0 4
Percentage of A-133 Findings Repeated	50%	7%	50%	50%	100%	300%	100%	25%
Number of months Y/E the F.S. were Released	9.5	9	- 5	9	9	-9	9	9
Number of Qualifications/Esceptions Related to C.U.	2:	2	-1	1	(1)	1.	0	0
§ of Questioned Costs-Current Year	\$958,987	\$1,578,943	\$11,539	\$0	50	50	50	\$194.23
§ of Questioned Costs-Cumulative	89,423,929	89,272,323	\$2,056,336	\$1,055,719	\$0	\$0	90	\$194.2
\$ of Questioned Costs Resolved – Current Year	\$0	\$1,730,549	\$7,227,506	\$1,000,607	\$1,055,719	\$0	80	\$0

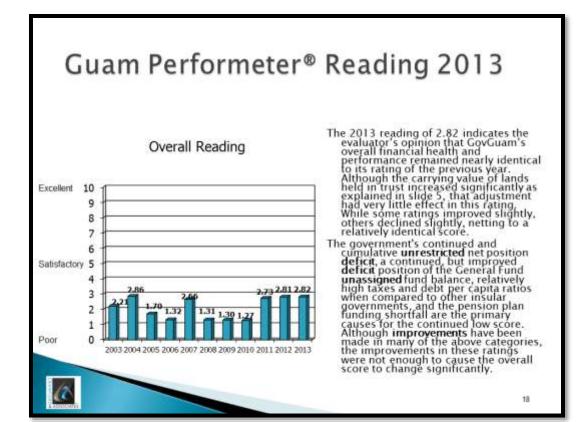




# A.F.T.E.R. FSM National 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of P.S. Opinion Qualifications, Exceptions	.6	- 8	30	0	0	0	0	0
Number of Major Federal Program Qualifications, Exceptions	7	-34	:41	3	4	3	3	3
Number of P.S. Pindings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	5 6 0 11	0 12 1 13	0 3 0 3	0 4	0 3 0 3	0 2 0 2	0 2 0 2	0 1 0 1
Percentage of Findings Represted	45.5%	36%	0%	25%	300%	50%	100%	100%
Namber of A-133 Prindings A. Internal Control and Complience B. Internal Control Only C. Compliance Only TOTAL	16 0 1 17	14 0 0 14	15 0 0 15	20 0 0 2 29	12 0 0 12	12 0 0 12	9 0 0 9	7 2 0 9
Percentage of A-133 Findings Repeated	0%	0%	0%	70%	58%	41.7%	77.7%	66.7%
Number of months Y/E the F.5, were Released	10	9	9	9	.9	(9)	9	. 9
Number of Qualifications/Exceptions Related to C.U.	2	.2	ंह	0	.0	0	0	0
\$ of Questioned Costs -Current Year	\$1,622,274	14,139,46	\$2,372,041	\$2,964,400	\$2,049,222	\$301,014	\$709,783	\$2,665,578
§ of Questioned Costs-Cumulative	\$4,639,055	\$6,832,415	\$7,115,095	\$6,079,078	\$6,106,882	\$5,211,836	\$3,060,019	\$3,642,79
\$ of Questioned Costs Resolved - Current Year	\$2,681,695	\$1,946,005	\$2,095,841	\$3,993,937	\$2,021,418	\$1,196,066	\$2,861,600	\$2,082,80

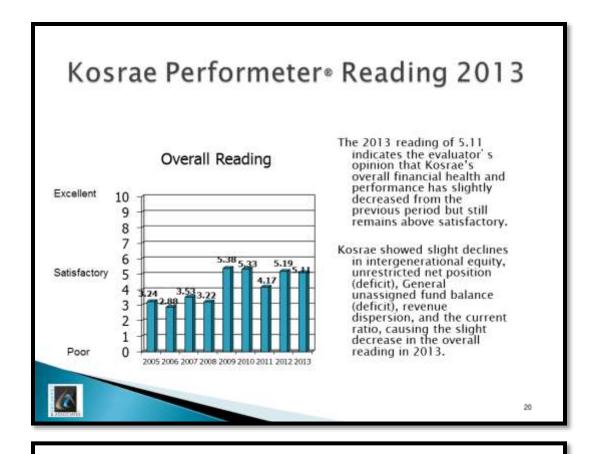




# A.F.T.E.R. Guam 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	2	0	0	0	Q.	a	a	ū
Number of Major Federal Program Qualifications/Exceptions	13	10	10	9	. 6	3	5	+
Number of F.S. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	5 0 2 0	0 1 1 2	0 0 0 0	0 0 0 0	0 3 0 3	0 6 0 6	0 4 0 4	0 3 9 3
Percentage of Findings Repeated	0%	50%	0%	0%	0%	0%	300%	200%
Number of A-133 Fedings A. Shtemal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	35 0 0 0 2 35	24 0 0 2 24	71 0 9 21	10 0 0 10	6 0 0 6	3 0 0 3	3 0 3	5 0 0 5
Percentage of A-133 Findings Repeated	8.6%	2.9%	4.7%	10%	16.7%	33,3%	0%	20%
Number of months V/E the F.S. were Released	9	9	9	9	9	9	9	9
Number of Qualifications/Exceptions Salated to C.U.	1	0	0	0	a	0	0.0	0
\$ of Questioned Costs-Current Year	82,773,997	\$2,802,408	\$1,881,435	80	\$3,734	\$41,790	\$35,293	\$10,170
\$ of Questioned Costs-Cumulative	\$5,760,688	\$7,084,374	\$7,637,719	\$4,616,404	\$2,313,561	\$1,426,837	\$45,370	\$53,47
\$ of Questioned Costs Resolved - Current Year	\$7,522,338	\$1,478,722	\$1,128,090	\$3,221,315	\$2,306,577	\$926,514	\$1,418,760	\$10,077

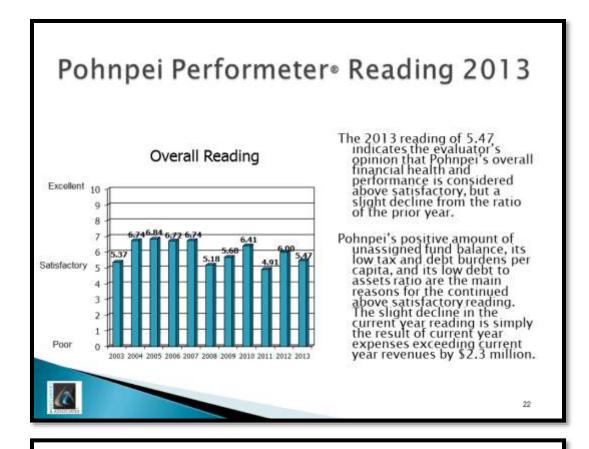




# A.F.T.E.R. Kosrae 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	a	0	0	a
Number of Hajor Federal Program Qualifications, Exceptions	3	2	. 2	0	σ	0	0	a
Number of F.S. Findings A. Internal Control and Compliance	-0	0:	0	0	· a	Ø:	. 0:	a
B. Internal Control Only	0 9 0	3 1	0 2 0 2	0 2 0 2	- 1	1	1	0 1
C. Compliance Only	0	1	0	0	0 1	0	- 2	0
TOTAL	8.5	4	1	2	1	1	1	1
Percentage of Findings Repeated	25%	-0%	50%	300%	0%	100%	300%	300%
Number of A-133 Findings								
A. Internal Control and Compliance	8 0	8	2	0	0	0	100	0
B. Internal Control Only	0	0 0 8	0 0 2 2	0	a g	0	0	0
C. Compliance Only	0 8	2	0	0	0	0	2	.0
TOTAL.	8	8	2	0	· a	0:	10	.0
Percentage of A-133 Findings Repeated	62.5%	38%	50%	0%	0%	0%	0%	0%
Number of months Y/E the F.S. were Released	9	9:	9.	9	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	.0	0	0	ū	a	0	0	0
& of Questioned Costs Current Year	\$594,514	\$162,753	80	\$0	\$0	\$0	(42	60
\$ of Questioned Costs-Cumulative	\$1,506,567	\$1,553,913	\$463,367	90	\$0	\$0	\$0	\$0
\$ of Questioned Costs Resolved - Current Year	\$63,682	\$115,407	\$1,205,963	8463,367	80	\$0	\$0	\$0

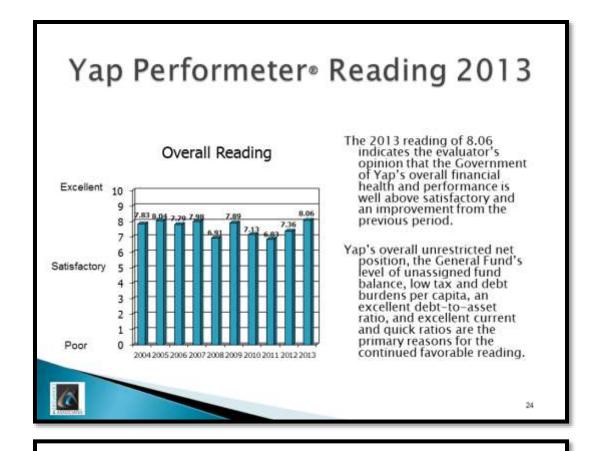




# A.F.T.E.R. Pohnpei 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications, Exceptions	0	0	0	9	0	0	0	0
Number of Major Rederal Program Qualifications/Exceptions	2	2	0	0		0	0	1
Number of F.S. Findings A. Internal Control and Compilence B. Internal Control Only C. Compilence Only TOTAL	0 0 0	0 0 0 0	0 0 9 0	0 0 0 0	0 0 0	0 0 0	0 0 0 0	0 1 0 1
Percentage of Findings Repeated	0%	0%	0%	0%	0%	0%	0%	0%
Number of A-133 Findings A. Sistemal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	6 0 0	4 0 0 4	2 0 0 2	1 0 0 1	1 0 0 1	1 0 0 1	1 0 0 1	3 1 0 4
Percentage of A-133 Findings Repeated	0%	17%	50%	100%	100%	100%	100%	25%
Number of months Y/E the F.S. were Released	9	9	9	. 9	9	9//	9	9
Number of Qualifications/Exceptions Related to C.U.	0	0	0	.0	0	0	0	0
§ of Questioned Costs-Current Year	\$0	\$0	60	90	\$0.	90	\$0	\$121,68
\$ of Questioned Costs-Cumulative	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$121,68
of Questioned Costs Resolved – Current Year	\$80,721	\$0	\$0	\$0	\$0	90	\$0	10



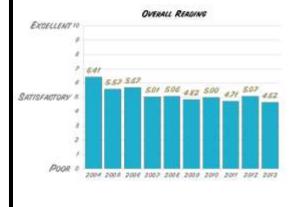


# A.F.T.E.R. YAP 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	1	2	2	0	ū	1	2	2
Number of Major Federal Program Qualifications, Exceptions		4.	5	4	-5	5	. 5	2
Number of F. S. Findings A. Dritamal Control and Compliance B. Shtemal Control Grily C. Compliance Only TOTAL	4 2 0 6	0 1 1	0 3 9 3	0 4 0 4	0 2 0 2	0 3 0 3	0 4 9 4	0 1 0 1
Percentage of Findings Repeated	66.7%	17%	33%	50%	100%	100%	0%	0%
Number of A-133 Prindings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	5 2 0 7	11 0 0 11	111 0 0 111	0 2 5 7	4 0 0	0 0 0 3	2 0 0 2	3 0 0 2
Percentage of A-133 Pindings Repeated	0%	14%	18%	57%	100%	67%	30%	0%
Number of months after Y/E the F.S. were Released	9	9	9	.8	8	6	9	. 9
Number of Qualifications/Exceptions Related to C.U.		1	2	0	ū	1	2	2
\$ of Questioned Costs-Current Year	\$576,358	\$1,282,246	\$1,962,194	\$376,295	\$150,534	\$222,065	\$3,660	\$45,776
s of Questioned Costs- Cumulative	\$869,278	\$2,036,449	13,376,248	\$2,494,249	\$1,729,116	\$818,483	\$822,143	\$364,250
\$ of Questioned Costo Resolved - Current Year	\$D	\$115,079	\$552,389	\$881,936	9915.667	\$1,115,666	60	\$3,660







The 2013 reading of 4.62 indicates the evaluator's opinion that the American Samoa Government's overall financial health and performance decreased slightly during the year, to a level just below the satisfactory reading.

The current year reading is a result of some ratios improving, such as the decrease in the size of the General Fund unassigned fund balance deficit, and the rise in both the current and quick ratios, while others, such as the small increase in unrestricted net position and the remaining useful lives of capital assets, declined when compared with the prior year. Overall however, the current year reading is relatively consistent with the readings of the past several periods.



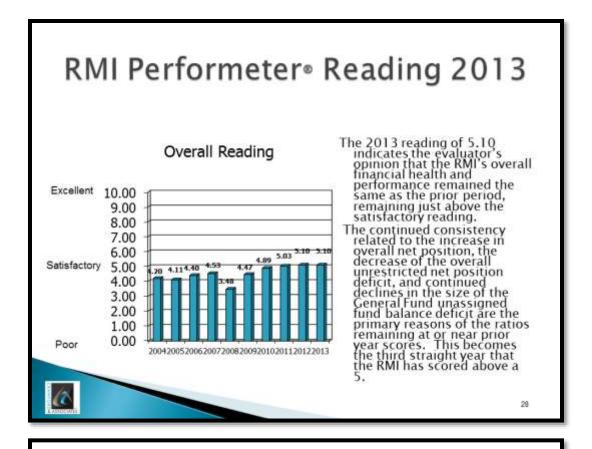
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# A.F.T.E.R. ASG 2013

	2005	2006	2007	200#	2009	2010	2011	2012	2013
Number of F.S. Opmon Qualifications/Exceptions	2	27.	3	2	6	200	20	1	\$
Number of Major Federal Program Qualifications, Exceptions	13	9		8	18	38	15		11
Number of P.S. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	7 0 2 2	7 0 9 7	7 0 0 2 7	7 0 0 7	6 0 0 0	6 0 0 6	0 3 3 6	2 3 0 5	3 4 0 7
Percentage of Findings Repeated	100%	100%	100%	100%	500%	100%	83%	80%	57%
Number of A-133 Pindings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only 1017AL	20 0 9 20	11 0 2 11	15 0 0 15	13 0 0 2 13	15 0 0 15	6 0 0 0	5 0 1 6	11 7 0 18	\$ 5 0 10
Percentage of A-133 Findings Repeated	Unable to determine	Unable to determine	Unable to determine	200%	Unable to determine	100%	50%	22%	90%
Number of months after Y.E. the F.S. were Released	7	12	11	9	9	107	n	11	9
Number of Qualifications/Exceptions Related to C.U.	1	3	3	1	1	10	0	a	1
§ of Questioned Costs-Current Year	\$42,673	\$102,041	\$297,009	\$100	93	\$1,785	82,377,962	\$2,606,062	\$0
\$ of Questioned Costs-Cumulative	Unable to determine	Unable to determine	Unable to determine	Unable to datarmina	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Unable to determine
6 of Questioned Costs Resolved – Current Year	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Linable to determine	Unable to determine	Unablet

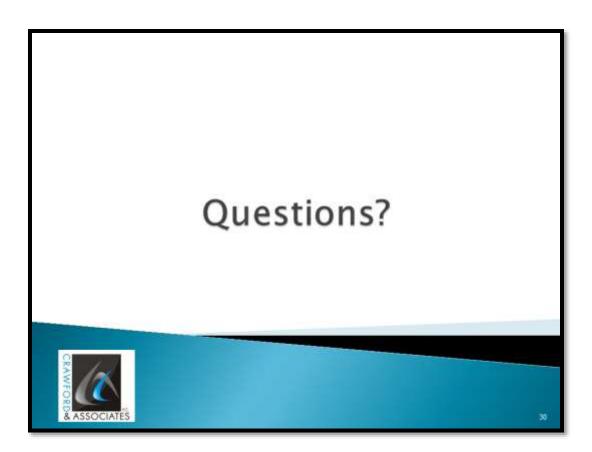


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# RMI A.F.T.E.R. 2013

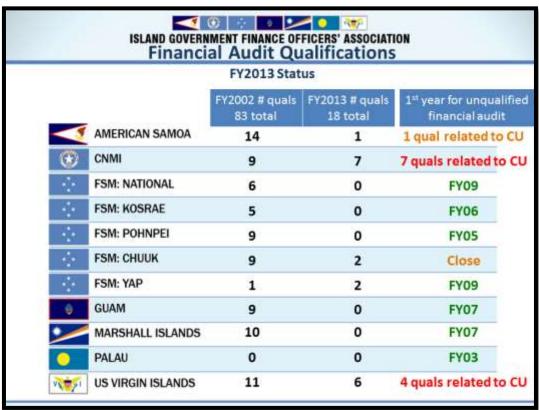
	3003	2006	2007	2008	2009	2010	7011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	ž:	2	0	0	0		.0		.0
Number of Major Federal Program Qualifications (Exceptions	1	3	1	1	1	- 1	3	2	2
Number of F.S. Findings A. Internal Control and Coepliance B. Internal Control Only C. Conplance Only TOTAL	2 1 2	0 0 0 0	5 3 8 3	g 1 0 1	0 1 8 1	1 4 2 5	0 2 0 1	:	0 7 1 8
Percentage of Findings Repeated	100%	7%	0%	9%	016	20%	30%	75%	757%
Number of A-133 Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTA.	10	90 0 2 13	12 0 0 12	0 3 2 4	11 0 0 11	6 1 2 7	0 0 13	7 0 9 7	2 4 0 7
Percentage of A-133 Findings Repeated	39%	30%	874	12.5%	276	14%	41.7%	100%	100%
Number of months after Y/E the F.S. were Released	,	,				,	17	19	12
Number of Qualifications Exceptions Related to C.U.	30	1	P	9	0		0		0
\$ of Questioned Costs -Current Year	\$2.151,646	\$406,451	\$715,181	\$645,618	\$1,360,234	\$2,341,361	\$3,156,810	\$33,857	\$71,294
of Questioned Costs-Cumulative	810,694,193	#5.735.163	81.396.477	\$1,777,367	12,716,037	14,249,167	17.406.963	\$7,441,620	\$2,765,00
I of Que Society Bullion Resolved - Current Year	\$5,760.115	\$5,326,712	\$5,062,579	\$263,733	\$421,559	\$710.185	\$1,196,066	30	\$5.158.11



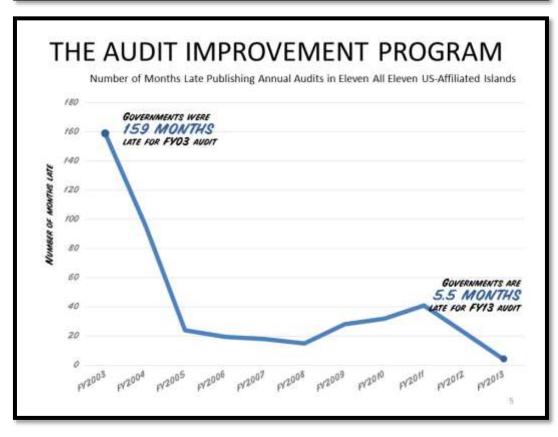
Attachment 8: Summary of Single Audit Results for FY 2012-2013, Debbie Milks, CPA

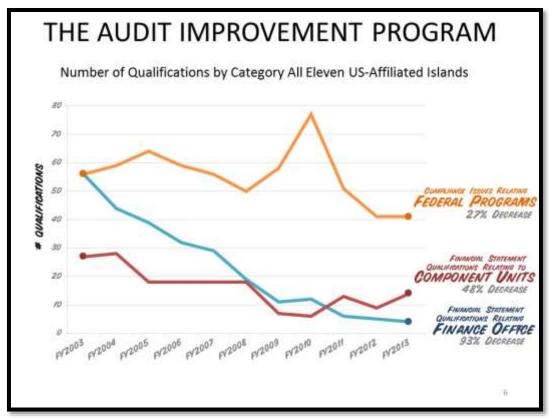


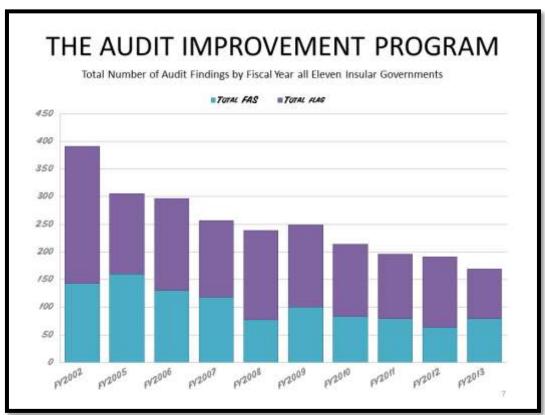


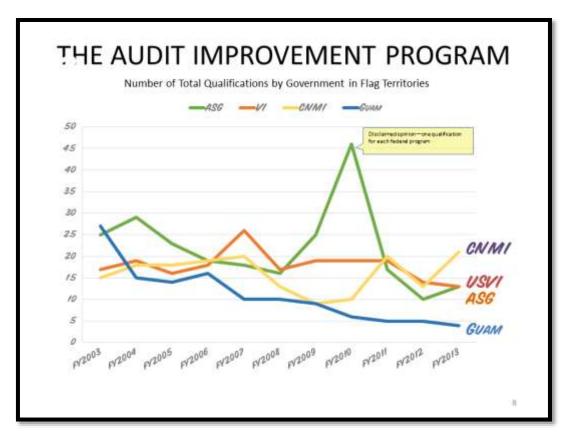


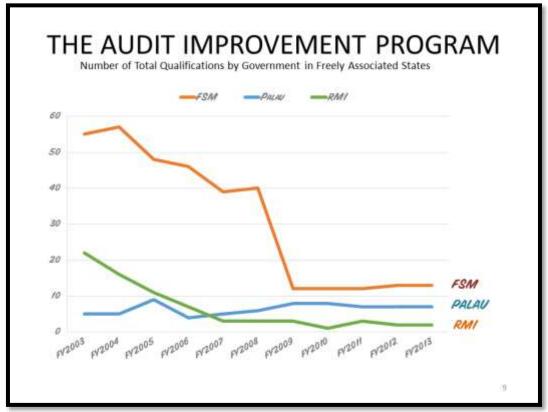
	FY	2013 Status			
		FY2006 67 total	FY2011 51 total	FY2012 51 total	FY2013 41 tota
1	AMERICAN SAMOA	9	15	9	11
1	CNMI	7	8	8	7
111	FSM: NATIONAL	7	3	3	3
	FSM: KOSRAE	3	0	0	0
	FSM: POHNPEI	2	0	0	1
	FSM: CHUUK	4	0	0	1
-11	FSM: YAP	4	5	5	2
0	GUAM	13	5	5	4
•	MARSHALL ISLANDS	3	3	2	2
0	PALAU	9	7	7	7
ام کا	US VIRGIN ISLANDS	6	5	2	3



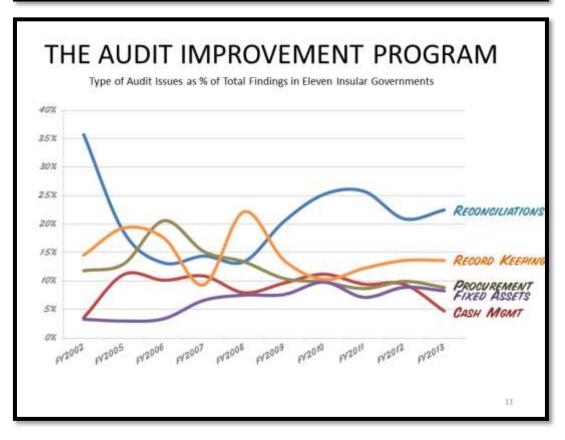






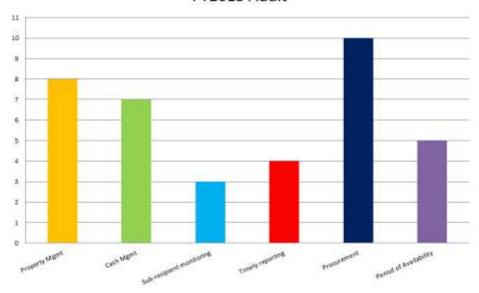


The Guam AFTER Analysis		PROGRAM						
	2006	2007	2008	2009	2010	2011	2012	2013
Number of F.S. Opinion Qualifications/Exceptions	2	b	à	٥	ō	٥	ø	0
Number of Major Federal Program Qualifications/Exceptions	13	10	10	9	6	3	5	*
Number of F.5. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	0 2 0 2	0 1 1	0 0	0	0 3 0 3	0 6 0 6	0 4 0 4	0 3 0 3
Percentage of Findings Repeated	0%	50%	0%	.0%	0%	0%	100%	100%
Number of A-133 Findings A, Internal Control and Compliance B, Internal Control Only C. Compliance Only 10744	95 0 0 95	24 0 0	21 0 0	10 0 0	6 0 0	3 0 0	3 0 0	5 0 0 5
Percentage of A-133 Findings Repeated	8.6%	2.9%	4.7%	10%	16.7%	33.3%	0%	20%
Number of months Y/E the F.S. were Released	9	9	9	9	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	1	0	۵	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$2,773,99 7	\$2,802,40 8	\$1,881,43	\$0	\$3,734	\$41,790	\$35,293	\$18,17
\$ of Questioned Costs-Cumulative	55,760,68 8	\$7,084,57 4	\$7,837,71 9	\$4,616,40 4	\$2,313,56 I	51,428,83 7	\$45,370	\$53,47
S of Questioned Costs Resolved - Current Year	57,522,53	\$1,478,72	VALUE AREA	53,221,51	\$2,506,57	5926,514	\$1,418,76	510.09



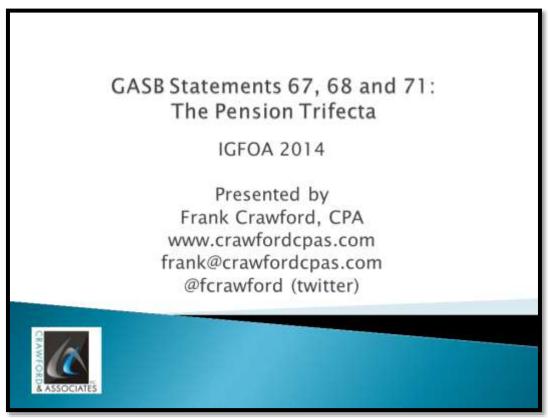
#### THE AUDIT IMPROVEMENT PROGRAM

# of Governments with Compliance Findings by Type FY2013 Audit

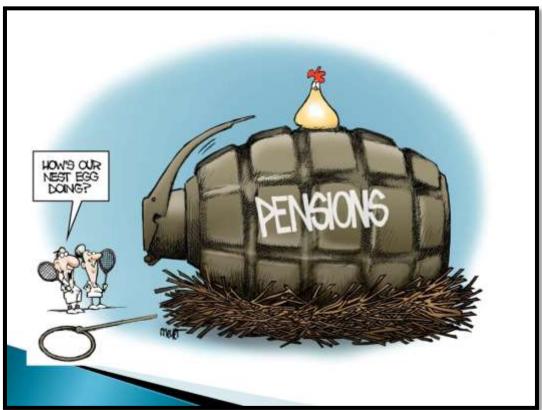




Attachment 9: Slides—A Closer Look at the Government Pension Standards/Social Security Systems and Your Government's Finances, Frank Crawford, CPA



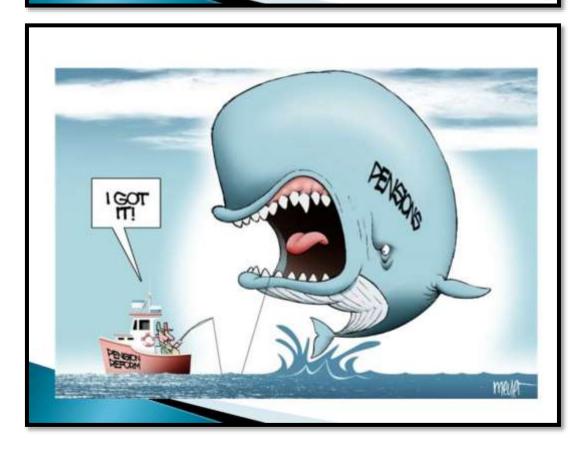




# Scope & applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - · Employer/nonemployer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan
  - Special funding situations
  - Other circumstances





Statement No. 67, Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25



Highlights

- Scope limited to defined benefit and defined contribution pension plans administered through trusts that meet certain criteria (same as criteria in Statement 68)
- Few changes from Statement 25 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of liabilities of employers



# Highlights (cont.)

- Notable changes in note disclosures/RSI
  - Annual money-weighted rate of return (10 years in RSI)
  - RSI for single-employer and cost-sharing pension plans (10 years):
    - · Schedule of changes in NPL by source
    - · Components of NPL/related ratios
    - · Schedule of actuarially determined contributions
    - Aggregated employer-related information not required for agent pension plans
- Effective for FYs beginning after June 15, 2013
- RSI schedules prospective (except for contribution schedule, if presented), if information not initially available



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#### Statement 68

 Employer accounting and financial reporting for pensions

an amendment of GASB Statement No. 27







#### Reporting of Net Pension Liability

- Definition of Liability according to Concepts Statement No. 4:
  - "Present obligations to sacrifice resources that the government has little or no discretion to avoid"
    - Present the event that created the liability has taken place i.e. employee has provided service.
    - Obligation A social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action (*The American Heritage Dictionary of the English Language*). In the case of a pension obligation, it is a constructive liability that arises from an exchange transaction (employee provides service—employer compensates in the form of a promise to provide retirement).
    - Resource A supply or other means that can be drawn on when needed (The American Heritage Dictionary of the English Language). In a government, the item drawn on is used to provide services to the citizenry.
    - Little or not discretion to avoid Can be evidenced by reliance of others on the government's actions i.e. employee expects to receive a retirement check.



# Defined benefit pensions

- Liabilities to the pension plan (payables)
- Liabilities to employees for pensions
  - "Net pension liability" (NPL)
    - Total pension liability (TPL), net of pension plan's fiduciary net position
      - TPL = actuarial present value of projected benefit payments attributed to past periods
      - · Fiduciary net position as measured by pension plan
  - Single/agent employers recognize 100 percent of NPL
  - Cost-sharing employers recognize proportionate shares of collective NPL



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# Changes in NPL

NPL recognized in current reporting period (NPL recognized in prior reporting period)
Change in NPL for current reporting period

- Recognize most changes as expense in full in reporting period of change
  - Examples: service cost, interest on TPL, benefit changes, projected earnings on pension plan investments
- Exceptions:
  - Differences between expected and actual experience (TPL)
  - Changes of assumptions (TPL)
  - Difference between projected and actual earnings on pension plan investments
  - Employer contributions



#### Changes in NPL—TPL exceptions

- Expense recognized in current and future periods
  - Systematic and rational method
  - Closed period
  - Average of expected remaining service lives of all employees (active and inactive, including retirees)
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to pensions



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### Changes in NPL—investment earnings exception

- Expense recognized in current and future periods
  - Systematic and rational method
  - Closed, 5-year period
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to pensions
- Report <u>net</u> deferred outflow of resources/deferred inflow of resources from this source



#### Defined contribution pensions

- Pension expense for amounts defined by benefit terms as attributable to the reporting period
  - Net of forfeited amounts removed from employee accounts
- Liability for difference between pension expense and contributions
- Note disclosures
  - Descriptive information about plan, benefit terms, contribution rates, amount of expense, amount of forfeitures, amount of liability
- Nonemployer contributing entities with legal requirements to contribute directly to pension plan also addressed



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#### Effective date and transition

- Fiscal years beginning after June 15, 2014
- Beginning deferred outflows/deferred inflows of resources balances will also need to be restated, along with all other elements
- RSI schedules prospective if information not initially available



# Calculating Total Pension Liability

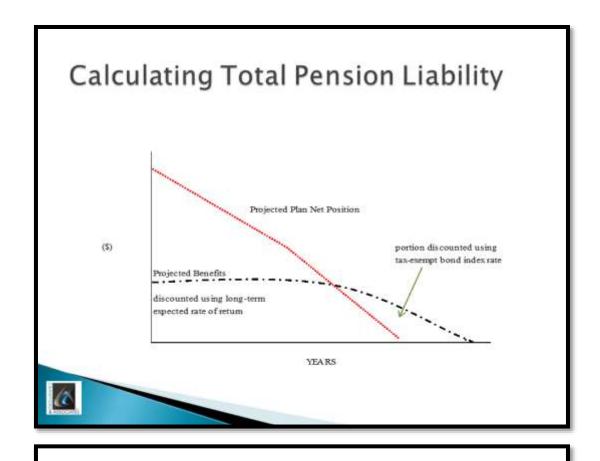
- Discount Rate
  - Single rate reflective of:
    - Long-term expected rate of return to the extent that plan net position from specified sources is
      - · Projected to be sufficient to make benefit payments
      - Expected to be invested using a long-term investment strategy
    - Index rate for a tax-exempt 20-year municipal bond rated AA/Aa (or equivalent) or higher



# Calculating Total Pension Liability

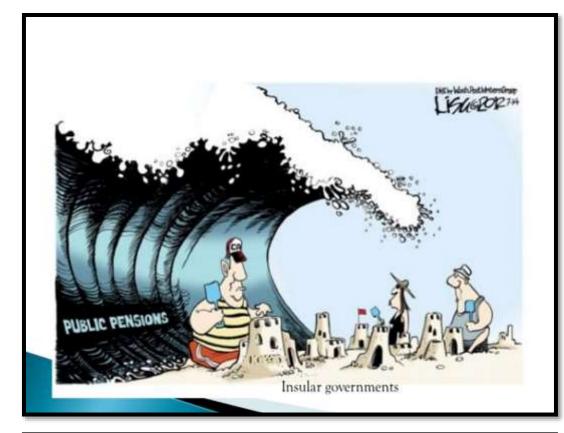
- Long-term expected rate of return
  - Should consider the nature and mix of current and expected pension plan investments
  - For determination of future plan net position:
    - Include expected future employer contributions intended to fund benefits of current plan members
    - Exclude expected future employer contributions intended to fund benefits of future plan members and expected future contributions by future plan members





Let's take a quick look at the current status of the Insular governments pension plans and Social Security systems

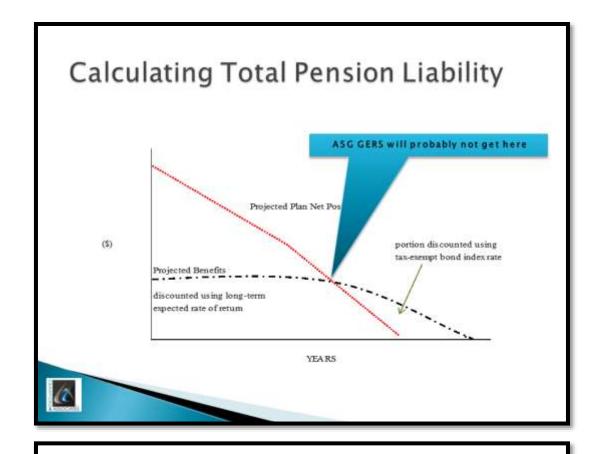




### ASG GERS, as of 10-1-13

- Current contribution rates paid (% of covered payroll)
  - Employer 8%
  - Employee 3%
    - Total 11%
- Total Contribution rate needed = 14.45%
- Total Unfunded Accrued Actuarial Liability = \$50,224,092 (that's \$50.2 million)
- Funded ratio = 79.9%
- Discount rate = 8% (earned return FY 2013 = 7.27 smoothed
- Estimated crossover date Most likely not to crossover

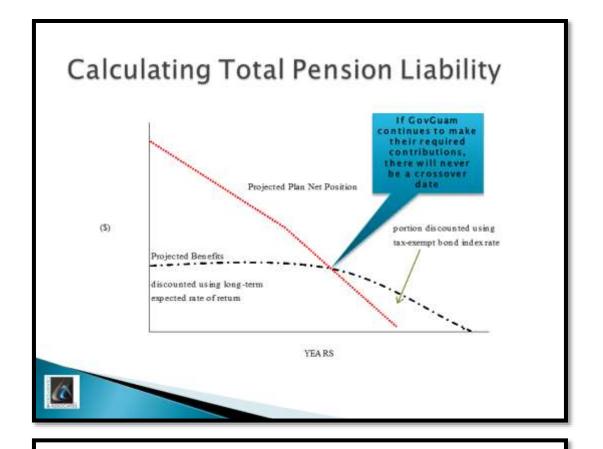




# Guam GGRF, as of 9-30-12

- Current contribution rates paid (% of covered payroll)
  - Employer 23.17%
  - Employee 9.50%
    - Total 32.67%
- Total Contribution rate needed = 35.91%
- Total Unfunded Accrued Actuarial Liability = \$1,482,646,076 (that's \$1.5 billion, with a b)
- Funded ratio = 47.26%
- Discount rate = 7%
- Estimated crossover date None, plan closed, with post 1995 hires in a DC plan, which only requires GovGuam to make 5% contributions annually
- Guam's next big issue? Dealing with OPEB liability, currently measured (as of 2011) as \$2.1 billion, unfunded

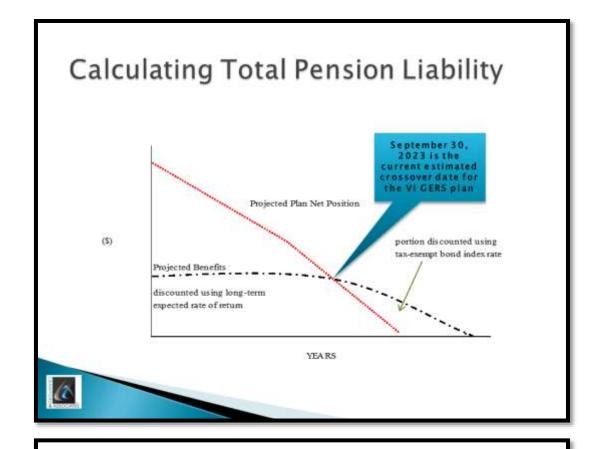




### VI GERS, as of 9-30-11

- Current contribution rates paid (% of covered payroll)
  - Employer 17.5%
  - Employee <u>8% –11%</u>
    - Total 25.5% 28.8%
- Total Contribution rate needed = 59.1%
- Total Unfunded Accrued Actuarial Liability = \$1,719,110,906 (that's \$1.7 billion, with a b)
- Funded ratio = 45.74%
- Discount rate = 7.5%
- Estimated crossover date 9-30-2023

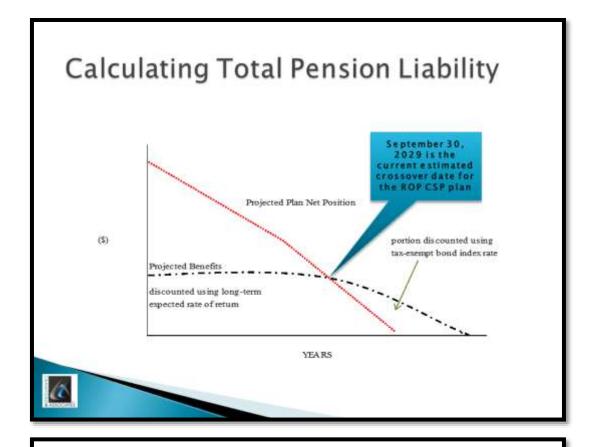




# ROP CSPP, as of 10-1-11

- Current contribution rates paid (% of covered payroll)
  - Employer 6%
  - Employee 6%
    - Total 12%
- Total Contribution rate needed = 39%
- Total Unfunded Accrued Actuarial Liability = \$103,899,191 (\$103.9 million)
- Funded ratio = 25.8%
- Discount rate = 7.5%
- Estimated crossover date 9-30-2029
- Palau also has a Social Security trust fund, with \$100 million in net position at 9-30-13

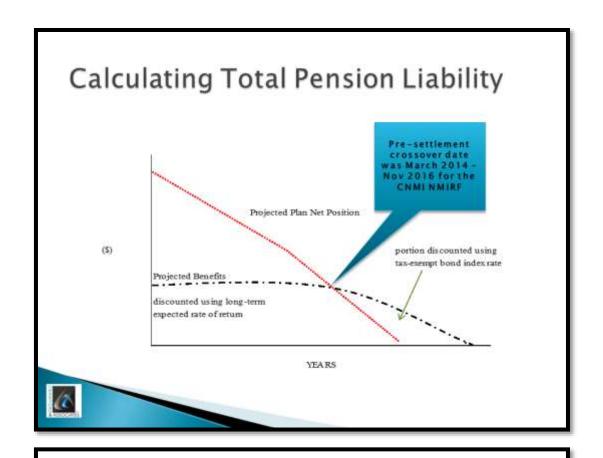




#### CNMI NMIRF, as of 10-1-10 (presettlement amounts)

- Current contribution rates paid (% of covered payroll)
  - Employer 0%
  - Employee 9.5% 11% 9.5% - 11%
- ▶ Total Contribution rate needed = 82.2% 83.7%
- Total Unfunded Accrued Actuarial Liability = \$1,574,000,000 (that's \$1.6 billion, with a b)
- Funded ratio = 5.5% 12.7%
- Discount rate = 3.2%
- Estimated crossover date March 2014 Nov 2016
- Haven't seen any post-settlement actuarial valuations to see how the fund looks now





CUENT	Year Perforied	TYPE OF PLAN	Date of Actuarial Valuation	Costribut Employer	on Rates Paid Employee	Retirement Provider	(MAL	Funded Ratio	Discount. Rate	Estimated crossover date	Total Corestation Requirement as a % of Armual Salary	e.
Virgin Islands	2013	26	9/30/11	17.50%	5%-12% Depends on position held	GERS	5 1,718,110,906	45.74%	7.50%	3/30/2023	39.10%	Actorisi
Duam	2003	24	9/30/12	25.17%	9.30%	900	5 1,482,646,076	47.28%	7,00%	N/A	35.93%	for all em
		30		3.00%	5.00%	OOM	N/A	N/A	7678	N/A	N/A	for all en
CWI	2013	18	10:1/10	000%	9.5% - 11% Depends on position held	MUSE	\$ 1,374,000,000	5.5% - 12.7%	3.22%	3-14/11-16	82.22% - 83.72%	Sov rate )
American Sanoa	2013	.06	10/1/12	8,00%	3.00%	ASGERF	5 48,446,771	50.80%	8.00%	Unable to det.	15.79%	Actorial
Palau	2012	26	10/1/11	\$30%	6.00%	#OF-CSPF	\$ 103,899,191	25.80%	7.50%	9/30/2029	29.00%	20% tutal
							4,928,102,544					

# What about FSM, RMI and Palau Social Security Trust Funds?

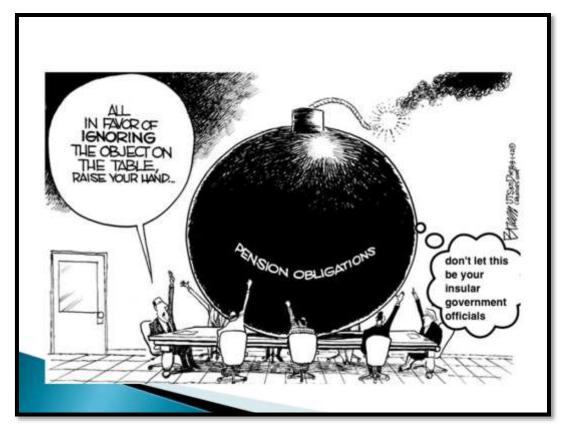
- Since their "Social Security" trust funds are not technically "Pension" trust funds, they don't have to do the new accounting for pensions that the rest of us with pension plans have to do, BUT
  - I can measure the unfunded liability of their SS plans by doing a bit of homework
    - · RMI Social Security Trust Fund
      - Unfunded liability = \$222,106,261 (23% funded)
    - · FSM Social Security Trust Fund
      - Unfunded liability = \$245,410,000 (15% funded)
    - · Palau Social Security Trust Fund, as of 9-30-11
      - Unfunded liability = \$63,311,000 (56% funded)
- So the grand total of unfunded pension and SS liabilities is......

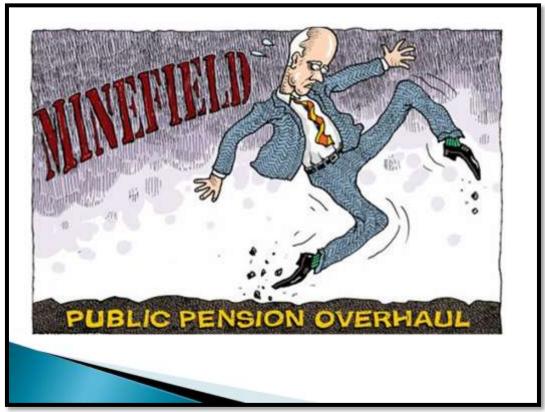
\$5,458,930,205 billion (that's billion with a B...)



- Questions??
- Solutions??







#### Attachment 10a: Action Plan: Guam

Performance

Task Update Dashboard

who: Mike Cabral and Grace Edrosa

when Completed Resource Anita Arile

#### **Department Outreach**

Task Federal Grants Training/AS400 Hands on training

who: Mike Cabral when Quarterly

Resource Anita, Grace, Rolando and Rey

#### Communicate with Pension

Task Educate Executive Branch(Governor) who: Benita Manglona (DOA, Director)

when Completed

Resource N/A

**Debt Guarantee** 

Task Communicate with auditor

who: Kathy Kakigi, DOA Financial Manager

when Completed

Resource N/A

#### Incorporate Youth

Task Request for DOI/OIA funding for student internship

who: Kathy Kakigi, DOA Financial Manager

when 01/31/2015

Resource University of Guam

#### Attachment 10b: Action Plan: Republic of Palau



# I. Audit Improvements

- Establish Audit Committee (BNT / Jan 2015)
- Develop Task List (BNT; Audit Committee / Feb 2015)

# II. Cash Management

- Conduct evaluation of Cash Management Plan and revise, as needed (BNT / Jan 2015)
- Develop strategy to strengthen A/R collection efforts (BNT; BBP / Jan 2015)

#### III. Performance Dashboard

- Review and incorporate performance measures into work programs (MOF (Apr 2015)
- Expand Annual Performance Reports and Quarterly Financial Reports to include Citizen Centric Reporting elements (BNT; BPSS; BBP / Jun 2015)

# IV. Department Outreach

- Establish quarterly schedule of meetings with line agencies including issues for follow up (BNT; BPSS; BPP / Feb 2015)
- Expanding line agency access to FMS (BNT; BPSS; ISSS; BBP / Sep 2015)

# V. New GASB Reporting Rules

- Compile CSPP financial information required (BNT; BPSS; BBP / Jun 2015)
- Documentation of ROPNG as "Guarantor" (BNT; BBP / Jun 2015)



#### Attachment 10c: Action Plan: CNMI

Action	Person Responsib le	Division	Task	Target Date
Reconciliation Procedures	Martha C.	Recon	Document reconciliation procedures; provide tracking charts currently in use; create checklist	01/05/15
NSF Procedures	Tilia Kanemoto	Treasury	Document NSF procedures; create checklists if needed; compile policies regarding procedure	01/05/15
Petty Cash Procedures	Connie A./ Bernie P.	Treasury	Document petty cash procedures	01/05/15
Federal Drawdown Schedule	Connie A. Agnes C.	Treasury/Fe deral	Develop drawdown schedule and propose implementation; Agnesdocument current drawdown procedures	01/05/15
Federal Disbursement Procedures	Connie A./ Agnes C.	Treasury/Fe deral	Finalize procedures already documented; create checklists/organization chart	01/05/15
Streamline Invoicing	Liz Lebria	Payables	Develop streamlined process for federal invoicing; document current procedures	01/05/15
Reporting Compliance	Agnes C.	Federal	Develop performance measure to monitor timeliness of report submission; document current procedures	01/05/15
Compile Cash regulations	Tracy N.	ОМВ	Consolidate regulations, policies, memos, directives relating to cash management	01/05/15
Cash Account template	Connie A./Bernie P	Treasury/ F&A	Complete template with information required	01/05/15
Treasury State Agreement	Connie A./ Bob Schrack	Treasury/ Finance	Provide update on status of FY 11, 12, 13 TSA	01/05/15
Clearance Pattern	Connie A.	Treasury	Provide update on average clearance pattern calculations	01/05/15
Period of Availability	Connie A./Agnes C.	Federal	Develop procedures to ensure grant expiration is in JDE to ensure grant is not expired prior to entering encumbrance	01/05/15

Action	Person Responsible	Division	Task	Target Complet ion Date
Audit Improvement	Sheryl Blanco	OGM	Provide update on resolved findings	12/15/14
Cash Management	Larrisa Larson/Connie Agulto	Finance/ Treasury	Complete cash management draft	01/05/15
Performance Dashboard	Tracy N.	ОМВ	Create performance dashboard for each department in SAC	12/15/14
Dept. Outreach	Sheryl B.	OGM	Identify all P.O.C for each federal agency; communicate audit process and audit liaison	12/15/14
Communicate with NMIRF	Larrisa Larson	ОМВ	Communicate new GASB requirements (Debt guarantor disclosure)	
Involve youth/college	Vicky V.	ОМВ	Prepare proposal to OIA for internship funding	01/15/15
Period of Availability	Sheryl B.	OGM	Require period of availability/grant expiration when establishing new grants in JDE	12/15/14
Procurement forms	Larrisa L./Herman Sablan	Finance/Pro curement	Finalize procurement forms and set implementation dates; Develop training plan for new forms	12/12/14
Inventory	Herman Sablan	Procuremen t	Develop inventory schedule to require inventory reconciliation of 2 departments per month; document reconciliation process	01/05/15
Auditor Contract	Tracy N.	ОМВ	Review auditor contract to compare to template provided by Debbie Milks to include required auditor briefings	12/15/14
Audit Briefing	Larrisa Larson	Finance	Request auditor briefing with SAC	12/9/14

Federal Contracts	Gilbert Birnbrich	AG	Develop listing of all required contract provisions; Develop checklist for federal template	01/05/15
Ethics Training	Mike Pai	OPA	Implement ethics training with program managers	01/31/15

#### Attachment 10d: Action Plan: Federated States of Micronesia

ACTON PLAN	GOVERNMENT	WHAT	WHO	WHEN
AUDIT IMPR	ROVEMENT			
	YAP	Travel Advances: Reduce Outstanding (>10 Days) By 50%	Robert Fathal	9/30/2015
	CHUUK	Bank Recon	Elsie W/ Juliet'S Help	JAN 2015
	POHNPEI	Bank Recon	Judy	JAN 2015
		Procurement	Edwin	FEB 2015
	FSM	Travel Advances: Collect 25% Of Outstanding	Iva Sylvia	MAR 2015
PERFORMAI	NCE MEASURES			
	YAP	Dashboard	Management	Quarterly
	CHUUK			
	POHNPEI			
	FSM			
DEPARTMEN	NT OUTREACH			
	YAP	Reminders of deadline of procedures/process	Robert Fathal	12/10/201 4
	CHUUK	Training: Finance forms & accounting	CFCC/Finance	Completed NOV 2014
	POHNPEI	Travel advance	Christina/Edwin	JAN 2015
	FSM	Finance Conference	Secretary	DEC 204
YOUTH				
	ALL	TMP = NET	OUR LEFT-BEHIND CHILDREN	EVERYTIME

#### Attachment 10e: Action Plan: Republic of the Marshall Islands

#	Task	Respons ibility	Target Date	Dec. 2014 Status	Comments
1	Cash Mgmt	Clarence/P atrick	Feb. 2015	On-going	There remains works to be done
2	Audit Improvement	ARC		On-going	Audit Resolution Comm, Sectors
3	Youth Program	Clarence/K ayo	Jan. 2015	On-going	CMI/USP
	Performance Dashboard	Asst. Sec, MOF	March. 2015	On-going	
4	Outreach program	Kayo/Mack		On-going	FOA, MOF wkly program
5	Employee Engagement	Clarence	Dec. 2014	On-going	Work with the lean team and link with performance measures/ Working with PSC
6	Conduct an employee satisfaction survey Uniform Grant Guidelines				
	Review and train on changes in grants management	Kayo	May-15	On-going	Link with SOPs under development
7	Pension Plan				
	Develop a plan to amend the contribution levels and benefits (including a redefinition of "dependents") of the RMI Social Security system	Minister Ading	Sept. 2015		
8	Travel Policy	Jim Hicklins	Jan. 2015		With Cabinet for approvl
9	Indirect Cost	Jim Hicklins	<b>.</b> 55	On-going	
10	Imprest Fund Policy	Clarence	Jan. 2015	On-going	Draft
11	SOP	Asst. Sec, MOF	March. 2015	on-going	Draft
12	Lean PR/PO process	Kayo/Clare nce	Sept. 2014	Completed	Implemented Oct. 2014 or FY15

# Attachment 11: Conference Evaluation Summary

31 evaluations were completed for the IGFOA Conference. The evaluation instructions and results are included below.

To ensure that conferences and meetings that the Graduate School USA 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 conference sessions were relevant and timely.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
81%	19%	0%	0%	0%
OVERALL SCORE: 4.8				

2) The conference=s objectives were substantially met.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
77%	23%	0%	0%	0%
OVERALL SCORE: 4.8				

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

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
81%	19%	0%	0%	0%
OVERALL SCORE: 4.8				

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

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
61%	32%	7%	0%	0%
OVERALL SCORE: 4.5				

5) Support services by the Graduate School USA staff during the conference were handled well and in a timely manner.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
84%	16%	0%	0%	0%
OVERALL SCORE: 4.8				

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

Excellent	Very Good	Average	Fair	Disappointing
87%	10%	3%	0%	0%
OVERALL SCORE: 4	.8			

- 7) What sessions of the IGFOA Conference were the most relevant and meaningful to you?
  - GASB updates, improving performance measures and audit improvement
  - Performance measures by island government and the ethnical issues
  - Best practices; Performance measures; GASB updates
- 8) What are the two most important items that you learned during the week, and how will you apply each when you return home?
  - Audit Improvement; Best Practices in Finance Offices Grants
  - The strategic plan on measurements. It has to be introduced to the supervisor who handles the measurements we're presenting. We'll come up with the strategic plan and proceed on the process where the measurement will identify their weaknesses or where they poorly perform and have them come up with solution. Secondly, I would like to share the ethical stories where finance offices are involved.
  - Best practices and performance measures. With best practice, I will apply towards my work
    responsibility with GSWA in working openly and communicate effectively to meet all
    performance issues.
- 9) What sessions or aspects during the week were the least relevant and meaningful to you?
  - None, all the sessions were meaningful to me as a finance officer
  - Ethics presentations. Did not really address our government concerns and issues which can be applied towards work related issues.
- 10) Please list any measurable achievement your government has made as a result of being represented at IGFOA conferences.
  - Audit results; Communication improvement within the government; More awareness to finance office on non-compliances

- Cash management is almost done and it really helps by combing all the regulations or procedure and have them all available at one place.
- We receive the CAFR awards which is a very big accomplishment
- 11) Please provide any other comments concerning the IGFOA Conference that will make future conferences and meetings more meaningful and enjoyable.
  - To bring more experienced speakers
  - Overall satisfy
  - I think what IGFOA is doing, is already great and should continue. I have enjoyed every presentation, assistance and information provided during the conference.

## Attachment 12: Conference Participants & Contact Information

## American Samoa

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