

INSULAR GOVERNMENT FINANCIAL MANAGEMENT QUARTERLY

SUMMER 2006
VOLUME III, ISSUE 1

Kasehliele!

As this edition of the IGFMQ newsletter is being released in time for the 17th annual APIPA Conference, I would like to take this opportunity to welcome all the APIPA participants to Pohnpei. I hope this year's APIPA conference meets everyone's expectations for quality training and networking opportunities. Each island community has their own unique and wonderful way of welcoming visitors to their island and I am sure this year's gathering on Pohnpei will be no exception.

Congratulations to APIPA on seventeen years of solid organizational development. I've attended most of the APIPA conferences over the years and have enjoyed each and every one. It has been gratifying to simultaneously watch both the quality of the APIPA conferences and the effectiveness of each insular government's audit capabilities grow each year.

With so many finance officers attending this year's APIPA Conference I would also like to take this opportunity to congratulate the Insular Government Finance Officers' Association (IGFOA) for seven years of continued professional development. It was very evident at the most recent IGFOA meeting that all the insular governments have made substantial progress towards producing timely audits, as well as resolving outstanding audit findings and questioned costs. A special recognition to Pohnpei State is in order for their 2005 audited financial statements which not only met the June 30 audit filing deadline but also resulted in unqualified opinions on their financial statements, with no questioned costs.

Through the years, institutional support to APIPA and IGFOA, as well as PITI/VITI training, has been made possible through technical assistance from the U.S. Department of Interior's Office of Insular Affairs. With their continued support, we look forward to many more regional successes.

Stephen Latimer
Graduate School, USDA

Pohnpei State Leads the Way

Pohnpei State has raised the financial management and accountability bar even further with the issuance of its annual financial statements for fiscal year 2005. In addition to receiving an unqualified audit report on its financial activities, Pohnpei State became the first insular government to do so while reporting zero questioned costs. Not only is this the first time that Pohnpei State has received "clean" opinions on its financial statements, but it is the first time any of the Federated States of Micronesia (FSM) state or national governments have received an unqualified opinion.

There were no shortages of problems and challenges that needed to be addressed by Pohnpei State when Finley Perman assumed the position of Director of Treasury and Administration in March 2004. The annual audits were behind and the number of qualifications on the prior audit reports indicated serious accounting and internal control weaknesses in virtually every area of the State's financial operations and most of its component units. With Chief of Finance, Andrew Joseph, and financial advisor Ursula Abalos leading the way, Pohnpei State wasted no time in tackling these issues. Looking ahead two years later, there has been a remarkable turnaround. In the past twenty-four months Pohnpei State has issued its 2003, 2004, and 2005 financial statements, which not only makes them the first Micronesian government to finish its FY 2005 audit, but to date, the only to do so by way of an unqualified opinion.

The detailed achievements of Pohnpei State's top-notch finance team over the past two years tell the story of what committed leadership can accomplish. Here's a snapshot:



Pohnpei State's Department of Treasury and Administration is led by (l-r) Chief of Finance Andrew Joseph, Director Finley Perman, and Financial Advisor Ursula Abalos.

Clean audit opinions. The audit opinion for Pohnpei State's fiscal year 2002 financial statements was qualified for accounting inadequacies in cash, travel advances, accounts receivable, accounts payable, expenditures, fixed assets and continuing appropriations. Through management's focused, hands-on approach to problem resolution and commitment to staff training, the fiscal year 2005 independent auditor's report eliminated all qualifications.

Resolution of component unit problems. After cleaning up the finance operations of the State government, Pohnpei focused on removing the many audit qualifications relating to Pohnpei State's component units. Pohnpei State's finance management team took the initiative in helping the staff of Pohnpei State Housing Authority, Pohnpei Transportation Authority, Pohnpei Fisheries

continued on page 7

17TH ANNUAL APIPA CONFERENCE

FSM Prepares for APIPA 2006

Whether you're an auditor looking for continuing professional education (CPE) credits or a financial manager concerned about upcoming Governmental Accounting Standards Board (GASB) updates, the 2006 Association of Pacific Island Public Auditors (APIPA) Conference promises to deliver. Scheduled for July 24-28, 2006, in Pohnpei, the 17th Annual Conference will feature seven leading-edge instructors offering 20 courses, and is expected to attract participants from throughout the Pacific and Virgin Islands.

For Pacific-based accounting and finance professionals, the APIPA conference has become a premiere annual gathering, with timely courses delivered by leaders in the audit and finance professions. Courses on performance auditing, emerging GASB, AICPA and Yellow Book standards, strategic planning, pre- and post-award procurement considerations, and ethical transparency in the public sector, are just a few of the topics that will be offered this year. A complete list of courses is shown on the opposite page, and additional information on instructors, activities and registration information has been posted on the official conference website, apipa2006.org.

"The FSM Office of the Public Auditor is looking forward to hosting this year's APIPA conference," said Haser Hainrick, the FSM National Public Auditor and Chairman of APIPA. "I'm very happy with the selection of courses for this year's conference, as well as the instructors who will be providing course delivery. In addition to the usual auditing participants, we're also encouraging attendance from finance officers from both central governments and component units. The topics being covered in the conference are critical for government employees and the healthy growth of the public sector."

APIPA is an organization comprised of public auditors from American Samoa,



FSM National Government Public Auditor, Haser Hainrick (back row right), and his staff are ready to welcome participants to the 2006 APIPA Conference to be held on Pohnpei July 24-28.

Guam, CNMI, FSM, Palau, the Marshall Islands, and the US Virgin Islands. In addition to hosting an annual conference, APIPA also conducts peer reviews of audit offices and coordinates ongoing, inter-office training. This year's instructors, as well as administrative conference support, is being provided by the Graduate School, USDA's *Pacific Islands Training Initiative* with funding provided by the U.S. Department of Interior's Office of Insular Affairs.

The 2006 keynote plenary session will be provided by Ms. Marion M. Higa, the Hawaii State Auditor. Ms. Higa brings over 35 years of professional auditing experience to the conference, and is expected to discuss issues of transparency in the public sector. She will be complemented by Susan Baugh and Cheryle Broom, who provide training and technical assistance on strategic planning, performance auditing and performance management, as well as Elizabeth Cohn, who has an extensive history of designing and

conducting courses on audit report writing. Finally, Colonel Ralph Capio will address pre-award and post-award procurement considerations, as well as head the final plenary discussion on ethical concerns for public sector employees.

Frank Crawford and Jeanne Yamamura, both of whom participated in the 2005 APIPA conference, will return to deliver courses in Pohnpei. Frank will be providing updates on the Performeter®, as well as emerging AICPA and GASB standards, while Jeanne will re-deliver a three-day course on the "Nuts and Bolts of Government Accounting," which has been extremely well-attended and well-received.

For more information, contact the FSM Office of the Public Auditor. They can be reached by phone at (691) 320-2862, or by e-mail at info@apipa2006.org. Complete conference information is online at apipa2006.org.

FSM National Govt 2006

APIPA

Association of
Pacific Islands Public Auditors
apipa2006.org

	Monday July 24		Tuesday July 25		Wednesday July 26		Thursday July 27		Friday July 28	
	AM	PM	AM	PM	AM	PM	AM	PM	AM	PM
Audit	Opening Plenary: Transparency in the Public Sector <i>Marion Higa</i>	Conducting Performance Audits <i>Cheryle Broom & Susan Baugh</i>	Developing & Presenting Audit Findings <i>Betsy Cohn</i>	Report Structure: How to Reach Your Audience <i>Betsy Cohn</i>	Fraud Auditing: What You Should Be Looking For <i>Frank Crawford</i>					
Audit Supervisory	Reviewing Audit Reports <i>Betsy Cohn</i>	Review of Current Yellow Book Standards <i>Marion Higa</i>	Project Management of Performance Audits <i>Cheryle Broom & Susan Baugh</i>	Audit Risk Update: New AICPA Standards <i>Frank Crawford</i>	Strategic Planning for Audit Offices <i>Cheryle Broom</i>					
Basic Finance	What Auditors Do and How to Make Them Go Away Happy <i>Jeanne Yamamura</i>	Performance Measures and the Service Delivery Model <i>Betsy Cohn</i>	Nuts and Bolts of Governmental Accounting <i>Jeanne Yamamura</i>							
Finance	Performer@ Update <i>Frank Crawford</i>	GASB Standards Update <i>Frank Crawford</i>	Pre-Award Procurement Considerations <i>Ralph Capio</i>	Post-Award Procurement Considerations <i>Ralph Capio</i>	Mgt. Controls for Financial Managers <i>Cheryle Broom & Susan Baugh</i>					
										Closing Plenary: Ethical Considerations for Public Sector Employers. <i>Ralph Capio</i>

17th Annual Conference

Pohnpei, Federated States of Micronesia, July 24-28, 2006

FINLEY PERMAN

When analyzing the reasons behind Pohnpei State's remarkable turnaround in their financial management reporting requirements, three words sum it up: Leadership, Vision and Commitment. One of the smartest decisions Governor-elect Johnny David made when he took office in January 2004 was to select Finley Perman to manage Pohnpei State's finances. Pohnpei State's accomplishments these past two years have earned Finley the Outstanding Island Administrator for this issue of the IGFMQ.

Although Finley has very strong professional credentials, managing a government finance office was probably the last thing on his mind while in college. After graduating from high school on Pohnpei in 1984, Finley attended Hawaii Pacific College (now known as Hawaii Pacific University) from 1984–1987, majoring in Travel Industry Management. Finley only took one accounting course and admits that it was probably the lowest grade he had while in college.

Finley held several jobs after college but his work from 1994–1999 as an auditor for the FSM National Government's Office of the Public Auditor laid the groundwork for a thorough understanding of government finance and public sector accountability.

Following six years as an auditor and eventually becoming the acting Public Auditor, Finley traded the quiet life of Pohnpei for the Big Island of Hawaii where from 2000–2002 he supported his wife Debra while she attended college at the University of Hawaii at Hilo. During that time he looked after his young son Ivynn who is currently finishing up his sophomore year at Xavier High School on Chuuk. Following the family's return to Pohnpei in 2002 Finley accepted a position with the Pohnpei Small Business Guarantee and Finance Corporation as a Business Development Specialist, a position he held until Governor-elect



David selected him in March 2004 to become Director of Pohnpei State's Department of Treasury and Administration. Pohnpei State's achievements in financial management over the past two years has been nothing less than stellar as evident from the article on page 1 of this newsletter.

So how did Pohnpei State achieve such remarkable results in just over two years, completing the 2003, 2004, and 2005 audits while obtaining clean opinions on their 2005 financial statements with zero questioned costs? "I took a look at the situation Pohnpei State was in when I first came into office and recognized that it wasn't very good," Perman stated. "By focusing on improving results we have been able to achieve some very positive outcomes. Governor David set a goal very early in his administration for Pohnpei State to receive clean audit opinions on their financial statements before the end of his first term. Almost immediately I sat down with each member of my staff and asked for their support to achieve Governor David's goal."

"We have very skilled and committed staff in this Department. Accounting wasn't my strength so I spent quite a bit of time early on reading accounting textbooks to

increase my understanding of accounting concepts and practices. Although it was important for me to have a strong understanding of accounting concepts, I saw my role primarily as providing good leadership to enable the staff to perform at their highest level," commented Perman.

One area that needed special attention was Pohnpei State's seven component units, a relatively large number when compared to the 2-3 component units in the other FSM states. "These component units were trying to produce reliable financial statements without trained accountants. We immediately began paying special attention to the needs of the component units even bringing in a CPA accountant from the Philippines to work directly with them."

So what does Finley do when he isn't reading through financial statements and managing the office? "I like to just go home at the end of the day and relax by watching television. I also like getting out on the water on my boat and doing a bit of fishing."

Congratulations, Finley, on your selection as this issue's Outstanding Island Administrator.

"By focusing on improving results we have been able to achieve some very positive outcomes. Governor David set a goal very early in his administration for Pohnpei State to receive clean audit opinions on their financial statements before the end of his first term. Almost immediately I sat down with each member of my staff and asked for their support to achieve Governor David's goal."

*Finley Perman,
Director of Pohnpei State's Department
of Treasury and Administration*

MEET MARION HIGA

Marion Higa's second eight-year term as the Hawaii state auditor will be completed in 2008. After more than thirty-five years with the Office of the Auditor and fourteen as its head, Ms. Higa has built an impeccable reputation. Words like *accurate, reliable, and unbiased* are routinely used to describe her office, which was established through the Hawaii constitution and enjoys a great deal of authority. In addition to providing budgetary protection to the Office of the Auditor, the constitution also empowers the office to examine and inspect all books, records, files, papers, documents and financial affairs of every state and county agency, as well as the ability to compel testimony by way of subpoenas.



Ms. Higa was appointed public auditor twice, both by unanimous vote of the Senate and House of Representatives, and can serve unlimited eight-year terms, subject to removal only by a two-thirds vote of a joint session of the legislature. A recent article in the *Honolulu Star Bulletin* describes Ms. Higa well, as "one of the most trusted—and feared—women in the islands."

As the keynote plenary speaker at the 2006 APIPA Conference in Pohnpei, Marion Higa sees substantial commonalities between her office and those of the Pacific islands public auditors. These similarities relate not only to the challenges of conducting independent audits in small communities, but also to the development of working relationships with legislative bodies.

"I see my responsibility as more than pointing fingers and finding fault," Ms. Higa says. "Our broader mission is to improve government through those that we audit."

The Hawaii State Auditor issued sixteen reports in 2005 on topics that included a

review of the University of Hawaii's financial system, several elementary schools, the Attorney General's office, and the Office of Hawaiian Affairs. With an emphasis on performance evaluation, many of the audits conducted are high-profile, and garner substantial public attention. Regardless of the publicity surrounding individual audits, however, Ms. Higa ensures that audit processes are approached constructively.

"We always look towards recommendations that improve matters," she says. "We want to cause change and implement best practices. Often times in conducting audits we find issues that people within agencies know exist, but are powerless to change. So we speak on behalf of the general public—the taxpayers. I realize that the audits can be harsh for those being audited, and we get complaints, but they're an integral part of the democratic process."

Ms. Higa previously attended an APIPA conference in American Samoa in 2000,

and spoke at the Island Government Finance Officers' Association meeting in Hawaii in 2004. Her familiarity with the region has her excited about this year's conference.

"I'm definitely looking forward to APIPA in Pohnpei, and I understand the conference is now much larger than it was when I participated in American Samoa. The keynote plenary presentation is both a challenge and opportunity. I'm very sympathetic to the tough work of auditors in small communities and can relate to their situations based on my own, here in Hawaii. In small communities you could be auditing relatives and friends, and that's never easy."

With national recognition that includes a recent, four-year appointment by the U.S. Comptroller General to his Advisory Council on Auditing Standards, Ms. Higa brings a wide breadth of knowledge and experience to her relationship with the Pacific. Her keynote presentation will open the APIPA conference on July 24th.

"We always look towards recommendations that improve matters. We want to cause change and implement best practices. Often times in conducting audits we find issues that people within agencies know exist, but are powerless to change. So we speak on behalf of the general public—the taxpayers. I realize that the audits can be harsh for those being audited, and we get complaints, but they're an integral part of the democratic process."

Marion Higa,
Hawaii State Auditor

CNMI HOSTS 2006 SPASAI CONGRESS

If you were on Saipan in late May you may have noticed quite a few auditors walking the streets of Garapan. During the week of May 22–26, the CNMI Office of the Public Auditor hosted over 25 visiting auditor-generals and their representatives from around the Pacific and China, along with representatives from the United Nations/INTOSAI, the Asian Development Bank, and the U.S. Government Accountability Office.

The auditors were gathering for the South Pacific Association of Supreme Audit Institutions (SPASAI) Congress 2006. SPASAI is just one of several regional Supreme Audit Institutions under the umbrella of the International Organization of Supreme Audit Institutions (INTOSAI), a United Nations affiliated organization whose mission is to provide mutual support, foster the exchange of ideas, knowledge, and experiences, and act as a recognized voice of audit institutions within the international community. Established in 1953, INTOSAI is an autonomous, independent and non-political organization with over 170 participating governments worldwide. Supreme Audit Institutions, synonymous to APIPA members' offices of the Public Auditor, are the highest level of audit oversight in their respective governments and, as such, play a major role in auditing government accounts and operations, as well as promoting sound financial management and accountability in their governments.

As SPASAI's constitution mandates, SPASAI members assemble at least once every three years. The May Congress 2006 gathering on Saipan was the first time a SPASAI Congress event was held in an APIPA representative government, and the first time the CNMI has hosted such an important gathering. The last two SPASAI Congress gatherings were held in Samoa and the Cook Islands.

Standardizing auditing standards, discussing terrorism activities and anti-



2006 SPASAI Congress

Saipan, Northern Mariana Islands
May 22-26, 2006

terrorism efforts in the Pacific, procurement fraud, and U.S. accountability initiatives in the insular governments were among the key topics of the conference.

Participants in the 2006 SPASAI Congress included representatives from 18 member countries including the CNMI, Guam, American Samoa, Palau, the FSM, the Marshall Islands, Fiji, Papua New Guinea, New Zealand, Cook Islands, Samoa, New Caledonia, the Solomon Islands, Kiribati, Vanuatu, Tonga, and Tuvalu. China, although not a member of SPASAI, sent 4 representatives to Saipan which included two representatives from the China National Audit Office.

"Hosting the representatives of the participating audit organizations from governments throughout the Pacific and China, as well as representatives from various international organizations, was a privilege. I'm also quite honored to have been selected Chair-

man of this international organization," CNMI Public Auditor and host of the SPASAI Congress Mike Sablan commented. "The proposed move toward harmonizing standards makes a lot of sense professionally. The challenge will be in reaching some workable reconciliation among the various standards given the significant differences in legislative framework in governments. Taking advantage of having the conference in our region, the APIPA participants capitalized on opportunities to share and showcase audit capacity improvements we've all realized in our respective offices. While there's a lot to be proud of in terms of where the APIPA offices have come over the last several years by way of improvements in audit capabilities, there appears to be much more room for further improvement, particularly in the areas of environmental auditing, information technology, and value auditing," Sablan said.

continued on page 7

Pohnpei *(continued from page 1)*

Corporation and Economic Development Authority clean up their accounting records and practices, prepare bank reconciliations and compile financial statements. After six-months of intensive effort, all audit qualifications related to Pohnpei State component units had been removed from the FY 2005 independent auditor's report.

Questioned costs on U.S. federal grants have been virtually eliminated.

There were no new questioned costs in the FY 2005 audit report and the estimated \$1 million of questioned costs that Finley inherited when he took over the finance helm have been pared down to only \$30,000. How was this accomplished? By closely interacting with the FSM audit resolution committee and U.S grantor agencies and taking advantage of the two-year rule.

Finance staff are held accountable for performance.

Reconciliations of all key control accounts are now performed on a monthly basis, versus sporadically or not at all prior to Finley becoming

"The achievement of the State of Pohnpei is remarkable when you consider how much progress was made in such a short period of time. Everyone involved deserves to be congratulated, and should take great pride in this accomplishment."

*David Cohen,
Deputy Assistant Secretary, U.S. Department of Interior/Office of Insular Affairs*

Director. Presently, his staff is current on its monthly reconciliations of bank accounts, travel advances, accounts receivable and accounts payable. No more waiting until the end of the fiscal year to madly scramble putting together the audit schedules necessary for the annual audit!

Collections on accounts receivable are closely monitored and cash flows remain strong.

Timely billing and turnover of accounts receivables is now the accepted norm. Enhanced collections ensure a steady revenue stream for State financial operations, and vendors can expect a 24-hour turnaround on their payment requests. Not only have Pohnpei State's achievements not gone unnoticed in Micronesia, they also haven't gone unnoticed in Washington, DC. When asked about Pohnpei State's recent achievements U.S. Department of Interior/Office of Insular Affairs Deputy Assistant Secretary David Cohen commented, "The achievement of the State of Pohnpei is remarkable when you consider how much progress was made in such a short period of time. Everyone involved deserves to be congratulated, and should take great pride in this accomplishment."

Pohnpei State's finance department has not only mastered the audit and financial objectives of a professionally run government finance department, they have provided a positive model for other insular governments' financial management operations. What's ahead for Pohnpei State's Department of Treasury and Administration? An October 1, 2006 Financial Management Information System (FMIS) conversion. Congratulations, Pohnpei State, on a job well done. ■

SPASAI *(continued from page 6)*

In addition to official organizational and business matters discussed among the SPASAI members during the week, the SPASAI Congress 2006 also featured several presentations. David Cohen, Deputy Assistant Secretary for the Department of the Interior's Office of Insular Affairs, addressed the Congress and spoke on Interior's initiatives to enhance financial accountability among the U.S. affiliated governments. Jim Barry, Special Agent with the Federal Bureau of Investigations, provided the participants with information on terrorism activities in the Pacific region and opportunities for collaborative efforts among and between SPASAI members and law enforcement agencies to combat this threat in our Pacific communities. Graduate School, USDA PITI instructor Colonel Ralph Capio, an attorney and expert in government contract law, delivered a session on government procurement and common indicators of fraud in procurement. Finally, CNMI Public Auditor Michael Sablan delivered a session entitled "Do's and Don'ts for CNMI Public Officials" and provided an overview of the CNMI Ethics Act, considered to be among the strictest ethics acts in the US.

"By taking advantage of having the SPASAI conference in our region, the APIPA participants capitalized on opportunities to share and showcase audit capacity improvements we've all realized in our respective offices. While there's a lot to be proud of in terms of where the APIPA offices have come over the last several years in terms of improvements in audit capability, there appears to be much room for further improvement."

*Mike Sablan,
CNMI Public Auditor and
2006 SPASAI Chairman*

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.

We welcome your comments and feedback. For further information on the PITI/VITI program, please contact:

Pacific Islands Training Initiative:

- Stephen Latimer
p: (808) 523-1650
e: stephen_latimer@grad.usda.gov
- Jason Aubuchon
p: (808) 523-1650
e: jason_aubuchon@grad.usda.gov

Virgin Islands Training Initiative:

- Ellard-James Hurley
p: (202) 314-3512
e: ellard-james_hurley@grad.usda.gov