PUBLIC OVERSIGHT HEARING ON

THE FISCAL YEAR 2010 AND 2011 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
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Testimony of
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Good morning Chairman Evans and members of the committee. My name is Anthony Pompa and I am the Deputy Chief Financial Officer for Financial Operations and Systems (OFOS). I am pleased to be here today to present testimony on the spending and performance of the Office of Financial Operations and Systems for fiscal year 2010 and the first five months of the current fiscal year.

The Office of Financial Operations and Systems (OFOS) is responsible for establishing and maintaining accountability, fiscal discipline, and effective internal controls throughout the District's financial operations. OFOS is also responsible for processing payroll for District employees and annuity payroll for certain federal annuitants. To fulfill these responsibilities, OFOS is divided into two functional areas: the Controller's Office and the Office of Pay and Retirement Services.

FY 2010 ACCOMPLISHMENTS

I would like to take this opportunity to briefly discuss some of the key accomplishments of the Office of Financial Operations and Systems (OFOS) during fiscal year 2010.

A. Controller's Office

General Ledger Maintenance

Of all the functions performed by OFOS, maintaining the District's general ledger (commonly referred to as the District's "books") is perhaps the most important because it serves as the basis for so many other activities. Accurate and reliable financial data is needed to prepare revenue estimates, develop reasonable operating and capital budgets, analyze financial trends, prepare accurate and timely financial statements, and maintain strong bond ratings and the confidence of Wall Street. Moreover, the District's Comprehensive Annual Financial Report (CAFR) simply could not be prepared timely with a clean audit opinion without proper maintenance of the books.

Two divisions within OFOS are responsible for maintaining the District's general ledger: Accounting Operations and Financial Control and Reporting. Among its numerous tasks and responsibilities, the Accounting Operations Division analyzes certain general ledger account balances (e.g., cash and investments, unclaimed property, etc.) for accuracy and reasonableness and working with the appropriate agencies, adjusts the financial system as needed. This division also prepares the monthly cash and investment account reconciliations, monitors the management of certain clearing accounts, maintains the vendor database, and prepares payroll tax filings.

The Financial Control and Reporting Division (FCRD) also reviews general ledger accounts for accuracy and reasonableness and works directly with agencies, advising them on the appropriate accounting treatment to be applied when recording transactions in the financial system. Throughout the year, FCRD Accountants analyze account balances (e.g., current liabilities, general revenues, reimbursable revenues, intradistricts, etc.) and work with agency financial managers and accounting staff to prepare and post needed adjustments in the system. The FCRD also manages the interim and annual closing processes. During a fiscal year, each interim close (typically in March and June each year) provides a dedicated period of time during which focused attention is given to assuring the quality of the city's financial data on a District-wide basis. These interim closes lessen the level of quality control activity that is needed at year-end. Prior to each interim and /or annual close, after considering the recurring or most significant accounting issues that arose during the fiscal year, the FCRD prepares the Closing Instructions, which are distributed to agencies to guide them through the process of analyzing account balances and adjusting the general ledger.

I am happy to report that OFOS's efforts to maintain the District's books during fiscal year 2010 were quite successful and effective, as evidenced by the timely completion of the District's annual financial audit and the issuance of the FY 2010 CAFR. It is also important to note that there were no material audit findings related to general ledger maintenance or the accuracy of account balances.

Annual Financial Reporting

OFOS's Financial Control and Reporting Division (FCRD) is responsible for preparing the District's CAFR each year. Over the last decade, OFOS has continually improved the year-end close and CAFR preparation processes, so much so that timely CAFR issuance with "clean" audit opinions has become routine. The FY 2010 CAFR was issued by the legally mandated February 1 deadline and the independent auditors, KPMG, LLP, issued a clean audit opinion on the District's FY 2010 financial statements.

The District's CAFR is prepared during the four-month period between October and January each year. This practice is somewhat unusual in that most other jurisdictions take six months or longer to prepare their CAFRs, often using resources that are external to the government. The FCRD's ability to prepare the District's CAFR during a significantly shorter period of time is a noteworthy achievement considering the complexity of the District's reporting entity, which includes all of the agencies that comprise the District government, five discretely presented component units, and one blended component unit. The challenges presented by a condensed CAFR preparation period were further complicated by occurrences in fiscal year 2010 that presented challenges for accounting and financial reporting purposes. Some of these included the merging of the Sports and Entertainment Commission with the Convention Center, the foreclosure and purchase of the United Medical Center, the discontinuance of the Washington Center for Aging Services, and implementation of new accounting standards regarding derivatives and intangible assets.

Nonetheless, preparing and producing a CAFR during a limited time period while taking on a number of accounting and financial reporting challenges did not minimize the quality of the District's CAFR. I am pleased to report that the District once again received the prestigious *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association (GFOA) for its fiscal year 2009 CAFR. The District has received this award for 26 of the last 28 years. OFOS has submitted the District's FY 2010 CAFR to the

GFOA for consideration for this certificate and I have no doubt that it will also meet the GFOA's stringent criteria for the award.

The FCRD also prepares and issues the District's Popular Annual Financial Report (PAFR), which complements the CAFR. The PAFR is designed to present the District's financial condition and operating results in a more easily understandable format, using less technical jargon, presenting minimal financial statements, and utilizing more graphics. The FCRD published the District's first PAFR in fiscal year 2004 and has received GFOA's national *Award for Outstanding Achievement in Popular Annual Financial Reporting* for each PAFR issued between 2004 and 2009. We have submitted the District's FY 2010 PAFR to the GFOA for consideration for this award and I am confident that it will also meet the GFOA's established criteria.

Remediation of Findings

Significant progress toward resolving or otherwise minimizing the severity of Yellow Book findings has been made over the last several years as evidenced by the outcome of the fiscal year 2010 audit. As in the prior year, the FY 2010 Yellow Book Report did not present any material weaknesses. However, the FY 2010 report included five significant deficiencies in the areas of information technology controls, procurement and disbursement controls, monitoring financial reporting and non-routine transactions in stand-alone reports, financial reporting in the Office of Tax and Revenue, and personnel management and employee compensation. Based on the FY 2010 audit results, the most notable improvement perhaps is the fact that management of the Medicaid Program was not reported as a finding in the FY 2010 Yellow Book Report. This indeed is a tremendous accomplishment because over the years, Medicaid issues have been reported each year on a recurring basis.

The methodology used during recent years to review and resolve Yellow Book findings has proven to be quite effective in reducing audit findings. Our approach involves a comprehensive analysis of each finding and the development of detailed corrective action plans by the affected agencies. An OFOS liaison works with subject matter experts at each agency to

analyze the reported findings and develop the necessary corrective actions. Our goal throughout the remediation process is to resolve every aspect of the reported findings and implement the necessary measures to prevent their recurrence. After OFOS determines that planned action steps have been completed, internal auditors from the Office of Integrity and Oversight (OIO) perform the necessary procedures to confirm that the action steps have been satisfactorily completed. To further enhance the effectiveness of the remediation process, a Yellow Book Oversight Committee, led by the Deputy Controller and the FCRD Director, meets on a bi-weekly basis throughout the remediation process. This Committee, comprised of OFOS liaisons, agency representatives (program and financial staff), and OIO internal auditors, monitors progress and enforces the timely implementation of planned corrective actions. After each meeting, OFOS prepares a "Red Alert Report" which covers issues which threaten the successful remediation of findings. This report is submitted to key OCFO managers to facilitate the necessary follow-up actions.

OFOS will utilize the established remediation process to address the FY 2010 Yellow Book findings and any other unresolved issues of the prior year. We have met with the Office of the City Administrator (OCA) and that office will play an integral role in the process. We are confident that through the joint efforts of the OCFO and the OCA, the District will be able to adequately address the significant deficiencies reported by the auditors in the FY 2010 Yellow Book report.

SOAR Replacement

The OCFO began the SOAR replacement process in FY 2009. SOAR (the System of Accounting and Reporting) is the District's current financial system. SOAR, which was implemented over eleven years ago, is based on technology that is well over twenty years old and is now obsolete. The system is currently being supported by a single, sole source programmer because SOAR is no longer supported by the system developer. Although the current system works, there have been many changes required in order to comply with new

legislation and to adapt to new accounting and financial reporting requirements of the Governmental Accounting Standards Board (GASB).

Significant progress has been made toward replacing SOAR. In FY 2010, following a rigorous evaluation process, the OCFO selected CIBER Inc., an ERP systems integrator, to implement the new financial management system, Oracle Enterprise Business System for the Public Sector (EBS). In addition, the Office of the Chief Information Officer (OCIO) separately contracted with ORACLE ON DEMAND, for remote hosting services. Starting in late June 2010, consultants from CIBER began the analysis of matching the financial requirements identified by the District to functionality found in ORACLE EBS. Today, the new financial management system is ready to begin the initial round of testing. However, much remains to be done, especially in the OCIO's technical areas, such as interface development and the technical infrastructure supporting the financial software package.

Policies and Procedures

Written policies and procedures are important elements of a well-designed and effective system of internal controls. Documented policies and procedures serve as the basis for standardizing business practices and ensuring consistency in operations. Furthermore, an organization's documented policies and procedures provide management with the opportunity to establish processes and workflows that address potential risks.

During the last fiscal year, notable progress was made in the revision and/or development of the District's financial policies and procedures. OFOS worked collaboratively with an OCFO cross-agency project team that included OCFO Cluster and Central agency personnel. This project team updated the District-wide financial policies and procedures manual, and developed manuals for each cluster and central agency. OFOS is in process of completing quality assurance reviews and preparing the agency manuals for publication. Draft agency manuals were completed as of September 30, 2010.

Closing Process Improvements

During FY 2010, OFOS assessed agency performance during the interim and annual closes as part of an internal "Lessons Learned" process. Accordingly, OFOS thoroughly reviewed agency closing packages for timeliness, accuracy, and completeness and met with representatives from each cluster (*e.g.,* Associate CFOs and agency representatives) to discuss in detail the cluster's performance and the areas in which improvement was needed. OFOS also used these sessions to obtain feedback from agencies on how the overall closing process could be improved. The lessons learned as a result of these measures helped OFOS to identify ways to improve both the interim and annual close processes.

Assessing agency performance has proven to be an effective management tool because agencies now focus more on general ledger clean-up during the interim closes. This allows them to complete annual closing requirements in a more timely and accurate manner, thus facilitating timely CAFR preparation and issuance.

B. Office of Pay and Retirement Services

The Office of Pay and Retirement Services (OPRS) administers the District's payroll systems for all active employees and the retirement system for the United States Secret Service and the United States Park Police. During FY 2010, OPRS processed two biweekly and one semi-monthly payroll for approximately 37,000 employees and one monthly annuity payroll for approximately 3,800 federal annuitants. These payrolls were processed using two different payroll systems, the new PeopleSoft Payroll System for active employees and the Pension Automated Payroll System (PAPS) for Federal Annuitants.

OPRS continued to implement enhanced capabilities through PeopleSoft through the Employee Self Service System (ESS). Employees can log into the PeopleSoft system from any computer with Internet connections to: view and print current and prior pay period earning statements, enter time worked (which still must be approved by their supervisor), and print their calendar year W-2 Wage and Tax Statement. The ESS features allow employees to perform a variety of actions such as: start/stop/change allotments; change withholdings for Federal and State taxes; designate dollar amounts for contribution to the District's 457 Deferred Compensation Plan;

change their home address and update other personal information regarding self and/or dependents.

FY 2011 DEVELOPMENTS AND GOALS

A. Policies and Procedures

OFOS's Policies and Procedures Division will work with the OCFO's Chief Risk Officer to develop and implement a process for ensuring continuous updates to the OCFO financial policies and procedures manual. The Division will also collaborate with the OCFO's Office of Training and Development to establish and conduct training on critical processes as documented in the policies and procedures manual.

B. Monthly and Interim Closes

Throughout FY 2011, as part of OFOS's on-going internal operational assessment process, we will continue to identify opportunities to improve overall operations. In so doing, OFOS will continue to require monthly closes and interim closes will be conducted at the end of March and June 2011. Furthermore, we will seek ways to further enhance the interim closing process each time it is conducted, placing particular emphasis on areas that have been susceptible to increased audit scrutiny and/or are reported as Yellow Book findings. As such, we will revise the interim closing requirements to incorporate tasks that are to be completed by component units/independent agencies. In addition, these entities will be required to submit interim financial statements to OFOS at least quarterly. OFOS will continue to closely monitor the overall monthly and quarterly closing activities to proactively identify and address problem areas before year-end.

C. Office of Pay and Retirement Services

As we move forward in FY 2011, OPRS and staff in DC Department of Human Resources, the Office of the Chief Technology Officer, and the Office of Risk Management, are working together to implement the District's Workmen's Compensation Services in

PeopleSoft. However, the placement and management of this critical system encompasses much more than just pushing a "check out of the door". A successful implementation requires an effective business and management process by the program office to ensure all payments to recipients and benefit providers are timely, accurate and supported with appropriate enrollment and termination records. Additionally, OPRS along with OCTO PeopleSoft Support, is working with several District agencies for improvement in the automated interfaces into PeopleSoft. Finally, OPRS is working to strengthen the internal controls for all payments including: the regular payrolls, supplemental payrolls, back pay case payments, refunds of deductions due to employee changes in benefits, overpayments and collections therein and improvement in general business processes.

Mr. Chairman, this concludes my formal testimony. I would be happy to answer any questions you may have at this time. Thank you.