

**PUBLIC OVERSIGHT HEARING ON  
THE STATUS OF FISCAL YEAR 2003 ENDING AND  
FISCAL YEAR 2004 FEDERAL GRANTS  
MANAGEMENT**

**Before the  
Committee on Public Services  
Council of the District of Columbia**

**The Honorable David A. Catania, Chairman**

**February 23, 2004, 2:30 p.m.  
Council Chamber, John A. Wilson Building**



**Testimony of  
Bert Molina  
Deputy Chief Financial Officer  
Office of Budget and Planning**

**Natwar M. Gandhi  
Chief Financial Officer  
Government of the District of Columbia**

Good afternoon Mr. Chairman and members of the committee. I am Bert Molina, deputy chief financial officer for budget and planning, and I am here today with Gordon McDonald, associate deputy chief financial officer, and James Spaulding, director of budget execution, cost analysis, and grants management. I am pleased to be here to talk about my office's role in managing the District's grants funds. In today's testimony I will:

- Provide an overview of FY 2003 grants operations;
- Highlight our accomplishments during FY 2003, including how the roles and responsibilities changed as a result of a restructuring within the Office of the Chief Financial Officer (OCFO); and
- Discuss our operational goals for FY 2004 in the grants management area.

### **FY 2003 Grants Operations**

Federal grants are a significant revenue source for a variety of District programs. In FY 2003, 29 District agencies spent about \$1.46 billion in federal grant funds, excluding federal payments. About \$1.34 billion of that total was spent by the seven largest grants agencies, each spending more than \$30 million. About \$2.4 million in federal grant funds lapsed in FY 2003, a decrease from the more than \$4 million that lapsed in FY 2001 and \$2.6 million in FY 2002. Despite this improvement, we continue to believe that every dollar of lapse is one dollar too many.

Furthermore, the amount of lapse alone is not a complete measure of lost opportunities. The District has the ability to spend many of its grants over multiple years. Even if all available funds are spent, delays in spending them might mean

reduced awards in future years, as you have previously pointed out, Mr. Chairman. Thus, we continue to encourage District agencies to fully spend their grants ahead of expiration dates and to seek additional funding where possible.

Grant budgets are developed with the rest of the District's budget, well in advance of the start of the fiscal year. With Council approval, the District is allowed to modify its grants budget during the course of the year, to accept new grants and adjust the budget level of ongoing grants to match the actual funding level. Much of the task of grants management involves monitoring agency grant budgets and facilitating agency requests for budget changes. In FY 2003, OBP processed more than 900 grant budget modification requests.

Beginning in January 2004, the District now has the ability to modify its grants budget with passive, rather than active, Council approval. This means that the Council no longer has to vote to accept a new grant or change a grant budget. Instead, the Mayor will send such modifications to the Council, and if no notice of disapproval is filed within 14 days, the modifications will be deemed approved. This means agencies are no longer bound to once-a-month Council legislative sessions for approval of modifications, a restriction Congress imposed on the District for FY 2003. Representatives of the OCFO were able to convince congressional staff last year of the importance of passive approval of grant budget modifications to the District's grant management abilities.

This is a small but significant step toward budget autonomy, one we hope to follow up on for FY 2005. We propose to seek authority to make budget adjustments administratively for grants the District has already accepted. We would like to work with your staff on this proposal, which would greatly reduce the number of

budget modifications requiring Council approval. Currently, most budget modifications that Council approves are for grants the District has already accepted but whose budget authority simply needs to be adjusted upwards or downwards. Under the new proposal, Council would still approve the acceptance and use of what are truly new grants.

### **FY 2003 Accomplishments**

I would now like to talk briefly about our accomplishments in FY 2003.

*1. Improved grant budget formulation to more accurately capture and reflect agency grant spending requests.*

During FY 2003, OBP improved budget formulation by making better use of past and current grant activity to analyze future grant budget needs. For FY 2005 budget formulation, we are capturing match and Maintenance-of-Effort (MOE) information for District grants, and, for the first time, we plan to load the information into SOAR with the FY 2005 budget. The District's inability to track our match and MOE funds has been a repeated finding in our Single Audit results over the years. We are making a large-scale effort to track Medicaid match dollars in SOAR, so we can fully account for local dollars spent in support of Medicaid, and we will expand this effort to as much of the District's grant funding as possible.

In addition, we are implementing a new budget system as part of the Administrative Systems Modernization Program (ASMP), which we plan to have operational as we formulate the FY 2006 budget. The system will improve our ability to manage grants budgeting and execution, and we believe it will assist in

determining indirect cost recovery for agencies that provide administrative services in support of grants.

*2. Improved grant budget execution by delineating Associate CFO and OBP roles to take advantage of the strengths of each.*

As you know, the grants management function within the OCFO moved from the Office of Research and Analysis (ORA) to OBP in December 2002. In addition, the OCFO added five Associate CFOs, who each work closely with a cluster of agencies. Associate CFOs are responsible for managing grants within their specific cluster of agencies, and OBP coordinates and oversees District-wide grants management processes and reporting functions.

The advantages of this are twofold. First, the Associate CFO structure gives agency program and financial staff increased access to central OCFO expertise on a day-to-day basis. Associate CFO staff, who are closer to the agencies, perform some of the functions previously performed centrally, such as approval in SOAR of budget modifications after Council's approval.

Second, OBP now reports on grants as it reports on other aspects of the District's financial status throughout the year. Through the budget modification process, OBP also coordinates budget changes for federal and private grants as it does for local, special purpose revenue, and intra-District budgets. Thus, OBP performs all aspects of budget execution for all fund types.

*3. Improved grant reporting through technology to provide more timely reporting of grant budget changes and expenditures and ultimately reduce the number of lapsed grants.*

CFO\$ource is becoming a valuable tool for agency program and financial staff as they monitor grant activity. Managers see data for individual grants over multiple years, multiple phases for the same grant, or prior appropriation-year activity that is affecting current fiscal year balances. This powerful technology enables users to drill down into reports, swap rows and columns as desired, and produce what once were manually intensive reports with just a few clicks of a mouse. I fully expect that as we are able to produce more timely and useful grants information for agency program and financial staff, we will improve our ability to expend grant funds, thus reducing the amount of lapsed grant funds. Moreover, CFO\$ource should improve our ability to manage grants over multiple years.

Because SOAR does not include grant award amounts or grant end dates as required fields, OBP is developing its own grants database, which will include those two key fields. CFO\$ource will ultimately link to the OBP grants database, allowing users to request reports that, for the first time, show award amounts, amounts spent in prior years and obligated in the current year, the remaining balance for the award, and the date that balance will potentially lapse.

*4. Continued to improve communications between program and financial staff through the Grants Council, the Associate CFO structure, and technological improvements such as CFO\$ource.*

The Grants Council, co-chaired by the CFO and the City Administrator, met during almost every month of FY 2003. These meetings are an opportunity for program and financial staff to come together to discuss various grants management issues. Part of OBP's communication to the Grants Council during FY 2003 was the changes related to the OCFO's restructuring and how it would affect grants staff on a day-to-day level. We also performed CFO\$ource demonstrations during two of

the Grants Council meetings. Finally, during FY 2003, we developed an Intranet site for OBP's grants-related information, on which we posted information such as the quarterly reports sent to Congress, grants-related policy memos, and a calendar for the budget modification process.

### **FY 2004 Goals for Grants Management**

OBP has four goals for FY 2004:

1. Enhance our technological capabilities by completing the District-wide grants database and integrating it with both CFO\$ource and the new budget system.
2. Aggressively follow up on the findings of the District's Single Audit.
3. Further improve communication between Associate CFOs, grants staff, and agency financial and program staff within each cluster.
4. Expand the role of the Grants Council by developing ad hoc committees to generate white papers and recommendations on areas that affect the day-to-day operation of grants in the District.

*1. Enhance our technological capabilities by completing the District-wide grants database and integrating it with both CFO\$ource and the new budget system.*

Implementing the new budget system will be a major effort for OBP during FY 2004. We have designed some grant-specific features into the system. For example, agency staff will be able to submit budget modification requests to OBP online, and OBP will be able to verify availability of funding and process the requests online as well. Once Council approves the modification, the budget change will be sent directly from the budget system to SOAR.

To fully take advantage of the system, we will integrate it with OBP's grants database as well. Then, grants spending plans can be developed as grants budgets are built and can account for the multi-year nature of many grants. New reports will further improve the ability of all District staff to obtain a complete view of the financial status of their agencies' grants.

*2. Aggressively follow up on the findings of the District's Single Audit.*

As you know, the City Administrator and his staff are very interested in correcting the issues that led to findings in the District's Single Audit. We have begun several efforts already, such as requiring Catalog of Federal Domestic Assistance numbers to be recorded in SOAR and collecting match and MOE information for the FY 2005 budget. We will work closely with the City Administrator and the OCFO's Office of Integrity and Oversight to make additional improvements, which we anticipate will be reflected in the results of the District's FY 2004 Single Audit.

*3. Further improve communication between Associate CFOs, grants staff, and agency financial and program staff within each cluster.*

The changes implemented during FY 2003 have been positive, and we will continue to keep all lines of communication open regarding grants management. During FY 2004, as we work to formalize some policies and procedures, we will continue to use the grants Intranet site as one of several ways to disseminate information as widely as possible.

*4. Expand the role of the Grants Council by developing ad hoc committees to generate white papers and recommendations on areas that affect the day-to-day operation of grants in the District.*



We plan to further use the Grants Council during FY 2004 to help develop grants policies for the District. By focusing on a few areas and establishing smaller ad hoc committees or working groups, we believe we can make progress on topics that have been recurring areas of interest. Such topics might include:

- Indirect cost reporting,
- Subgrant policies, or
- Reporting of match and MOE funds.

### **Conclusion**

I believe we are in a good position to build on the past year's successes and further strengthen financial performance in the grants management area. As you know, performance ultimately depends on collaboration and cooperation between financial and program staff, and the OCFO continues to provide all assistance possible to support the process.

We are available to answer any questions you may have.

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