

**PUBLIC OVERSIGHT HEARING**  
**ON**  
**THE FISCAL YEAR 2007 AND 2008 SPENDING AND**  
**PERFORMANCE BY THE OFFICE OF FINANCIAL**  
**OPERATIONS AND SYSTEMS (OFOS) OF 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**

**February 27, 2008, 11:00a.m.**  
**Chamber, John A. Wilson Building**



**Testimony of**  
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Good morning Chairman Evans and members of the committee. My name is Anthony Pompa, Deputy Chief Financial Officer for the Office of Financial Operations and Systems (OFOS). I am here to testify about the fiscal year (FY) 2007 and 2008 performance of OFOS.

### **FY 2007 Accomplishments**

Unlike previous years, I am not able to report to you that the CAFR for the year ended this past September 30<sup>th</sup> has been issued. The Independent Auditors sought and obtained a 60-day extension to complete the audit of the 2007 Comprehensive Annual Financial Report (CAFR).

OFOS began FY 2007 by evaluating lessons learned from the previous fiscal years, developing strategies to continually refine our processes, and preparing for an improved closing of the accounting records.

The monthly, interim and year-end closing instructions were posted on the OCFO Intranet Web site for access and ease of use by the agencies. This enabled financial managers throughout the District, at both agency and central office levels, to retrieve information and instructions electronically, and to complete the tasks as described and meet the deadlines required by OFOS. The District's closing process and eventual

reporting begin immediately following the end of the fiscal year on September 30.

Agencies and other entities of the District process year-end entries, reconcile accounts and complete their closing packages, which are reviewed by OFOS staff.

It is important to note that the responsibility and duty to ensure that financial activities of all District agencies are competently summarized and presented in accordance to the protocols established by the Governmental Accounting Standard Board (GASB) rests solely with the Financial Control & Reporting Division (FCRD) of OFOS.

The FCRD staff is responsible for the intensive examination of reports, analysis of data, preparation of reclassification and other correcting entries, and interactions with agency and other entity staff and the external auditing team.

The FCRD prepares the District's CAFR, while most other jurisdictions use external assistance. Most other jurisdictions in the country take six months to publish their CAFR, while the District prepares and publishes its CAFR in less than four months. Additionally, the FCRD is responsible for compilation and issuance of the Popular Annual Financial Report (PAFR), which complements the CAFR and is geared to stakeholders who desire an overall financial view of the city without having to review the more complex CAFR. This division published the District's first PAFR in FY 2004 and will continue to publish this report.

This office provides quality and professional financial management assistance to agencies throughout the District via the Accounting System Managers (ASM) program and the Functional Integration Team (FIT).

The ASM/FIT Team supports District agencies by providing training on several automated systems: the System of Accounting and Reporting (SOAR); the Procurement Automated Support System (PASS) and the new PeopleSoft Payroll System. All employees must receive basic introductory training in each system prior to their receiving a password and access to the system. Additionally, OFOS assisted agencies with information requests such as the Office of Local Business Development focusing on payments made to Local, Small and Disadvantaged Business Enterprises over the course of the year. This team provides invaluable assistance to agencies with the monthly, interim and year-end closings, and offer professional advice on the recording of business events in SOAR.

The Office of Pay and Retirement Services (OPRS) continued to provide excellent service to active and retired District employees, as well as annuitants of several federal agencies. During FY 2007, OPRS processed three biweekly and one semi-monthly payrolls for approximately 37,400 employees and one monthly annuity payroll for approximately 3,800 federal annuitants. These payrolls were processed using three

different payroll systems.

OPRS transitioned to a new PeopleSoft Payroll System during FY 2007. This was accomplished in phases, along with the D.C. Office of Human Resources (DCHR) and with the support of the D.C. Office of the Chief Technology Officer (OCTO). The conversion to on-line Time and Labor reporting was accomplished in November 2006, for the majority of District agencies. In March 2007, the remaining District agencies were converted to on-line Time and Labor reporting, except for the University of the District of Columbia (UDC) and D.C. Public Schools (DCPS). While Time and Labor was now on-line, actual paychecks were still issued from the legacy UPPS System. In May 2007, UDC was converted and implemented all aspects of PeopleSoft Payroll system, including having paychecks issued from this system for the semi-monthly pay group. DCPS is now the only District agency remaining on a legacy system – CAPPS.

The conversion to PeopleSoft payroll eliminated the need for agencies submitting and OPRS processing approximately 22,000 paper timesheets for each of the twenty-six pay periods comprising the District pay cycle. This system allows for a real time update to employee records by DCHR and OPRS. It gives employees more information on their individual Earnings Statement (pay stub) and it provides real time labor distribution for the grant reporting agencies which will assist them in billing for

reimbursement of federal grant funds. However, as with any major IT system implementation, there are areas which require attention and improvements. OPRS along with DCHR and OCTO partnership continues to address agency issues, individual employee questions and implementing automated system changes as appropriate.

### **FY 2008 Developments and Goals**

Throughout FY 2008, we will continue to seek improvements in overall operations. The monthly closings continue and interim closings are planned for the end of March and June 2008. Furthermore, we are continually improving and automating the interim closing each time it is conducted.

Under the director of the ASM/FIT group, OFOS will continue to provide training on the automated systems of SOAR, PASS and PeopleSoft Payroll, as well as providing SOAR help desk operations and security for all financial systems applications.

OFOS will continue to seek ways to improve its automated capabilities by continuing to define requirements to upgrade/replace Information Technology (IT) platforms such as the automated check-writing system and SOAR. In pursuing these initiatives OFOS and the OCFO will work closely with OCTO to enhance the efficiencies of the District's

overall IT support of financial operations.

Within its current budget, OFOS is committed to performing citywide interim closes during the year, closing the books monthly, and completing cash/bank reconciliations in a timely manner. We will continue real-time data entry into SOAR throughout the year; production of reports that meet the needs of District managers; collection and recording of reimbursements as they occur; training on SOAR at the basic, intermediate and advanced levels; and the fine-tuning of the CAFR model to capture more financial information. Through the ASM unit we have become more proactive in identifying agencies that utilize the Direct Voucher method of payment for those items falling within the OCFO Financial Management and Control Order No. 05-002, as revised, as well as any violations that may occur. In FY 2008, we are planning to perform a physical inventory of the District's capitalized personal property.

The FCRD will continue to ensure that the District implements the pronouncements of the GASB before their effective time. It will also continue to ensure that CAFR continues to be delivered on time with the cooperation of the agencies.

The OPRS will continue to enhance the new PeopleSoft payroll system, by moving to E-time and E-pay as quickly as possible while maintaining the integrity of payroll

operations. Such enhancements will allow employees self service access to view their pay check on-line, review and make certain changes to their personal information, and eventually be able to enter their individual time on-line, for approval by their supervisor.

### **Internal Control**

Internal controls are designed to provide reasonable, but not absolute, assurances that assets are protected from loss, theft or misuse and that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the application of estimates and judgments by management. It therefore behooves the management to establish and maintain internal controls designed to attain these objectives.

Management's responsibilities may be summarized as follows:

- **Effectiveness**: Ultimately, management's success must be judged on the basis of whether the entity is achieving its objectives.



- **Efficiency**: Because there are legitimate and conflicting demands for scarce resources, management is expected to make optimal use of the resources placed under its control. Naturally, an activity can only be truly efficient if it is first effective.
- **Compliance**: Management does not have unlimited authority over the resources under its control. Rather, management's control over resources normally is limited by policy, law, or regulation, particularly in the public sector. A condition of management's stewardship of resources is that it strictly complies with all such restrictions.
- **Reporting**: Managers must be accountable to those who have provided the resources they manage. An essential part of meeting this responsibility is the regular preparation of financial reports for the benefit of interested parties.

The greatest challenge to effective internal control is ensuring that the control established by management is *comprehensive* – that is, broad enough to fully achieve its intended purpose. It is generally recognized that any truly comprehensive framework of internal control must possess five essential elements. The framework must:

- provide a favorable *control environment*;
- provide for the *continuing assessment of risk*;
- provide for the design, implementation, and maintenance of effective *control-related policies and procedures*;
- provide for effective *communication* of information; and
- provide for ongoing *monitoring* of the effectiveness of control-related policies and procedures, as well as the resolution of any potential problems identified.

OFOS plans to staff the Policy and Procedures Division to strengthen the internal controls.

**1. Plans to Update and Strengthen Position Descriptions and Internal Controls Development**

In order to accomplish the comprehensive review, updating, and development of detailed financial policies and procedures, the OFOS is considering the development and implementation of the following organizational and staff changes during the remainder of FY 2008:

- Create a separate Financial Policies and Procedures Division within OFOS, with a separate Director, with at least four (4) professional staff, new hires supported by reassigned OCFO employees. This reconstituted unit will be responsible for coordinating the development, issuance, and implementation of financial policies and procedures and related internal controls for the entire District. This initiative will require at least four (4) new FTEs in order to accomplish these goals within the next three (3) fiscal years. Each OFOS Financial Policies and Procedures and Internal Control Specialist will be responsible for working with and coordinating the activities of related staff at the five (5) OCFO central financial operations and the five (5) agency financial operations.
- Each OCFO cluster office/agency will be required to assign at least one (1) professional staff, either new hire or reassigned OCFO employee, in: (1) Economic Development and Regulation; (2) Government Operations; (3) Government Services; (4) Human Support Services, and; (5) Public Safety and Justice that will be responsible for coordinating the development, issuance, and implementation of financial policies and procedures and related internal controls for their respective agencies. Amongst the responsibility of these units will be coordinating their policies and procedures and internal controls with other OCFO central operations and agency financial operations in order to make sure each

OCFO organization is also part of the internal control on areas of joint responsibility and/or operations.

- Require each independent agency to assign at least one (1) professional staff, either a new hire or reassigned OCFO employee, in: (1) D.C. Lottery and Charitable Games Control Board; (2) D.C. Sports and Entertainment Commission; (3) Washington Convention Center Authority; (4) University of the District of Columbia; (5) WASA, and (6) Housing Finance Agency that will be responsible for coordinating the development, issuance, and implementation of financial policies and procedures and related internal controls for their respective agencies. Amongst the responsibility of these units will be coordinating their policies and procedures and internal controls with other OCFO central operations and agency financial operations in order to make sure each OCFO organization is also part of the internal control on areas of joint responsibility and/or operations.
- In addition, the OFOS will recommend that professional staff, either new hires or reassigned OCFO employees, be assigned in each major agency's program operations that will be responsible for coordinating the development, issuance, and implementation of operating policies and procedures and internal controls for

their respective agencies. These individuals would be under the control of the Executive, but they will have to work closely with OCFO staff responsible for coordinating the development, issuance, and implementation of financial policies and procedures and procedures and internal controls in their respective agencies to ensure that the interfaces between program operations and financial operations are consistent. These interfaces will be especially critical in areas that determine program eligibility, such as: (1) Medicaid, (2) Medicare; (3) Disability Compensation, and; (4) Unemployment Compensation, where allowing improper access to federally, or District supported, entitlement programs can require the District to pay a much higher portion of the costs for providing services to either ineligible participants or for the denial of reimbursement due to the lack of supporting documentation and timely reporting. It will be very difficult to estimate the staff requirement of this District program initiative until the OCFO and the Executive begin developing such details over the course of the next few months, but certainly by the end of FY 2009 budget development process.

This concludes my formal testimony. I am happy to answer any questions you may have. Thank you.