

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2008 AND 2009 SPENDING AND
PERFORMANCE BY THE OFFICE OF THE CHIEF
FINANCIAL OFFICER (OCFO)

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

March 6, 2009, 10:00 a.m.
John A. Wilson Building, Council Chamber



Testimony of
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Chief Financial Officer
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Good morning, Chairman Evans and members of the committee. My name is Lasana Mack, Deputy Chief Financial Officer and Treasurer, Office of Finance and Treasury (“OFT”). Thank you for the opportunity to present testimony regarding the operation and performance of my office for FY 2008 and FY 2009 year-to-date.

OFT’s mission is to efficiently and effectively manage the financial assets and liabilities of the Government of the District of Columbia. This includes receiving, investing, disbursing, recording and/or acquiring District financial resources.

Debt Management. As you are aware, the District currently enjoys the highest bond ratings it has ever had. The credit ratings on our general obligation bonds are A1, A+ and A+ by Moody’s Investors Service, Standard & Poor’s Ratings Services and Fitch Ratings, respectively. The rating agencies have cited strong financial management and a history of strong financial results among their reasons for the rating increases that the District has achieved over the years.

OFT issues bonds, notes and other securities in the public financial markets to fund capital projects and cash flow needs, and manages the District’s Master Equipment Lease/Purchase Program, which provides financing for equipment acquisition. Despite the disruption and volatility in the financial marketplace over the past year or so, the District has been able to successfully meet its short-term and long-term financing needs. In December, we issued \$400 million of Tax Revenue Anticipation Notes at a very favorable interest rate of 1.09 percent. We are currently in the process of issuing Income Tax Secured Revenue Bonds to fund the District’s FY 2009 Capital Improvements Program. This will be the District’s inaugural issuance of income tax revenue bonds, which will have higher ratings

than the District's general obligation bonds, producing debt service savings for the District. In fact, we are pleased to report that Standard and Poor's has assigned a rating of AAA, the highest possible rating, to these bonds. Both Moody's and Fitch have rated them double-A. This represents quite an accomplishment for the District. It is important to note that the issuance of the income tax-backed bonds will not harm the ratings on the \$4.6 billion of the District's outstanding General Obligation bonds.

Cash Management/Banking. OFT manages the cash, investments and banking relationships of the District, ensuring that the District's payment obligations are met and that interest income is earned on the funds on hand. The investment side of the financial marketplace has also been very volatile over the past year, and the District has benefited by being conservative with its investments, with 99 percent of our investments currently in instruments that are backed by or fully collateralized by the U.S. Government or its securities.

Within the parameters of the statutes that govern the District's management of funds, OFT has always sought ways to do business with and acquire banking services from local financial institutions. We worked with this Committee and with the Department of Insurance, Securities and Banking to advance an amendment to the Deposit and Investment Act to increase the amount of District funds deposited and invested with local financial institutions. We have effectively implemented this legislation and currently have \$183 million, approximately 9% of our cash and investments, placed with local financial institutions.

Grants. In FY 2008, the District received approximately \$2 billion dollars in federal grant funding (including Medicaid). The Office of Finance and Treasury

manages the cash and accounting aspects of agencies' federal grant drawdowns. We have continued to enforce the principles of the federal Cash Management Improvement Act and enhance the process for monitoring agency grant receipts.

Operations. Two of OFT's primary operations are Cashiering and Disbursing. These units perform the important functions of revenue collection and check production and disbursement for agencies throughout the District government. In FY 2008, we increased the segregation of duties associated with checks that agencies request to be held for pickup. We are in the process of implementing a new cashiering system that will improve efficiency and automation in this area for our revenue collection sites across the District.

FY 2008 "Yellow Book" Findings: As you are aware, "Treasury Functions" was classified as a material weakness in the District's FY 2008 Independent Auditors' Report on Internal Controls over Financial Reporting and on Compliance and Other Matters, also known as the Yellow Book. As I indicated in my testimony at the hearing associated with the release of the FY 2008 Comprehensive Annual Financial Report (CAFR), by the end of the closing and audit process for the FY 2008 CAFR, the root causes of the issues that produced the material weakness had been addressed.

Mr. Chairman, I am pleased to report that, for the first quarter of fiscal year 2009, account reconciliations—i.e., a full assessment of account activity that identifies any discrepancies between the actual transactions that have occurred and what is reflected in the accounting system—have been done for all accounts. Based on these reconciliations and the accounting actions that have been taken to address any identified discrepancies, the accounts are, in all material respects, in balance in

the accounting system. Focused attention and diligent work on this front will continue throughout the FY 2009, ensuring that we do not have a repeat of the FY 2008 Yellow Book findings in this area.

OFT also manages certain aspects of the Other Post Employment Benefits (OPEB) program, and this program was cited as a Significant Deficiency in the Yellow Book associated with the FY 2008 CAFR. The auditor's primary issues, which were associated with the Plan Document and the Investment Policy, can and will be resolved without substantial difficulty in FY 2009. The other issues cited were resolved during the course of FY 2008, as noted in the audit report. We are very confident that this item will not be a Yellow Book finding in FY 2009, and we are diligently working to ensure that result. It should also be noted that the District is far ahead of most jurisdictions in the country in funding and making provisions to fund its OPEB obligations.

Special Savings/Investment Programs. OFT manages or assists in managing the administration of the DC College Savings Plan, the 401(a) Retirement Plan and the 457 Deferred Compensation Plan, and the Other Post Employment Benefits (OPEB) fund. We ensure that the District contracts with outside firms that will perform high quality, professional funds management and investment functions with the highest level of professionalism, and we work with those firms to seek to provide the best result for District employees and District residents. Most investors suffered substantial losses over course of the last year, as the S&P 500, a broad index of equity security values, declined 38% over the course of calendar year 2008. We have encouraged and facilitated increased investor education about the investment arena and the various options available to them to assist them in meeting their savings and retirement goals.

Unclaimed Property Program. In FY 2008, the Unclaimed Property program continued to use the internet to auction unclaimed tangible personal property with a 100% favorable rating from auction participants. By expanding its community outreach activities, OFT has continued to increase the amount of unclaimed property returned to its rightful owners.

Mr. Chairman, this concludes my testimony. I would be pleased to answer any questions that you or other committee members might have.