

INSULAR GOVERNMENT FINANCIAL MANAGEMENT QUARTERLY

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Insular Governments Show Progress on Audit Effectiveness

The island government finance officers are no strangers to a challenge. At the conclusion of the December 2003 Island Government Finance Officers' Association (IGFOA) meeting, Nick Pula from the U.S. Department of Interior's Office of Insular Affairs (DOI/OIA) challenged the finance officers to improve the timeliness and quality of their financial audits. As further explained by Dave Heggstad at the June IGFOA meeting, "Poor compliance with the Single Audit Act by the insular governments has been identified as a management issue during the audit of the Department of Interior's financial statements. That situation is not acceptable to OIA or in the best interest of the island governments."

Knowing that the insular governments need to use and build internal capabilities to resolve and prevent audit findings, the Graduate School, USDA's Pacific and Virgin Islands Training Initiative (PITI/VITI) adopted a capacity building approach to the challenge. The first step was to "shine a light" on this long standing problem by asking the finance offices to fully analyze the findings and qualifications in their most recent audit. The finance officers presented the audit status of their respective governments at the June and

"We're pleased with the progress that insular area governments have made to improve the timeliness and accuracy of their audited financial statements, but we recognize that there's still a lot of work left to do. The preparation of auditable financial statements and the resolution of audit findings are the most fundamental and universally recognized measures of good financial management." David Cohen, Director, U.S. Department of Interior, Office of Insular Affairs



After a hard day's work the participants from the 2004 IGFOA conference take a moment to enjoy the island of Maui.

December 2004 IGFOA meetings. The IGFOA meetings also created a forum to outline problems, exchange ideas for best practices and to hear how other states and cities manage the audit resolution process. Perhaps more importantly, the sessions allowed time for finance officers to discuss and write plans that addressed problems specific to their government. Deborah Milks, the PITI/VITI project manager for the audit improvement project then provided feedback on those plans and procedures as well as kept track of their progress.

Have the governments progressed? Absolutely! When the challenge was announced in December of 2003 none of the insular governments had begun the

FY 2003 audit process. By the next IGFOA meeting in June 2004, one government, the Republic of the Marshall Islands (RMI), was current with their single audit. By December 2004, Guam joined the RMI as the second insular government to complete the FY 2003 audit, with the Republic of Palau and the CNMI very close to finalizing FY 2003. As we go to press most of the insular governments are focused and on track to catch up to the June 30, 2005 deadline for completion of their FY 2004 single audits.

In addition to showing improvements in audit timeliness, the governments are also experiencing a decline in the number of findings and questioned costs. For

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AUDITORS AND ACCOUNTANTS

Are you an auditor looking for an affordable option for obtaining up to 40 hours of continuing professional education (CPEs) credits? Are you a financial manager wanting to know more about new financial management reporting requirements? Or, maybe you are responsible for contracting and procurement functions within your organization but not all that sure about what your responsibilities entail. Perhaps you are an entry level or recently hired accounting or finance government employee in need of some basic financial management skills training. And, no doubt, you are in need of a week in a beautiful and relaxing Pacific location. If you are shaking your head "yes" to any of the above, the 16th annual Association of Pacific Island Public Auditors (APIPA) Conference might just be the perfect answer.

APIPA is a forum comprised of public auditors from each of the Pacific insular areas and the US Virgin Islands. Each year the APIPA Conference provides public auditors and financial managers from across the Pacific region with the opportunity to earn up to 40 hours of continuing professional education (CPE) credits. Each year the U.S. Department of Interior's Office of Insular Affairs and the Graduate School, USDA's Pacific Islands Training Initiative have supported the APIPA conference by providing instructors and administrative support.

The Republic of Palau (ROP) hosts this year's conference during the week of July 11-15, 2005. ROP's Office of Public Auditor expects participants from Public Auditor's Offices in Guam, Federated States of Micronesia, American Samoa, U.S. Virgin Islands, Commonwealth of Northern Mariana Islands, Republic of the Marshall Islands, Pohnpei State, Kosrae State, Yap State and Samoa.

This year's APIPA Conference will expand on a trend began three years ago by offering two training tracks for partici-



Republic of Palau's Public Auditor, > Satrunino Tewid (center), and his staff are ready to welcome participants to > the 2005 APIPA Conference to be held on Koror, Palau, July 11-15.

pants interested specifically in financial management and governmental accounting issues. Since the past few APIPA conferences have drawn over one hundred participants for the finance track, this year conference will offer a 4th track for participants that are fairly new to government finance or are in support positions that require a basic understanding of financial management, grants management, and governmental accounting concepts. As in past years, the conference will also offer a "Basic Auditing" training track as well as a "Audit Supervisor" track specifically for audit supervisors and managers.

PITI will provide five instructors for this year's APIPA conference. Thomas Barchi and Dr. Nicholas "Nick" Zacchea will spearhead the Basic Auditing and Audit Supervisor tracks. Both Tom and Nick are two of the Graduate School, USDA's most sought after auditing instructors and provide a wealth of audit and audit supervisor experience. Although Tom has previously provided training as a PITI instructor at several locations this will be

Nick's first trip to the Pacific with the PITI program. Frank Crawford will again be at APIPA to deliver the Finance track sessions. Charles Hester and Jeanne Yamamura will each deliver a session in the Basic Finance track.

For more information contact the Republic of Palau, Public Auditor Satrunino Tewid at (680) 488-2889. Fax: (680) 488-2194 Email: palau.public.auditor@palaunet.com

"Personally, I think this is the most successful program in bringing and improving the concept of government accountability to the islands."

Satrunino Tewid
Public Auditor/Chairman, APIPA 2005
Republic of Palau



16th Association of the Pacific Islands Public Auditors Training & Workshop

P. O. Box 850, Koror, Palau 96940 Tel: 680-488-2889/5687 Fax: 680-488-2194 E-mail: palau.public.auditor@palaunet.com

	Track	Number	Topics	CPE	Instructor	Venue
Monday, July 11						
8:00 am - 12:00 pm	Plenary Session	T11-10	Government Financial Statements: Tips for the Future	4	Frank Crawford	TBD
1:00 pm - 5:00 pm	Basic Auditing:	T11-20	Conducting Performance Auditing (cont. Tues.)	12	Tom Barchi	TBD
	Audit Supervisor:	T11-30	Contract Auditing and Procurements (cont. Tues.)	12	Nick Zacchea	TBD
	Basic Finance:	T11-40	Grants Management: Administrative Requirements for Grants & Contracts (cont. Tues.)	12	Chuck Hester	TBD
	Finance Track:	T11-50	Ethics in Government Finance	4	Frank Crawford	TBD
Tuesday, July 12						
8:00 am - 5:00 pm	Basic Auditing:	T11-20	Conducting Performance Auditing (cont. from Mon.)	12	Tom Barchi	TBD
	Audit Supervisor:	T11-30	Contract Auditing and Procurements (cont. from Mon.)	12	Nick Zacchea	TBD
	Basic Finance:	T11-40	Grants Management: Administrative Requirements for Grants & Contracts (cont. from Mon.)	12	Chuck Hester	TBD
	Finance Track:	T12-10	Governmental Financial Reporting and its Effect on the Budgeting Process	8	Frank Crawford	TBD
Wednesday, July 13						
8:00 am - 5:00 pm	Basic Auditing:	T13-10	Evidence Collection Techniques for Audits and Investigations	8	Nick Zacchea	TBD
	Audit Supervisor:	T13-20	Quick Response Audits	8	Tom Barchi	TBD
	Basic Finance:	T13-30	Nuts and Bolts of Governmental Accounting and Reporting (cont. through Fri.)	20	Jeanne Yamamura	TBD
	Finance Track:	T13-40	Single Audits and A-133: A Case Study	8	Frank Crawford	TBD
Thursday, July 14						
8:00 am - 5:00 pm	Basic Auditing:	T14-10	Working Paper Preparation	8	Nick Zacchea	TBD
	Audit Supervisor:	T14-20	Creative Thinking for Auditors	8	Tom Barchi	TBD
	Basic Finance:	T13-30	Nuts and Bolts of Governmental Accounting and Reporting (cont. through Fri.)	20	Jeanne Yamamura	TBD
	Finance Track:	T14-30	Recent GASB Standards Updates	8	Frank Crawford	TBD
Friday, July 15						
8:00 am - 12:00 pm	Basic Auditing:	T15-10	Developing and Presenting Audit Findings	4	Tom Barchi	TBD
	Audit Supervisor:	T15-20	Developing Meaningful Audit Programs	4	Nick Zacchea	TBD
	Basic Finance:	T13-30	Nuts and Bolts of Governmental Accounting and Reporting (cont. from Fri.)	20	Jeanne Yamamura	TBD
	Finance Track:	T15-30	Ratio Analysis: How You Did and Why?	4	Frank Crawford	TBD
1:00 pm - 5:00 pm	Plenary Session	T15-40	Investigating Bribes, Kickbacks, and Payoffs	4	Nick Zacchea	TBD

* Lunchtime 12:00 pm - 1:00 pm

* TBD-to be determined after registration: proposed venues are Ngarachamayong Cultural Center & Palau International Coral Reef Center



Congratulations to **Ruth Wong** for her selection as this issue's Outstanding Island Administrator. We were fortunate to steal a few minutes of her time because she was in the midst of a computer upgrade when we contacted her. She was quite busy looking for missing payroll checks and solving other computer problems. A little 'nerve racking', but hopefully she and the government survived.

Ruth currently serves as Controller for the Republic of Palau (ROP) and the government truly depends on her expertise to keep things running smoothly. She is also responsible for aspects of ROP's finances including the chart of accounts, fixed asset depreciation schedules, and the financial statements.

Ruth served in a variety of positions before her appointment as Controller. She started with the government as a Computer Operator for Palau's initial finance system. It seems that with each job Ruth absorbed more and more responsibility, which led to a higher graded position and even more responsibility. Along the way she was

appointed System Assistant Manager and Systems Accountant where she added the COFA (Compact of Free Association) expenditures and drawdowns to her responsibilities. Then, she became the Acting Director of the Bureau of National Treasury. She serves as a wonderful model for those who aspire to move up by learning along the way and expanding their responsibilities.

Her boss, the Honorable Elbuchel Sadang, Minister of Finance, agrees. He said, "When I first joined the Ministry of Finance as Director of the National Treasury in 1994, Ruth Wong was already an integral member of the Ministry. Ruth is straightforward and practical, and has a deep sense of integrity and honesty. These traits, combined with a strong work ethic, have ensured Ruth's success in the myriad tasks she deals with on a daily basis.

Ruth is known for her no-nonsense attitude, and has remained unbiased and non-political through the years and various changes in government. Local government leaders know that Ruth can be depended upon for impartial, accurate

and concise financial data, indeed, she is the ideal role model for integrity and transparency in good governance

Ruth is playing an important role in DOI, Office of Insular Affairs' accountability project (see article on page 1). Ruth helped form ROP's audit resolution team that included the Public Auditor. She's faced some difficulties in getting the appropriate people to compile schedules of buildings and infrastructures. Initial discrepancies led to findings in the audit report, which ultimately led to more time spent reconciling the information. Ruth said, "... if they (CIP manager and engineer) only gave us the same time and attention before we would not have had to meet with an external auditor," to get the right figures. She credits the Public Auditor on the team with helping to explain the audit findings to the departments. Now everyone is beginning to understand the seriousness of having to comply with the Federal rules and regulations, as well as the ROP policies and procedures.

With all that work, has Ruth ever ventured off-island? Yes, in fact, all the way to Tennessee. Ruth graduated from William Jennings Bryan College in Dayton, Tennessee in 1982 where she played varsity softball and volleyball. In such a small town it's easy to make lifelong friends. Ruth still keeps in touch with some of her classmates and hopes to see them again sometime in the future. Ruth also regularly attends the Island Government Finance Officer meetings held on the continental US and Hawaii. Many thanks for her hard work and dedication throughout her years of service.

"Her financial skills and acumen continue to be tremendous assets to the Ministry of Finance, and we congratulate her on her selection as Outstanding Island Administrator. Well done Ruth!" Honorable Elbuchel Sadang, Minister of Finance, Republic of Palau

MEET "CHUCK" HESTER

Congratulations to **Charles "Chuck" Hester** on being chosen as the Instructor of the Quarter for this issue of the IGFMQ. One of the most popular and sought after PITI instructors, Chuck is well equipped to provide training and technical support in auditing and financial management to the insular governments. Armed with over 35 years of professional public sector financial management and his patented cowboy boots, Chuck skillfully trains participants and assists the governments in a variety of ways.

After graduating with a degree in Business Administration from California State University in 1969, Chuck began his career in the federal government as an auditor with the U.S. Department of Health, Education, and Welfare. He also served 15 years with the U.S. Department of Transportation including a stint as Regional Program Manager for the Office of the Inspector General. In 1988 Chuck joined the Federal Emergency Management Agency's (FEMA's) Office of the Inspector General and retired seven years later as FEMA's Western District Inspector General. In addition to his many years of professional experience Chuck is a Certified Public Accounting, a Certified Government Financial Manager, a Certified Fraud Examiner and Fraud Specialist and a member of the American Institute of Certified Public Accountants.

It was while overseeing FEMA's audit programs in the Pacific that Chuck began traveling out to Micronesia and American Samoa. He developed a rapport with the island governments and a love for its people. We caught up with Chuck on his way to Guam to serve as a Technical Consultant for the Association of Pacific Island Public Auditor (APIPA) for the Guam Office of the Public Auditor's Peer Review.

IGFMQ: You have been working with the Pacific insular governments for a long time. What are the most important changes you have noticed over the years? What has remained about the same?



Chuck Hester (front center) poses with participants from one of his classes on indirect costs.

Chuck: I think one of most significant changes that I have noticed has been how quickly the Pacific island governments have embraced the new millennium. Every visit I see enormous progress in the use of technology. The ability to access the internet and get e-mail is on a par with most places I go on the mainland. In addition, I love the participants' enthusiasm in the grants management courses that I teach. They enjoy learning how to access the Federal government's new grants.gov system.

The commitment to trying to do it right would be the one thing that has remained the same since day one. From the very first course I taught for each of the Pacific island governments I have seen a true commitment from everyone ranging from senior leaders to the individuals responsible for the day-to-day activities and functions. I often tell people on the mainland that the highly motivated and dedicated Pacific island government employees serve as models for career public servants everywhere.

IGFMQ: What accomplishments have you seen in the islands that are related to your work?

Chuck: Most of the accomplishments are a direct result of the dedicated individuals from the insular governments. Hopefully I've contributed some knowledge and experience along the way. During the past several years I have been working with the insular areas, the

community colleges in the region and various other organizations to train a cadre of individuals on cost allocation plans and indirect cost rate proposals. We have made enormous progress in getting all of them up-to-date. Most of these organizations were years behind in developing their plans and proposals. Now, working together, most are current and their rates have substantially increased. This has resulted in a real increase in revenue to the various organizations. I am particularly proud of the first graduates from the Grants Management Certificate Program that I helped develop for the Graduate School, USDA.

Chuck's approach to training hasn't gone unnoticed by the insular governments. Mr. Casten Nemra, Director of Customs and Immigration for the Republic of the Marshall Islands, summed up Chuck's contribution to the insular governments best:

"To be an effective teacher and change agent in Micronesia, it is imperative that instructors understand the unique situation in which they are working. We have seen many instructors and consultants over the years that come in and do all the work for us without teaching us how to do the work ourselves. The problem then arises when the instructor or consultant leaves island and our local employees do not understand how to do the task for which they were supposedly trained. Charles Hester has the unique ability to mentor students on the job so that they can do the work themselves and are confident in their jobs even after he leaves island. Add to this Charles' professional attitude and deep-rooted understanding of Pacific island culture. He is an invaluable resource to our government."

Congratulations again Chuck on being selected Instructor of the Quarter. We hope to see you for many years to come in the islands.

PEOPLE ON THE MOVE

The Graduate School, USDA is pleased to announce the hiring of **Jason Aubuchon** as a Project Manager for the Pacific Islands Training Initiative (PITI).

Well known throughout Micronesia, our readers on Pohnpei will be especially familiar with Jason. After graduating from Spring Hill College in 1997, Jason served as a Jesuit Volunteer teaching English for two years at the Pohnpei Agriculture and Trade School (PATS). From 1999-2004 Jason served as Assistant Director of the Micronesian Seminar, a well-recognized non-profit, non-governmental organization providing community education to several island nations in the Western Pacific. For the past two years as a consultant Jason has held a number of assignments including that of Marketing



Consultant to the FSM's Telecommunications Corporation, as a columnist and correspondent for *Pacific Magazine*, and as Lead Coordinator for the 3rd FSM Economic Summit. Of late Jason has developed websites for a number of Pacific organizations and institutions.

Jason possesses strong computer, communication and multi-media skills which the Graduate School plans to utilize in a number of ways including the development of a much improved PITI website. In the meantime, Jason will be attending the June IGFOA meeting in San Antonio and the 16th Annual APIPA Conference in July on Palau. If you're attending those events, be sure to say 'hello' and welcome him to PITI. Jason can be reached via email at: jason_aubuchon@grad.usda.gov

Through the years the insular governments have seen many people come and go. No doubt the retirement of **James Johnson**, DOI/OIA's Director of Technical Assistance will be sadly felt across the Pacific islands. Many people have heard of James but few know much about him. After graduating from high school at the age of 16, James attended South Carolina State University. Shortly afterward James was drafted into the U.S. Army where he served in both Vietnam and Germany.

While en route to Vietnam in 1969 James' unit stopped on Guam. He gained an instant appreciation for Guam's beauty and tranquility and hoped he would visit the territory again. After his honorable discharge in 1971 James progressed through several government positions, ultimately landing in the U.S. Department of the Interior's Office of Territorial and International Affairs which later became the Office of Insular Affairs.

We caught up with James toward the end of his last official visit to the Pacific, a two week trip to Saipan, Palau and Guam, to assess their respective OIA Technical Assistance projects. Although he is looking forward to retirement he was reflective at the end of this trip. He undoubtedly has grown very close to the insular governments in the 26 years he worked for the Department of Interior.

James said he has observed tremendous improvement in the insular areas but admits there is still a lot of work to be done. "In the beginning of OIA's Technical Assistance program we concentrated on building capacity in the insular governments so we funded outside training and technical services for the governments. In the last few years the Pacific islanders are relying more on their own capacity and less on outsiders. Although I won't be in the picture much longer we have developed a solid foundation for continued growth and development. I am especially proud of APIPA and IGFOA, two professional institutions that I have had the privilege of working with over the years."

What changes has he noted? When the financial systems were first installed in the early 1980s computer and accounting vendors weren't interested in selling their products to the insular governments. James attributes this to the vendors' perception that the insular areas lacked the necessary skills and manpower to manage the systems. Now, with competent local employees the vendors frequently market their products in the region.

What will he miss the most? Without hesitation James indicated he will miss the people. "Not only was I able to see the insular governments grow over the years but I have grown as a person along with them. That has been priceless." Then, with a big smile he commented he will also miss the fishing. As the islands experience a loss with



James Johnson confers with Ira Mills, Director of the Office of Management and Budget for the U.S. Virgin Islands at a recent gathering of the Island Government Finance Officers' Association (IGFOA)."

James' retirement, so will DOI/OIA. Deputy Assistant Secretary David Cohen commented, "Jim Johnson and the OIA technical assistance program that he has run so well have had a very important impact on the development of the insular areas. He will be impossible to replace. We will truly miss him, and the islands will certainly miss him as well."

Congratulations James on a job well done. Best of luck to you and Emma as you enter this next exciting time of your lives.

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instance, Guam dropped the number of findings by 50% from FY 2002 to FY 2003. The US Virgin Islands dropped their number of findings by about 25% from FY 2001 to FY 2002. Each government has an added goal of eliminating findings that are repeated year after year.

But the numbers tell only a small part of the story. The insular government finance offices have parlayed many of the best practices into action, thus building a base from which they can continually improve. They have modified audit contracts and opened better communications with their auditors. The improved relations with the auditors allow them to track the progress of the audit and forestall potential audit findings. They have established formal processes and procedures that require written corrective action plans. They have followed up with departments on compliance, responded to federal agency inquiries on findings, and monitored resolution of outstanding findings.

Most of the governments are tackling the universal qualification of late and non-reporting component units in a variety of ways. First many governments now require the component units be included in the primary government audit contract. The component units are notified of audit deadlines, receive follow-up letters from the chief executive and/or the public auditor. In the Republic of Palau, the component units are motivated to comply because noncompliance may lead to financial penalties. And, most significantly, the finance officers are partnering with their public auditors to resolve single audit deficiencies in component units and other government agencies.

What lies ahead? The governments must determine how to address the underlying problems that result in audit findings and qualifications. At the December 2004 IGFOA meeting on Maui, the finance officers developed plans that address some of those problems. Each government selected at least two priority areas based on their audit analyses that categorized findings and questioned costs by problem area (see Figure 1: Audit



Representatives from American Samoa, Pohnpei State, Republic of the Marshall Islands, Republic of Palau, and the US Virgin Islands discuss how to reduce the number of audit findings and questioned costs.

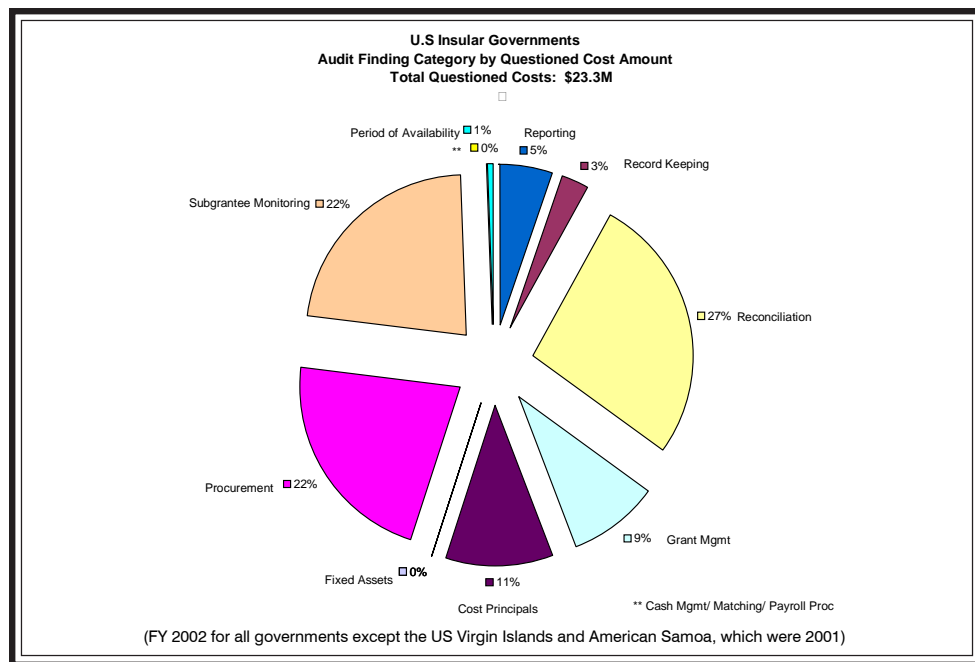
Finding Category By Questioned Cost). Their plans included quarterly progress reports, which five of the seven insular governments had completed as of March 31, 2005. The government plans also identified areas where they need training or technical assistance to address the underlying causes. Many of their issues require long-term capacity building of finance and department staff as well as redesigned procedures and internal controls.

The Graduate School, USDA and IGFOA have met OIA's challenge the first year by building a base of improved procedures and providing momentum to improve audit effectiveness. OIA continues to

focus on the importance of audit timeliness and the resolution of audit findings through Ms. Marina Tinitali, the Accountability and Insular Policy Specialist. Additionally, audit responsiveness is now a consideration when awarding grants to the insular areas.

To help with the long standing fixed asset accounting problems OIA has provided funding for technical assistance and training. And PITI/VITI continues to provide hands-on assistance in basic accounting procedures for reconciliation, procurement and grant management among other needs.

Improving the audit problems in the insular governments requires long term solutions. But, with the energies, resources and teamwork of OIA, the public auditors, the IGFOA members and PITI/VITI all focused on audit timeliness and resolution, we will continue to show measurable success. As summarized by Lou Perez, the President of IGFOA, "By using the single audit as a management tool of the government and focusing both internal resources and external technical assistance towards improving the quality of the single audit, the government is actually improving the quality of all government services."



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 promoting 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.