

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2012 AND 2013
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 7, 2013 10:00 a.m.
John A. Wilson Building
Room 500**



**Testimony of
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**Natwar M. Gandhi
Chief Financial Officer
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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 2012 and the first five months of the current fiscal year.

The Office of Financial Operations and Systems is responsible for maintaining accountability, fiscal discipline, and effective internal controls throughout the District's financial operations and processes 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 2012 ACCOMPLISHMENTS

I would like to take this opportunity to briefly discuss some of the key accomplishments made by OFOS during fiscal year (FY) 2012.

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. The Accounting Operations Division: analyzes certain general ledger account balances (*e.g.*, cash and investments, unclaimed property, etc.) for accuracy and reasonableness and works with the appropriate agencies to make adjustments as needed; prepares 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 advises agency financial staff on the appropriate accounting treatment to be applied when recording transactions in the financial system; analyzes account balances (*e.g.*, current liabilities, general revenues, reimbursable revenues, intradistricts, etc.) throughout the fiscal year and works with agency financial managers and accounting staff to prepare and post needed adjustments in the financial system; and manages the interim and annual closing processes.

I am happy to report that OFOS's efforts to maintain the District's books during fiscal year 2012 were quite successful and effective, as evidenced by the successful completion of the District's annual financial audit and the timely issuance of the FY 2012 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

The OFOS Financial Control and Reporting Division (FCRD) prepares the District's CAFR each year. Over the last decade, OFOS has implemented measures which have significantly improved the year-end close and CAFR preparation processes, so much so that timely CAFR issuance with "clean" audit opinions has become routine. With respect to the most recently ended fiscal year, the FY 2012 CAFR was issued before the legally mandated February 1 deadline and the independent auditors, KPMG, LLP, issued a clean audit opinion on the District's FY 2012 financial statements.

The District's CAFR is prepared during the four-month period between October and January each year, which is an unusual practice. Most 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 without external assistance is no small achievement considering the complexity of the District's operations and its reporting entity, which includes all of the agencies that comprise the District government and five component units.

I am pleased to report that the District was once again awarded the prestigious *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association (GFOA) for its fiscal year 2011 CAFR. The District has received this award for 28 of the last 30 years. OFOS has submitted the District's FY 2012 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.

Remediation of Findings

Significant progress has been made in recent years toward resolving or otherwise minimizing the severity of Yellow Book findings reported by the independent auditors. As in the prior year, the FY 2012 Yellow Book Report did not present any material weaknesses. However, the independent auditors reported significant deficiencies in four areas: general information technology controls, procurement and disbursement controls, tax revenue accounting and reporting, and financial reporting for capital assets in the FY 2012 report. In FY 2011, significant deficiencies were reported in only two areas: general information technology controls and procurement and disbursement controls. Although the number of areas of deficiency increased in FY 2012, we are confident that we have the necessary processes in place to adequately address the reported issues related to general information technology controls, procurement and disbursement controls, and tax revenue accounting and reporting thereby minimizing the risk of their recurrence.

The deficiencies in the area of capital assets reporting can be resolved by aggressive and

decisive action now. OFOS is establishing a centralized capital assets management team comprised of accountants skilled in recording, tracking, monitoring, and accounting for capital assets. This team will be responsible for recording capital assets by asset class, tracking the physical location of capital assets, and ensuring the timely and accurate recording of disposals in the financial system. In addition, the capital assets management team will coordinate and manage the physical inventories taken of capital assets and will be instrumental in developing policies and procedures governing capital asset accounting and management.

A portion of the audit findings related to capital assets dealt with the untimely transfer of projects from Construction-in-Progress (CIP) to capital assets. In order to remediate these findings, OFOS will need to obtain the services of a qualified contractor to perform detailed analysis of Construction-in-Progress (CIP) activity for the past four fiscal years. Based on the outcome of that analysis, the District's accounting records will be adjusted as needed.

OFOS has shared its plan for remediation of capital assets findings with the OCFO's Human Resources and Procurement offices and has taken the necessary steps to request funding to implement the needed corrective actions. OFOS expects to have the resources in place in the near future to move forward with the planned actions.

The importance of acting now on these matters cannot be stressed enough. The only way we can avoid repeat findings in the area of capital assets during the FY 2013 audit is to establish the proposed centralized team now and to analyze current and prior years' CIP balances now.

That being said, the methodology used during recent years to review and resolve Yellow Book findings has proven to be effective. Our approach involves a comprehensive analysis of each finding and the development of detailed corrective action plans by subject matter experts (SMEs) at the affected agencies. An OFOS liaison works with the designated agency personnel to analyze the reported findings; however, the SME is responsible for developing the necessary corrective actions and ensuring that such actions are implemented. OFOS's goal in spear-heading the remediation effort is to ensure that the necessary steps are taken to prevent

the recurrence of reported findings. As planned corrective action steps are completed, OFOS alerts the Office of Integrity and Oversight (OIO). OIO internal auditors then perform the necessary procedures to confirm that action steps have been satisfactorily completed. To further enhance the effectiveness of the remediation process, a Yellow Book Oversight Committee, comprised of OFOS liaisons, agency representatives (program and financial staff), and OIO internal auditors, meets periodically throughout the remediation process to monitor progress of remediation efforts and enforce the timely implementation of planned corrective actions. OFOS also prepares a “Red Alert Report” on an as-needed basis, to notify key OCFO managers, Council representatives, and the Office of the City Administrator of issues which may threaten the successful remediation of findings.

OFOS will use the same remediation process to address the FY 2012 Yellow Book findings and any other unresolved issues of prior years. We will again this year seek to fully engage the Office of the City Administrator (OCA) which plays an integral role in the success of the process. We are confident that through the joint efforts of the OCFO, the OCA, and the agencies, the District will be able to adequately address the deficiencies reported by the auditors in the FY 2012 Yellow Book report.

SOAR Replacement

The District’s current financial system, the System of Accounting and Reporting (SOAR), was implemented more than 12 years ago and is based on technology that is more than 20 years old. Efforts to replace the District’s current financial system began in FY 2009 because the technology on which it is based had become obsolete. Although the current system continues to function and serve the District’s needs, many system refinements have been made over the years in order for SOAR to produce financial information that complies with new legislation and new accounting and financial reporting requirements of the Governmental Accounting Standards Board (GASB). One key risk associated with the continued use of SOAR is the fact that the system is currently being supported by a single, sole source programmer because support by the system developer is no longer available.

Between FY 2009 and FY 2012, the OCFO made notable progress toward replacing the financial system. After a rigorous proposal evaluation process in FY 2010, the OCFO selected CIBER, Inc., to implement the new system, *Oracle Enterprise Business System for the Public Sector* (simply dubbed by the OCFO as EBS). As the project progressed, many critical tasks were successfully completed. Some of these tasks included the following: (a) required remote hosting services were secured, (b) the District's accounting and financial management requirements were matched with EBS's functionality, (c) several rounds of testing were completed, and (d) training materials were developed. Nevertheless, in August 2012, the planned EBS Go Live date of October 1, 2012 was delayed due to the following:

- Certain functionalities critical to the District's ability to operate efficiently and effectively and produce accurate financial information were not working: *budget control, labor distribution, and grants management*.
- The risks were too great that the District's ability to obtain clean audit opinions would be severely compromised if the OCFO moved forward with the planned implementation.

Moreover, delaying EBS Go Live was also necessary to allow ample time for additional testing and the completion of other project activities which are critical to ensuring that the District receives the full benefits of the new financial system.

After the decision was made to delay system implementation, OFOS engaged in an extensive and comprehensive re-planning and re-tooling process to fully assess "where we were" in the process and map out and prepare a detailed work plan for going forward. Upon completion of that process, OFOS entered into negotiations with the contractor, CIBER, Inc., to secure the services needed to move the project forward in an efficient and cost-effective manner. The purpose of these negotiations is to ensure that the contractual agreement includes the levels and types of services needed for the District to receive quality contractor services and the maximum benefits of the new, state-of-the-art system. Currently, the OCFO continues its negotiations with the contractor and this project has been delayed until the negotiations are completed.

Policies and Procedures

Written policies and procedures are important elements of a well-designed and effective system of internal controls because they serve as the basis for standardizing business practices and ensuring consistency in operations. In addition, the development of policies and procedures provides management with the opportunity to establish processes and workflows needed to address potential risks.

Over the last several years, notable progress has been made with respect to the District's financial policies and procedures. OFOS has worked collaboratively with agencies to update the District-wide financial policies and procedures manual, and manuals for each cluster and central agency have been developed. OFOS also completed quality assurance reviews of the manuals prior to publication. OFOS continues to monitor, review and update agency and District-wide policies and procedures and revises them as needed to reflect the District's current business practices as well as best practices for state and local governments.

Closing Process Improvements

During FY 2012, 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 need of improvement. 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 in this manner has proven to be effective. Agencies now focus more on general ledger clean-up during the interim closes which allows them to complete annual closing requirements in a more timely and accurate manner. As a result, the District is able to timely prepare and issue its CAFR.

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 2012, OPRS processed two biweekly and one semi-monthly payroll for approximately 32,000 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 W-2 Wage and Tax Statement for the most recent calendar year (2012) and the last two years. 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 2013 DEVELOPMENTS AND GOALS

A. Policies and Procedures

OFOS's Policies and Procedures Division will continue to seek ways to improve the process for ensuring the continuous update of the OCFO's financial policies and procedures manuals. The Division will also determine the most feasible approach for establishing and conducting training on critical processes as documented in the policies and procedures manuals.

B. Monthly and Interim Closes

Throughout FY 2013, 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 2013. 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. 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 2013, OPRS and staff in the D.C. Department of Human Resources (DHR) and the Office of the Chief Technology Officer (OCTO) continue to assist the Office of Risk Management (ORM) in the implementation of the District's Workers' Compensation Services in PeopleSoft. However, the implementation has been placed in a holding status pending ORM's procurement of a Third Party Administrator for the program. Nevertheless, 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.

OPRS has begun the conversion project of the Federal Police from the legacy PAPS system to PeopleSoft for payment of the Federal Annuitants. During FY 2013, OPRS will initiate a project to convert 40 years of payroll data stored on microfiche to a portable document format that can be accessed electronically by multiple users. This approach seeks a more economical way to retain historical data as the costs to maintain specialized old technology to read and print microfiche continues to rise. Additionally, OPRS, along with OCTO PeopleSoft Support, is working with several District agencies for improvement in the automated interfaces into PeopleSoft. 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. Finally, OPRS has a direct deposit electronic delivery rate of approximately 96% for all District employees' pay

checks. Consequently, OPRS continues to encourage the remaining 4% of District employees to make the election to shift from receiving a paper check to being paid through direct deposit. OPRS makes such appeals during times of anticipated inclement weather and upon notification of a lost pay check.

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