

INSULAR GOVERNMENT FINANCIAL MANAGEMENT QUARTERLY

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ALOHA:

I hope you enjoy reading this first edition of the Insular Government Financial Management Quarterly. The purpose of this newsletter is to provide a forum to exchange information about efforts to improve governance and highlight best practices being employed by the insular governments.

It has been over twelve years since twenty-two participants completed the very first PITI/VITI course: Governmental Accounting I on American Samoa. Although PITI and VITI still occasionally offer basic skills training courses, the scope and impact of both programs has changed as we align resources with priority needs specific to each insular government. Whereas our initial focus was primarily on providing training in governmental accounting and financial management, today's training priorities relate to enabling governments to measure and improve their performance while simultaneously solving complex and inter-related issues. Each insular government can point to a significant improvement in the financial management sector, and PITI/VITI is proud to have been a part of many of these initiatives.

Through the years PITI/VITI training has been made possible through technical assistance provided for by the U.S. Department of Interior's Office of Insular Affairs. Without the Department of Interior's financial support, none of these training opportunities would have been possible.

Again, I hope you enjoy this first newsletter. Please feel free to contact us with your comments and/or with suggestions for interesting and informative articles for future publications.

Stephen Latimer
Project Manager

IGFOA ELECTS NEW OFFICERS



IGFOA executive members at a recent meeting in Honolulu include left-right: Treasurer Nick Andon (FSM), Elbuchel Sadang (Palau), Saeko Shoniber (Marshall Islands), Francis Leasiolagi (American Samoa); Secretary Cathryn Villagomez (CNMI); President Lourdes "Lou" Perez (Guam); Bernice Turnbull (USVI); and Vice-President Ira Mills (USVI)

DURING THEIR BI-ANNUAL MEETING in December 2003, the Island Government Finance Officers Association (IGFOA) elected a new slate of officers: President Lourdes "Lou" Perez (Director of Guam's Department of Administration); Vice-President Ira Mills (Director of the U.S. Virgin Islands' Office of Management and Budget); Secretary, Cathryn Villagomez (Acting Secretary of the CNMI's Department of Finance) and Treasurer, Nick Andon (Secretary of Finance for the FSM National Government). During their one year appointments IGFOA officers are responsible for setting agendas, ensuring key issues are addressed between meetings, interacting with Department of Interior's Office of Insular Affairs (DOI/OIA) and the Graduate School, USDA's Pacific Islands Training Initiative and Virgin Islands Training Initiative (PITI/VITI), and reporting back to their individual governments.

IGFOA was officially incorporated in 2001 although the members have met informally since

1999. The boundaries of the Association includes all U.S. affiliated insular areas: American Samoa, the Commonwealth of Northern Marianas Islands, Guam, the Federated States of Micronesia, the Republic of Palau, the Republic of the Marshall Islands, and the U.S. Virgin Islands. Since the first meeting they have defined the organization's mission, and created bylaws.

IGFOA's mission: "...to be a professional organization dedicated to the enhancement of public financial management in the insular areas by identifying, developing, and advancing financial strategies, policies, and practices for the public benefit."

IGFOA members established several objectives:

- Provide networking support group for island finance officers.
- Provide professional development through continuing education in accounting, auditing, budgeting, financial management and federal grants management.
- Develop and encourage the use of uniform standards and procedures of governmental finance management.
- Work with other government agencies in their respective insular areas to facilitate intergovernmental financial management and policy relations.

With the encouragement and support from DOI/OIA and the Graduate School, USDA's PITI and VITI programs, IGFOA members meet twice a year. For the past several years, IGFOA members have convened for two days at the conclusion of the Government Financial Officers Association (GFOA) Annual Conference which takes place each year in a different city in the United States. This year the GFOA Annual Conference will be held in Milwaukee, WI on June 13-16. The IGFOA meeting will follow on June 16th to the 18th.

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JUST HOW MUCH?

THE REPUBLIC OF PALAU (ROP) has embarked on an important effort to determine just how much various services cost the government and taxpayers. The question is not easily nor quickly answered. About four years ago, President Tommy E. Remengesau (who was then Vice President) asked the question and requested assistance from the U.S. Department of Interior, Office of Insular Affairs (OIA) to help get the answer. Recognizing the importance of supporting ROP in its effort to develop those costs, OIA asked the Pacific Islands Training Initiative (PITI) to provide just-in-time technical assistance and training throughout the multi-year initiative.

The Republic's Financial Management Advisor, Casmir Remengesau became the enthusiastic champion and project manager of the costing project and has ensured the project's success despite obstacles, controversy and technical challenges. He began by organizing several major Ministries such as Finance, Health, and State as they received training on performance measures and unit costs. Slowly and carefully the government began to link the costs of programs as they developed a performance-based budget. Palau became a world leader in this process by incorporating the most current "best practices" from nations like the U.S. and New Zealand.

After a considerable amount of work and controversy ROP has its first look at the unit cost of several significant services. Although they used a sound methodology they will continue to refine the calculations and numbers, and are understandably shy about sharing the information. So consider the following unit cost data a work in progress.

But, what is a unit cost anyway? Essentially it is the amount of money required to deliver one product or service, or complete one transaction. For example, ROP discovered it costs \$8.53 to issue a passport, \$84.89 to test one driver and issue a driver's license, and \$26.96 to issue a work permit.

Why is unit cost important? First, the unit cost may be helpful in developing budgets. If the number of people who receive a service is expected to increase, it is easy to calculate the amount of budget required to cover the additional work. ROP estimated it cost \$2055 each year to educate one student. If enrollment is expected to increase by 50 students, the additional budget required is roughly equal to $50 \times \$2055$, or \$102,750. Similarly, if ROP decided to increase spending on education, it could add \$5, \$10, \$20, or any amount per student. Ministry of Education administrators would know precisely how much per student they were expected to spend.

Unit cost may also be compared over time. ROP discovered the unit cost to provide a school lunch may have decreased significantly over the past several years. A change in unit cost may prompt a closer look at the operation. Does the lower cost of lunch mean improved efficiency, or possibly reduced nutritional value? Policy changes may be made accordingly.

Additionally, fees may be set or reviewed based on costs. As stated previously, the ROP found it cost \$84.89 to test a driver and issue a driver's license. However, it was charging only \$10 for that service. Armed with the unit cost, elected leaders and government managers may be in a better position to justify a change in the fee structure.

And once clearly established, unit cost may be compared to other governments with similar functions. Palau's unit cost of \$4 to process one person through Immigration (arriving and departing) may be compared with other nations' immigration costs. Differences may reveal an opportunity to incorporate a 'best practice' from another country with an eye toward reducing the cost.

ROP also wanted to know how much it spent on providing a meal to an elderly resident (\$6.20) and the cost to send fire trucks to an emergency call (\$125.50). They now know how much it costs to inspect a vehicle (\$11.89), and can compare the cost of inpatient to outpatient care (\$205.14 versus \$50.58).

"It's great to know what a program costs," said Oregon-based consultant Drummond Kahn, who has worked with PITI since 1993, "and even more impressive to take total program costs and look at them in the context of one fire truck run, one airport arrival, or one patient's day in the hospital. The Republic of Palau has done truly ground-breaking work in examining its service's costs, and explaining those costs clearly."

What's next? Palau's Congress will begin to see the data with the budget submission in April 2004. Certainly, many questions will arise as they begin to understand the possibilities revealed by the data. Through this initiative the President and his Ministers have moved the Republic one giant step toward improved operations and government accountability.

VIRGIN ISLANDS DEMONSTRATES STRENGTH IN PARTNERSHIPS

THE TERM 'PARTNERSHIP' is often used but difficult to put into practice. Not so for Government of the U.S. Virgin Islands (GVI). In September 2002, the GVI and the U.S. Department of Education signed a compliance agreement that contained a number of performance measures designed to encourage a better educational system for children of the territory and establish a credible central financial management system. As part of the agreement the GVI Department of Finance was required to develop two key documents: a vision statement and a plan for strengthening the financial management of education funds.

...the Department of Finance will respond with the necessary agility to adapt and address the needs of its users, both current and future. We will approach this change as an opportunity and not as a burden.

In response to the compliance agreement GVI's Commissioner of Finance, Bernice A. Turnbull formed a Compliance Agreement Steering Committee. Recognizing the need for sustained technical assistance she called upon the Department of Interior and the Graduate School's Virgin Island Training Initiative (VITI) to help devise a strategy to address the compliance agreement.

Here's where the term 'partnership' is dramatically illustrated. Mr. Stephen Boschulte of the U.S. Virgin Islands, along with VITI consultants Valerie Richardson and Debbie Milks, involved over 60 people in developing the vision statement and the financial management implementation

plan. Partners in the process were drawn from GVI Federal and local levels, GVI cabinet members, senior management, and front line workers. Their collaborative approach to developing these documents yielded a report that was widely accepted and well received. More importantly, the process and products created a critical bridge between information technology specialists and program managers, accountants and budgeters, and U.S. Federal oversight agencies and local departments.

Pleased with the on-going success of this partnership process, Commissioner Turnbull looks toward a positive future for the Government of the U.S. Virgin Islands as she states; "...the Department of Finance will respond with the necessary agility to adapt and address the needs of its users, both current and future. We will approach this change as an opportunity and not as a burden. The path of transformation will not be easy: many will resist, fall short, get tired, and give up, however, for those who stay the course, the rewards will be great – for the Department of Finance, the GVI, and the Territory. We must all remember this: when you're through changing... You're through."

LOU PEREZ



EACH QUARTER the IGFMQ hopes to feature an administrator from one of the insular governments. In our first issue we're proud to introduce you to Lourdes, "Lou" Perez, Director of the Department of Administration for the Territory of Guam. You may have noticed her name in our article on the IGFOA. Lou was elected President of IGFOA in December of 2003. We appreciate the opportunity to talk with her about her career and interests.

IGFMQ: You've had quite a remarkable and impressive career. Would you please highlight some of the positions you've held?

Ms. Perez: I've worked in both the public and private sectors, but most of my professional time has been spent in serving in government. I was appointed to my current position, Director of the Department of Administration, by Governor Camacho. Previously I served as Deputy Executive Manager for Guam International Airport Authority. I also served as Chief of Staff for Governor Ricardo Bordallo. And, I was Controller of the Division of Accounts and Deputy Director for the Guam Department of Agriculture. I've also taught for the College of Business and Public Administrations for the University of Guam.

IGFMQ: You're no stranger to public office. What do you find particularly challenging or interesting about your current position?

Ms. Perez: A political appointment in any government is an honor but it comes with significant challenges and responsibility. Right now we're focused on preparing accurate and timely financial information. We need reliable information upon which to base daily decisions. It's difficult to run a government without instantly knowing how much cash is available or where it's being spent.

We're also faced with a daily challenge of managing cash flow. My department must use government funds to keep the entire Government of Guam operational. This is especially difficult given that resources are inadequate and scarce.

We have a new project that is especially important to me – the Financial Management Improvement Plan (FMIP). The Department of Interior, Office of Insular Affairs and the Pacific Islands Training Initiative provided us with technical assistance to develop a plan to improve financial management and related operations. The plan itself took two weeks to develop and full implementation is expected to take about two years. The plan gives us an organized,

sequenced approach to addressing major challenges. For example, implementing our Point of Sale system is a component of the FMIP. Similarly, I've very interested in strengthening all functions relating to procurement, also included in the FMIP.

IGFMQ: In addition to your professional obligations you were recently elected President of the IGFOA, correct? What's in store for IGFOA this year?

Ms. Perez: Our challenge will be to find a way to address and minimize audit qualifications and findings. Many, if not all, of the insular governments face this problem. Also, we need to network with each other and strengthen our voice.

IGFMQ: Whew! With so much professional responsibility, do you ever find time to have fun?

Ms. Perez: To be honest, it can be very difficult sometimes. I try to play tennis twice a week and enjoy taking care of three family pets (dogs). I like deep sea fishing and working in the yard. Over the years I've been involved with the Jaycees International and that took me to Japan and Korea. I've also traveled to Montreal and to several places throughout the U.S. to attend conferences.

IGFMQ: You seemed to have established a solid foundation for your career through your formal education.

Ms. Perez: I graduated from high school here on Guam, then went to Michigan State where I graduated in 1974 with a B.A. degree. I completed my Master's degree in International Management from the American Graduate School of International Management in 1977.

IGFMQ: Thanks for taking the time to share your ideas and experiences with IGFMQ's readers. We wish you the best in your role as President of IGFOA and Guam's Director of Administration.

MEET ERIC CARROLL

ERIC CARROLL may have worked in some interesting countries but probably none as beautiful as the Republic of Palau (ROP). Lucky for us, Eric set aside his initial plans to enter the priesthood and instead completed a Master's degree in anthropology. His education launched him into the field of classification and compensation. As head of the Overseas Employment Office for the U.S. Department of State he was responsible for pay and compensation systems for local hires at U.S. embassies throughout the world. A few years after retiring he found himself in the midst of an innovative project with the Republic of Palau.

Like many island governments ROP suffered from extreme pay compression throughout most government agencies and ministries. And, the government used over 500 job standards, most of them outdated, to classify their jobs into one of 30 pay grades. Fortunately the resulting problems were recognized by President Tommy E. Remengesau and the Minister of Finance (MOF) Elbuchel Sadang.

So they sought technical assistance from the U.S. Department of Interior's Office of Insular Affairs (OIA). Following OIA's request to the Graduate School, USDA, PITI contracted Eric who partnered with Secilil Eldebechel of ROP, and the project was off to a great start. President Remengesau and Minister Sadang emphasized one constraint to the team. Any changes to the existing system had to be cost neutral for the government.

Early in the project Eric compared private sector salaries to government counterparts. Surprisingly; the government's clerical and lower technical jobs were paid about 40% more than the private sector. This was partially due to a minimum wage law that applied only to Palauan workers. The private sector tended to employ non-Palauans in the lower graded positions. Not so for the upper grades (e.g. engineers, nurses) where the private sector paid about 40% more than ROP for comparable skills.

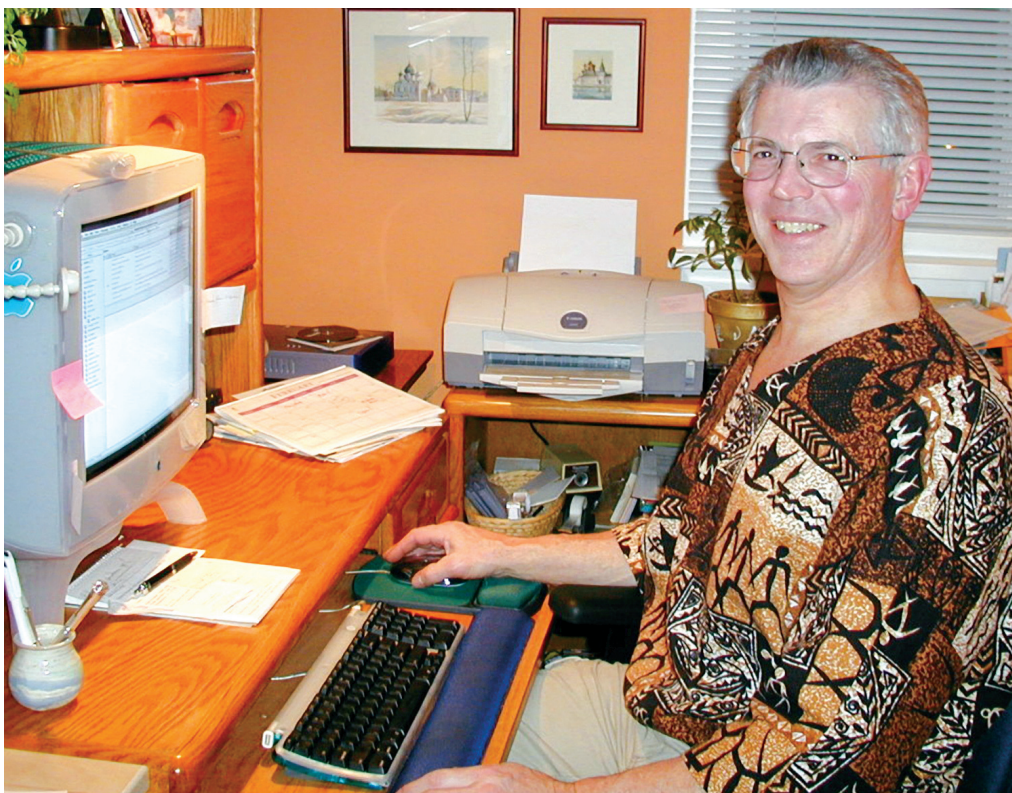
Ultimately Secilil and Eric developed a system that blended quantitative aspects of the

US. Federal system with components of a decision-based job evaluation system as a means of streamlining a new approach already being developed in Palau. Eric says this new system, the brainchild of ROP more than himself, is straightforward and easy to delegate to line management. But, the transition to the new system still requires much work by classification committees within each of ROP's Ministries to update job descriptions and to reclassify incumbents into one of 18 grades.

Once approved by the Congress, virtually all jobs in the ROP government will use the new system. Using four factors – Experience, Education, Complexity, Supervision – each job is evaluated on a graduated scale. The combined values from each factor's scale then determine the resulting grade and compensation levels. Eric also developed a new salary structure with less pay compression and more potential for pay adjustments than what existed in the current system.

Although Eric may have contributed to a new compensation system in Palau, he undoubtedly had a greater impact on its fashion industry. His international travels created his interest in local yard goods, designs, and prints. While on-island Eric contacted a Palauan dressmaker and requested she make poncho t-shirts using local materials. The design was so well received that it was featured in local fashion shows long after Eric's departure. While working on Palau Eric also enjoyed the beautifully carved story boards, magnificent snorkeling among the rock islands, and plentiful catches of tuna.

We hope to see Eric in the Pacific again soon. While at home he enjoys time with his wife, Dianne. He has two daughters; one in data management for biomedical research and the other a social worker. If you happen to meet Eric, be sure to ask about his 7-month old granddaughter. Maybe she's wearing a new t-shirt from Palau.



CALLING ALL AUDITORS

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Attending the GFOA annual conference gives IGFOA members an opportunity to learn about new requirements from the Government Accounting Standards Board (GASB), receive a variety of training on accounting and finance-related topics, and exchange ideas among fellow GFOA and IGFOA members. In addition, for the past several years IGFOA has held a meeting in Honolulu, Hawaii in December which coincides with an annual gathering of public auditors from the region to discuss financial management issues of mutual concern. The agenda typically includes significant issues that impact all the island governments. For example, in the past couple of years IGFOA members have discussed the impact of GASB 34, strategies for encouraging private economic development, finance office performance measurement and the continued need for training and technical assistance.

According to the new President, Lou Perez, the coming year should be very active and productive for IGFOA. She said, "I look forward to serving as President and to receiving the first issue of IGFMQ. If you have questions about IGFOA or ideas for our consideration, please feel free to contact me at doadir@mail.gov.gu."

IGFOA activities and updates are likely to be included with each issue of IGFMQ. Check out the web page (<http://www.igfoa.net/>) and stay tuned!

THIS SUMMER the Association of Pacific Island Public Auditors (APIPA) will hold its 15th annual conference. Scheduled for July 26-28, the conference will be held on Majuro, Republic of the Marshall Islands.

APIPA is a forum comprised of public auditors from each of the Pacific insular areas. Since its inception in 1991, APIPA has provided public auditors with the opportunity to earn up to 40 hours of continuing professional education (CPE) credits annually. Each year the U.S. Department of Interior's Office of Insular Affairs and the Pacific Islands Training Initiative have supported the APIPA conference by providing instructors and administrative support.

In the past few years APIPA has invited a broader group of participants to attend the annual training. For example, in FY 2002 over 200 people attended the conference on Guam. In FY 2003, the Pohnpei State Public Auditor hosted 156 participants. In both cases participants represented the audit and financial management sectors of all the insular governments. Bringing together auditors with the larger community of island government financial managers and accountants helps build common skills and a shared understanding of problems. And, through continuing education

APIPA participants help strengthen institutional support to the various public audit and finance-related offices in the region.

A similar strategy is being planned by APIPA in 2004. The host of this year's APIPA Conference, RMI Auditor General Jean-Marie Tonyokwe, would like to continue this approach and encourages auditors and financial managers from across the Pacific and from the Virgin Islands to attend. This year PITI will again provide three training tracks designed to address the learning needs of auditors, audit supervisors, and financial managers.

15TH ANNUAL APIPA CONFERENCE

July 26-30, 2004

Majuro, Republic of the
Marshall Islands

For more information about
this year's conference con-
tact Jean-Marie Tonyokwe
at (692) 625-3192 or 3390.
Fax: (692) 625-5135.

E-Mail: tonyokwe@ntamar.net

GUAM'S OFFICE OF THE PUBLIC AUDITOR DEVELOPS LONG RANGE PLANS

PLANNING — long term and short term—is critical to the successful operation of any organization. That is why Guam's Office of Public Auditor (OPA) underwent a strategic planning process. Guam's Public Auditor, Ms. Doris Flores-Brooks requested assistance from the Graduate School, USDA's Pacific Islands Training Initiative (PITI) who in turn contracted King County, Washington Auditor Cheryle Broom and Dr. Lowell "Duke" Kuehn to assist in the process.

Ms. Flores-Brooks, Guam's Public Auditor said "After nearly three years in Office, we wanted an outside perspective of what we had done; where we were and where do we want to go." Her entire staff enthusiastically participated as they reviewed past activities and looked forward to future years.

One of the first steps was to review and revise the mission statement. Many organizations, not just audit offices, struggle with lengthy and sometimes confusing mission statements. Guam OPA's was good but deemed a little too cumbersome. The new one is:

We audit, assess, and analyze government activities with integrity, independence and impartiality to improve the accountability, effectiveness, and efficiency of the Government of Guam.

This new mission statement can also be succinctly expressed as *Auditing for Better Government*. A clear, concise vision and mission statement can be very motivating to staff and easily understood by the public.

Looking back, the Public Auditor and her staff recognized that most audits conducted between 2001 and 2003 focused on uncovering fraud, waste and abuse. They agreed on the importance of continuing such a focus. However, from the strategic review they recognized the need to expand their effectiveness. OPA decided to broaden their capacity to do a wider range of studies by employing a diverse range of methodologies. In the future they will emphasize efficiency, descriptive, compliance and program reviews.

As examples, one report in progress analyzes staff levels of the Department of Education. Another examines the lease of office space throughout the government of Guam including all branches of government.

Ms. Flores-Brooks is definitely acting on the strategic planning activities. One goal was to enhance recruitment practices, training programs and retention methods so that OPA could achieve broadened skill sets in order to conduct other types of work. They have already recruited three new employees with non-accounting backgrounds – public administration, political science and international business. The mix of backgrounds will provide diversity in approach and style.

As part of evaluating historical strengths and weaknesses, Guam's OPA discovered they had focused more on issuing reports than monitoring recommendations. Hence they decided on several steps designed to increase successful implementation of OPA recommendations. They plan to:

- Develop a recommendation follow-up system
- Communicate preliminary findings to auditee during fieldwork, such that findings are no surprises to the auditee
- Develop concise and reasonable recommendations (that can be implemented)

Guam's OPA proudly reports that for the first time they issued follow up letters on all of last quarter's recommendations. Moreover, they now determine which recommendations have been closed, implemented or otherwise cancelled.

Everyone involved in the strategic planning process agrees it was worth the effort and brought needed focus and energy to neglected areas. Despite the workload and new focus, Ms. Flores-Brooks hasn't slowed down. She's already thinking about updating the activities in 2005. With such energy and focus, waste fraud and abuse is bound to take a steady decline in the government of Guam.

This new mission statement can also be succinctly expressed as Auditing for Better Government. A clear, concise vision and mission statement can be very motivating to staff and easily understood by the public.

WHO WE ARE

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

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

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

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

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

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