

October 11, 2001

Council of the District of Columbia

PUBLIC ROUNDTABLE ON PR 14-354, "CHIEF FINANCIAL OFFICER OF THE DISTRICT OF COLUMBIA DR. NATWAR M. GANDHI CONFIRMATION RESOLUTION OF 2001"

Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee on Finance and Revenue

Good afternoon, Chairman Evans and members of the Committee. I am Natwar M. Gandhi, Chief Financial Officer. I am pleased to be here today to respond to your questions regarding my re-nomination by Mayor Anthony A. Williams to be Chief Financial Officer for the District of Columbia. I greatly appreciate the confidence the Mayor has shown in me by re-nominating me for this critical position and am eager to address the goals we all share for the Office of the Chief Financial Officer (OCFO).

When I was first nominated in May 2000, I told the Mayor and the Council that I had three overarching goals for the OCFO, which included: (1) obtaining a clean opinion on schedule from the District's independent auditor for FY 2000 and all subsequent years; (2) assuring a balanced budget; and (3) providing effective, efficient financial systems and business methods to support the financial information needs and decision processes of District policymakers on a timely basis. These are on going goals, and we will continue to improve upon the methods that support the financial information needs of District policymakers.

At this time, I would like to talk in greater detail about what our plans are going forward in order to continue improving on our financial systems and business methods. The District needs to maintain its financial viability at three distinct levels: (1) financial; (2) fiscal; and (3) economic.

Financial Viability

First, on a week-to-week, month-to-month basis, the District needs to understand costs and their sources, revenue flow from various sources, and meet payroll and other operating costs just like a business. Speaking as a financial manager, one key benefit of the control period was that it gave the District both the requirement and incentives to greatly improve its capabilities in this arena.

During the control period, the District made improvements in consolidating and standardizing budget and accounting controls. Information on its cash position improved greatly. We no longer "call the bank" to find out how much money we have, but are able to reconcile our cash balances on a monthly basis. Revenue accounting improved immensely and now has approached best practice levels with the Integrated Tax System, which will be fully implemented in FY 2002. Internal controls over financial transactions need substantial improvements, but are still light years better than when the control period began in 1995.

Borrowing practices have similarly improved. With the securitization of tobacco settlement payments and other debt retirement actions, the District reduced its overall debt loan from \$3.21 billion to \$2.61 billion between Sept. 30, 1999, and the present, and on a per capita basis from \$6,177 to \$4,560.

We still have much to do in building the type of information systems infrastructure and procedures needed to move quickly to respond to changing programmatic or financial conditions. As the recent experience with DC Public Schools shows, both the OCFO and agency CFOs need to be much more proactive in providing agency managers with meaningful information on their financial position. Action in this area is at the top of our agenda for FY 2002.

I have testified before the Council that we must work to interface the procurement and personnel systems with the financial system, if we are to have the type of real-time information needed in today's environment to manage an enterprise the size and complexity of the District government. Also, now that we have implemented our new System of Accounting and Reporting (SOAR) and worked out the operational details, we need to build out its full capabilities of fixed asset accounting and performance budgeting. Both efforts are underway. We also need to use the budget monitoring capabilities of SOAR

to drill down into the organization to isolate organizational and program costs so that performance standards and spending expectations can be matched with available revenues. As you know, we are working on implementing performance budgeting starting with nine key agencies.

Fiscal Viability

The second level of financial viability is at the year-to-year level. In FY 2001, the District began building a rainy day fund in the form of two cash reserves provided for in the FY 2001 DC Appropriations Act. When fully funded, an event projected for the end of FY 2002, the District will have a cash fund equivalent to 7% of local annual expenditures (nearly \$249 million) to deal with emergencies and unforeseen economic downturns.

Better-formulated budgets eliminate or mitigate surprises during budget execution. However, much of what is needed to drive good budget modeling requires a link between the District's personnel systems and the financial system. Personnel costs account for about one-third of the District's gross operating costs, and we know little about what drives them – promotions within grades, attrition, vacancies. The first task that must be undertaken before this can be accomplished is to rationalize the District's personnel system, which over the years has evolved into a series of independent systems with multiple pay tables, work rules and other distinctions. The City Administrator has undertaken this rationalization of the District's personnel system. He has also chartered an effort to integrate the various information systems that support administrative operations, such as personnel, payroll, procurement, and finance.

Grants management is also an area in need of close monitoring. The District needs to ensure that it is taking advantage of opportunities to avail itself of federal funds while closely tracking and accounting for the expenditure of those funds once received. The OCFO will continue to improve in this area.

Economic Viability

The third level of financial viability is long-term. I foresee a time within the next few years when the District will have effective controls over all operating spending. We will be able to describe costs down to the first or second line in the organization and be able to relate those costs to program outputs. Budgets will be built using effective standards and costs models. Preparation of financial statements on a monthly and annual basis will be a routine matter. We will have reduced the number of District bank accounts from 1,500 to approximately 300 by the end of FY 2002, and will be able to forecast our cash flow with great accuracy.

However, even when we reach this level of financial effectiveness, the District will still face a long-term structural imbalance between its costs and its revenues. Resolving this imbalance will require support from the federal government. Federal tax incentives may be part of the answer. Adjusting local tax capabilities would be another. Congresswoman Norton in the past has sponsored legislation to enact a nonresident wage tax with a corresponding federal tax credit, and may do so again. A third avenue would be to address the federal-local partnership for providing city services. In sum, we need to aggressively pursue solutions to this imbalance if we are to maintain the economic viability of the District of Columbia.

It has truly been an honor for me to serve as the Chief Financial Officer of the District of Columbia over the past year and a half and, should I be reconfirmed, I look forward with much anticipation to the challenges ahead. It is the duty of the Chief Financial Officer to above all maintain the financial viability of the District. If re-confirmed, I will be vigilant in maintaining that viability. I pledge to work with the Mayor and the Council to ensure that no deficits occur in the future. We have been there before and we do not want to go there again.

That concludes my oral comments. I ask that you add my written comments to the record. I will be happy to answer any questions you may have.