**May 14, 2001**
Council of the District of Columbia
PUBLIC ROUNDTABLE ON THE GAO REPORT ON "DISTRICT OF COLUMBIA: WEAKNESSES IN FINANCIAL MANAGEMENT SYSTEM IMPLEMENTATION"

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

Good morning, Mr. Chairman and members of the Committee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here to testify about the recent General Accounting Office (GAO) report entitled Weaknesses in Financial Management System Implementation.

With me in the audience today are Anthony Pompa, the Deputy Chief Financial Officer for the Office of Financial Operations and Systems; Joe Sanchez, Director of the Enterprise Office; and Wayne Upshaw, Deputy Chief Financial Officer for the Office of Budget and Planning. We will be available to answer any questions you may have at the conclusion of my statement.

**Progress in District Financial Management**
As you are aware, Mr. Chairman, the District of Columbia has made great strides over the last several years in improving its financial management processes. When you stop and reflect on just how far the city has come over the last five years, the progress is really quite amazing. The FY 2000 Comprehensive Annual Financial Report (CAFR) was the fourth consecutive "clean" opinion from independent auditors. The city's bond ratings were recently upgraded by all three bond-rating services, and we completed the securitization of the tobacco settlement funds. We also worked closely with the Mayor and the Council on the successful development of the FY 2002 budget about to go to Congress. None of these achievements would have been possible without a functioning financial management system.

**Continued Financial Improvements Are Needed and Possible**
A close reading of the GAO report reveals that the District is improving its financial management, but the way in which it was presented could lead the casual reader to the opposite conclusion. The years of progress are in many ways just the beginning of a longer journey involving more challenges. The GAO report points to many of the areas we must address, and we are addressing them.

My response to the draft of this report, which is reproduced in the published final report and is attached here, agrees with each of the GAO's seven recommendations and notes how we are implementing them. However, as also noted in my response to the draft report, I do not agree with many of the characterizations made about certain programs. In fact, I was dismayed at the extent to which the GAO report focused on the problems and difficulties of the past, rather than on how the financial systems are functioning today and the plans we have for future improvements.

For example, the report states that the Integrated Tax System (ITS) is not fully implemented. This is misleading, because ITS is not scheduled to be fully implemented until 2002. The report fails to point out that the project is on schedule and under budget for this point in its implementation, and represents the first major overhaul of the tax administration's processes and its underlying technology. Business tax returns are already being processed using ITS, and as a result, businesses can now file their DC taxes free on the Internet.

As another example, it is not accurate to say that the System of Accounting and Reporting (SOAR) is incapable of capturing the costs of specific agency programs or activities. SOAR has these capabilities, and some agencies have been using them. SOAR is a standard, vendor-supplied product that operates in 23 other state and local governments. Its core accounting components are now operating effectively; they not only contributed directly to the success of the fourth "clean" CAFR earlier this year, but also improved the overall CAFR process. SOAR also performs budget execution and funds control processes, and has allowed the OCFO to perform monthly closes since June 2000, when I became the CFO.

To help ensure that SOAR users at all levels understand and use the system's full capabilities, we have created a cadre of Accounting System Managers (ASM) who will support financial operations at the city's 16 largest agencies. Many of these individuals are CPAs and CMAs. Five of the largest agencies already have ASMs, and more than half the ASMs are in the field. These individuals are involved now in SOAR immersion training. Rank and file SOAR users are also participating in SOAR training.

Full implementation of SOAR in other jurisdictions has taken from two to five years to complete, even without a Y2K-size issue to address. An effective accounting function was the first priority, since it was needed to obtain clean audit opinions and bring an end to the District's control period. With this capability now in place, management can focus on other aspects of the system such as the fixed assets module, which will be operational by the end of this fiscal year and fully implemented in support of the FY 2001 CAFR. We are also working with the Mayor's office on an initiative to implement performance-based budgeting for the FY 2003 budget formulation cycle, as I will describe shortly.

However, the GAO report is substantially on target in laying out a road map for improvement. Having worked at the GAO myself, I am well aware that much of what the auditors learn in their reviews and present in their reports comes from informed staff in the organization they are reviewing. My key staff and I are aware of all the issues outlined in this report, and are addressing them in order of relative importance to the effective working of the financial system.

**Related OCFO Initiatives**
Part of the OCFO FY 2002 strategic initiative on account restructuring and performance-based budgeting, which we have undertaken jointly with the City Administrator, will help reengineer the budget process and address the performance budgeting issue in SOAR. The City Administrator and I signed a memorandum to all agency heads and agency CFOs on April 26, 2001, and held a meeting to begin detailed planning for this initiative just last Friday. This initiative will transition eight agencies of the District government, including the OCFO, to performance-based budgeting with formulation of the FY 2003 budget, with most other agencies following in FY 2004.

**Business Process Improvements Must Precede Financial Improvements**
It is important to remember as part of this discussion that financial improvements do not exist in a vacuum. In many instances, business processes elsewhere in the District must be improved in order to improve financial systems. For example, to effectively interface procurement actions with SOAR, procurement controls need to be automated. To acquire a new payroll system at a reasonable cost, the personnel system needs to be streamlined. To implement performance-based budgeting, program managers must institute a planning process that identifies cost centers and related measures. These are all areas the District is addressing.

**Conclusion**
Mr. Chairman, I believe it is clear there has been a great deal accomplished in improving the District's overall financial management processes. We only have to think back to conditions in 1995 – mounting cash deficits, a plummeting bond rating, no effective plan for balancing the city's expenditures with its revenues – to see how far we have come. At the end of FY 2000, the District had a $241 million cash surplus, equaling nearly a half-billion dollar turnaround. The accumulated fund balance improved by about $1 billion since 1996. As I noted earlier, we also received the fourth consecutive unqualified opinion in the FY 2000 CAFR and earned bond-rating upgrades from all three bond-rating agencies. The single most important message I would leave with you today is that District financial management has improved each year for the past six years, it continues to improve, and we will see to it that more improvements are made in the future.

This concludes my prepared remarks. My colleagues and I would be pleased to respond to any questions you or the members may have.