

PUBLIC OVERSIGHT HEARING ON
THE FY 2007 AND FY 2008 SPENDING AND
PERFORMANCE OF THE OFFICE OF THE CHIEF
FINANCIAL OFFICER (OCFO)

Before the
Committee on Finance & Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

February 27, 2008; 10:00 a.m.
Council Chamber, John A. Wilson Building



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

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia government. I am here for your annual oversight hearing to testify on the FY 2007 performance and FY 2008 plans of the Office of the Chief Financial Officer (OCFO).

This year you have scheduled a separate oversight hearing for the Office of Tax and Revenue and the Office of Integrity and Oversight. Therefore, today, four of my five deputy chief financial officers have prepared testimony and are with me to help address specific issues or answer questions as needed: Anthony Pompa, Deputy CFO for the Office of Financial Operations and Systems (OFOS); Lasana Mack, Deputy CFO for the Office of Finance and Treasury (OFT); Robert Ebel, Deputy CFO for the Office of Revenue Analysis (ORA); and Gordon McDonald, Deputy CFO for the Office of Budget and Planning (OBP). The Deputy CFO for the Office of Tax and Revenue (OTR), Stephen Cordi, will testify with me on March 5, as will Robert Andary, the Director of the Office of Integrity and Oversight. In addition, today, Jeanette Michael, executive director of the DC Lottery, has testified already on behalf of the Lottery. See Attachment 1 for an organizational chart of the entire OCFO.

OCFO HISTORY SINCE 1995

From junk bond status to A1/A+ bond ratings, from a half a billion dollar fund balance deficit to a billion and a half dollar surplus, the District's financial

recovery in less than a decade was phenomenal. Since 2000 when I assumed the role of Chief Financial Officer for the District of Columbia, with Mayoral guidance and Council oversight, we transformed the OCFO into one of the most efficient and best-performing agencies of the District government. In that time, our team of experienced and highly professional public administrators:

- Developed new tax compliance initiatives that have generated millions of dollars in previously uncollected tax revenues – an amazing \$2.6 billion more in FY 2007 than in FY 1997;
- Integrated into the fabric of the District government highly sophisticated financial systems that have generated operational efficiencies, accountability, and transparency (i.e., CFO\$ource, Dashboard, SOAR, etc.);
- Achieved the highest ever bond ratings for the District from all three rating agencies, thereby reducing the District’s borrowing costs; and
- Aggressively sought ways to save taxpayer dollars through cutting edge finance and investment techniques (i.e., tobacco securitization).

We have always been committed to enhancing the fiscal and financial stability, accountability and integrity of the financial operations of the Government of the District of Columbia with the residents of Washington, D.C., our federal partners, and the financial markets of this nation. That is why the alleged fraud in the Office of Tax and Revenue has been so devastating, for me and my organization. The OCFO must rebuild the trust and credibility that has been so severely damaged. To that end, we are taking several actions to scrutinize and improve the financial operations throughout the District government, which I will discuss later in my testimony.

Since 1997 we have enjoyed consecutively balanced budgets and clean audit opinions. We have a fund balance and cash reserves that are a far cry from the mid-1990s, remarkably improved bond ratings and well-deserved respect in the financial markets. Our annual audit process, which once was deeply flawed and problematic, has become routine with little concern over its timely issuance or whether the District will receive a clean audit opinion. The external auditor requested additional time this year for their review of FY 2007 in light of the alleged tax fraud. The contract for the audit of the FY 2007 CAFR was modified extending the due date for the Auditors Report (opinion) by 60 days. We are in constant communication with the independent auditors, and we are hopeful that they will complete their work by mid-March which would enable the OCFO to have printed/published CAFR's for the March 19th Committee of the Whole meeting.

All of this shows that we, as a jurisdiction, can manage our financial operations well and also take care of emergencies as they arise. Attachment 2 depicts this history in terms of annual surpluses, cumulative fund balances, and bond ratings. Last year at this time, we assessed the financial management infrastructure of the District and determined that the rebuilding of this infrastructure was virtually complete, and that it functioned well in support of the District's elected leaders, who demonstrate a strong commitment to maintaining fiscal balance. The alleged tax fraud notwithstanding, this infrastructure remains strong today. But whenever we find shortcomings and deficiencies in the three essential elements of the financial infrastructure – people, processes, and systems – it is imperative that we act immediately to study, diagnose, and remedy the problems. That is the focus of the OCFO today.

We also take very seriously our responsibility to operate within budgets that comprise the minimum resources necessary to protect the District's financial integrity and preserve and enhance its revenue stream. We seek to maximize gains from technology investments, upgrading of staff skills and organizational improvements as the primary means to address our ever increasing workload. We are currently operating under an approved FY 2008 budget that has 1,048 FTEs, a decrease of 12 FTEs from last year.

As you review the performance of the OCFO, we ask the committee to keep this record of fiscal prudence in mind. It is imperative that the District maintains its capability to perform core financial functions: keeping track of the books, financing its operations and collecting revenue due the District. One does not have to go back many years to find a time when we were doing poorly on all of these critical functions.

OCFO OVERARCHING GOALS

As the Chief Financial Officer, my objective is to preserve and enhance the overall financial stability of the District in the short- as well as long-term. My colleagues and I are busy working on this at all times, in activities such as estimating reliable revenues, exercising control of the budget, and improving relationships with the financial community and Congress. As I mentioned earlier, scrutinizing and improving internal controls throughout the District is a necessary focus now, in order to restore your and the public's confidence in the OCFO.

As we work to strengthen and maintain the District's financial viability, we keep five key goals in mind in formulating our budgets. In all instances, it is our intent

to present to this committee, the Mayor and the Council the minimum OCFO resource request consistent with attaining these goals. In each case, I believe the achievement of these goals is absolutely necessary to maintain and increase the District's financial independence. These goals are:

1. Maintain Financial Controls and Safeguard Assets

Throughout the OCFO, we have the goal of protecting District assets. This requires the maintenance of internal checks and balances, effective internal audits, and the maintenance of systems to record and check financial transactions. In the wake of the alleged fraud at OTR, on December 5, 2007 I announced the establishment of an independent Audit Committee to Review Financial Management and Internal Controls. The Committee is assisting us in reviewing the internal controls structures of the OCFO's financial management operations, as well as its compliance with existing policies and procedures. The distinguished leadership of the committee, all of whom are serving without compensation, includes:

- Sheldon Cohen, Chair (Director at Farr, Miller & Washington, LLP, and former Commissioner of the U.S. Internal Revenue Service);
- Donald H. Chapin (Retired, Director of Auditing, Arthur Young & Company and former Assistant Comptroller General);
- John Hill (Chief Executive Officer of the Federal City Council);
- James Hudson (Chairman of the JAH Development); and
- Irving Pollack (Of Counsel, Fulbright & Jaworski, and former Commissioner of the U.S. Securities and Exchange Commission)

Attachment 3 contains a description of the Audit Committee and profiles of its members. The Committee will provide the Mayor and Council with quarterly reports on its findings and recommendations. The first such report is expected mid April.

The Committee's overriding objective is to review the performance of the Office of the Chief Financial Officer and the OCFO function in each District agency. Accordingly, the Audit Committee is focusing in its first year on all areas of the OCFO that handle cash or are involved in the preparation of District government checks. To this end, on behalf of the Audit Committee we have engaged the services of Kroll Associates, the nationally recognized audit and consulting firm, to review OTR's internal controls, as well as its policies and procedures. Kroll is generously providing its services to the OCFO pro bono as a measure of its commitment to assisting the District in this matter. Kroll's team at OTR is led by Lynn E. Turner, formerly chief accountant for the U.S. Securities and Exchange Commission.

In the next two years, the Audit Committee will turn its attention to other areas of the OCFO, with those clusters involved in cash management taking priority. By the end of three years we hope to have reviewed the internal controls, policies and procedures of the entire OCFO.

Two other outside firms, Deloitte Financial Advisory Services and Ernst & Young, were engaged, also on a pro-bono basis, to facilitate a fraud risk assessment of specific business processes within the Office of Finance and Treasury. Their approach includes a series of facilitated discussions with Treasury staff, as well as a review of existing policies and procedures, internal and external audit reports,

and other OCFO directives and alerts for the purpose of gaining an understanding of the current internal controls environment. They will identify, classify and rate potential risks in OFT's funds-handling functions along with make recommendations and provide plans for remediation where controls need to be strengthened. I expect their results mid April. This type of assessment is an important proactive step in enhancing and promoting a culture of fraud prevention, detection, and deterrence and should serve as a model for use throughout the District. Stanley Sporkin, the widely respected former U.S. District Court judge, is also advising the OCFO on a pro bono basis on key steps to be taken to strengthen our internal controls, policies and procedures.

Besides engaging the services of these three firms to scrutinize our operations and recommend improvements, we are reviewing all our policies and procedures to make sure they are up to date and effective. The Office of Integrity and Oversight is in the process of reviewing them. The Office of Financial Operations and Systems is responsible for updating and standardizing procedures throughout the entire financial cluster, to ensure the most effective internal controls.

In another area, we have conducted an analysis of audit reports issued to the OCFO by the Inspector General and the D.C. Auditor for the last three Fiscal Years—2005 through 2007—to determine the actions taken in response to their recommendations. This involves eight audit reports issued by the Inspector General. The D.C. Auditor publicly issued 67 reports, 36 of which pertain to OCFO operations. Of these, we found that nine contained recommendations directed to the OCFO.

Our review, which is ongoing, indicates that all recommendations requiring OCFO action have been implemented or are in the process of being implemented. We will monitor those actions that are in the process of implementation. Attachment 4 is a summary of the recommendations and their status.

2. Produce Reliable Revenue Estimates

Reliable and timely revenue estimates and fiscal impact statements are critical to the legislative process and building budgets that are realistic. For FY 2007, quarterly re-estimates were issued as the District's economy performed better than the original forecast anticipated. As a result, we anticipated higher fund balances at the end of FY 2007, some of which was appropriated for use in the development of the FY 2008 budget and some in the FY 2008 supplemental. The higher revenue estimates reported throughout FY 2007 also supported additional expenditures for FY 2008.

As I have said on many occasions, the District's revenue estimates must be realistically conservative as a matter of both necessity and good financial management. Conservative estimates are at the heart of a balanced budget and adequate cash flow, and the requirement that the District must end every fiscal year with a balanced budget.

The District employs the range of revenue sources typically used by states as well as general purpose local governments. This state-plus-local revenue profile not only has its benefits as well as its drawbacks, but also makes the task of revenue estimation in the District of Columbia a far more complex one than that the other 50 state and local systems face.

With respect to the revenue mix, consider that whereas nationally the state governments generate nearly 90 percent of their revenues from sales and income taxes and local governments typically rely on the property tax for about three-quarters (72 percent) of their local funds, the District of Columbia generates about half of its total revenues (50 percent of our “local fund” revenues) from state-like sales and income taxes and about a third of revenues from the property tax (23 percent).

The benefits to our special mix of resources is that it gives us a more balanced revenue system in terms of the ability to capture long term trends in the city’s economic and demographic base. This has great merit, especially in terms of the interplay of the DC tax system and the steady economic growth that we have observed over the past four years. Indeed, due in large part of the recent robust performance of the property tax, a revenue source that also tends to be relatively stable as an economy slows, the payoff has been high in terms of our ability to keep pace with the growth in spending.

The potential downside –and one that we must track with great care when we are --as now--observing a “turning point” in the macro-economy, is that from our perspective of a municipality, we are more vulnerable than other cities to the inherent volatility of income and sales taxes (Attachment 5).

The just released February 2008 revenue estimates illustrate the nature of this uncertainty. In just the past two months, the national and the District of Columbia economy have slowed down. Indeed, some external financial observers are predicting a recession in the near term. But, setting aside, for now, the recession question, we observed that the slowing in District home sale activity, and

nationally, the stock market and the overall pace of economic activity has, in combination with recent legislative changes by the Council, have resulted in an estimate of total revenues less than we expected as of last December.

Sound financial management also requires a realistic assessment of the costs of achieving the Mayor's and Council's policy goals. To that end, during FY 2007, fiscal impact statements were prepared for 255 bills (compared to FY 235 for FY 2006) that were under consideration by the District of Columbia Council.

3. Assure Balanced Budgets

Budgets built on quality analysis that include all foreseeable costs ensure the smooth execution of programs approved by the Mayor and Council. Online monitoring of expenses helps control costs and spots operations that are off-course. During the past few years, we have built capacity in this program area, and I believe the District is now being better served as a result.

4. Prepare Audited Comprehensive Annual Financial Reports (CAFRs)

Our ability to record financial transactions timely and accurately is critical to our ability to produce audited financial statements on time and maintain and improve the District's bond ratings. Routinely, formal activities for the annual fiscal year closing process begin on October 1 and culminate with the issuance of the CAFR prior to the February 1 deadline. This is due in large part to the philosophy that we have regarding the CAFR or closing exercise – it is a 365-days-a-year process. Through “lessons learned” assessments, monthly and quarterly closings, training, Accounting System Manager assignments, closing workshops, and variance analyses, the closing period has become routine.

In the latter part of December 2007 BDO Seidman, the outside auditor for the District, requested an additional 60 days to complete the audit. The Inspector General granted this request, which was consistent with auditing standards that provide guidance when there is detection of fraud. We provided the auditor with fully auditable statements in mid-January, as in past years. As I said earlier, we are in constant communication with the independent auditors, and we are hopeful that they will complete their work by mid-March which would enable the OCFO to have printed/published CAFR's for the March 19th Committee of the Whole meeting.

5. Protect and Enhance District Revenues

OTR must efficiently process all tax returns voluntarily remitted, and must aggressively pursue enforcement action to both increase revenue and reduce the rate of noncompliance each year. Every year since 1997, OTR has significantly increased revenue collections – both those voluntarily remitted and those collected as a result of enforcement action. The performance of OTR will be discussed at your oversight hearing on March 5.

DISTRICT-WIDE OCFO

The OCFO's goals are met not only by the deputy CFOs, who lead the central offices, but also by the District-wide OCFO staff. The DC Lottery and Charitable Games Control Board is an independent agency; however, because of the significant revenue it generates, it falls under the auspices of the CFO. Their administrative functions (i.e., procurement, personnel, security), as well as their financial management, are centrally coordinated within the OCFO.

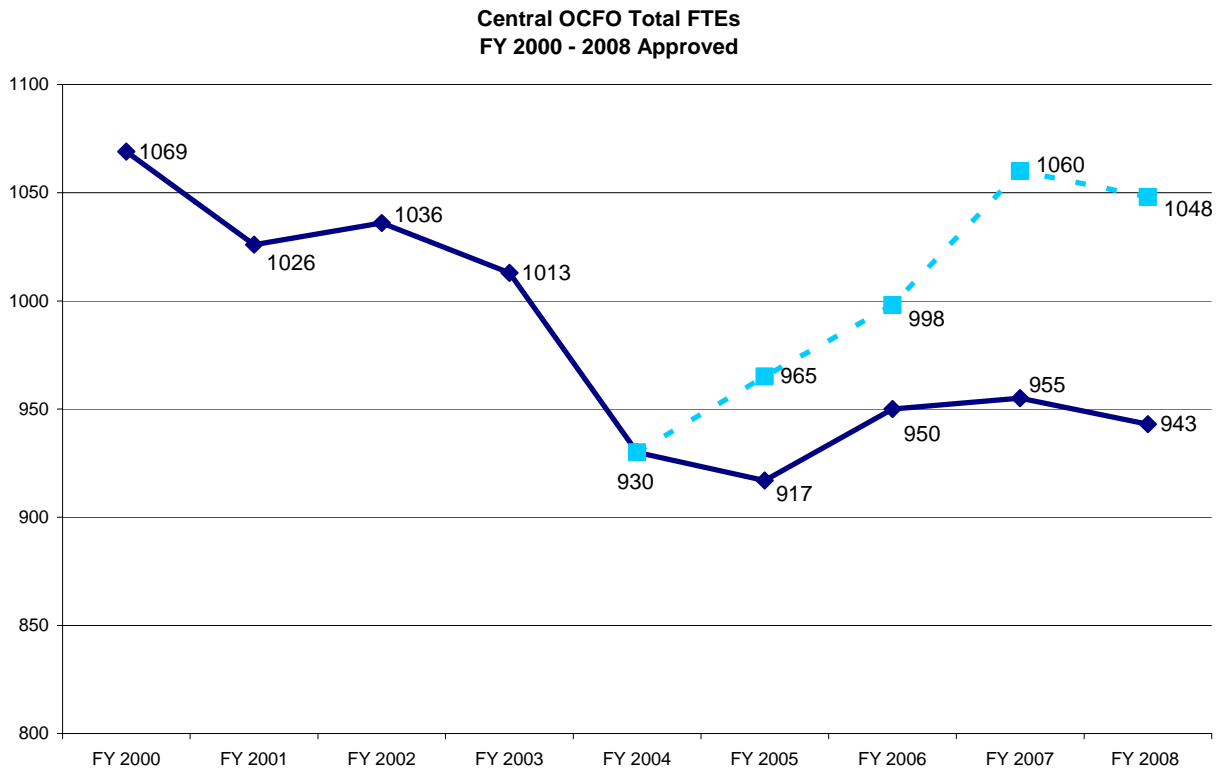
Additionally, associate chief financial officers (ACFOs) represent the major appropriation titles in the District's annual budget and manage agency financial operations. ACFOs serve as the OCFO's key representatives to the city administrator, deputy mayors, and agency directors in managing the city's finances and the government's programmatic priorities. ACFOs manage the following financial clusters: Economic Development and Regulation, Government Operations, Government Services, Human Support Services, and Public Safety and Justice.

Additionally, agency chief financial officers for the following independent agencies legally report to the District CFO.

MULTI-YEAR CHANGE IN NUMBER OF FTEs IN CENTRAL OCFO AND DISTRICT-WIDE

Downward Trend in Central OCFO

From FY 2000 to FY 2004 the number of FTEs in the central OCFO dropped from 1,069 to 930, or 13 percent. (See the following chart and Attachments 6 and 7.)

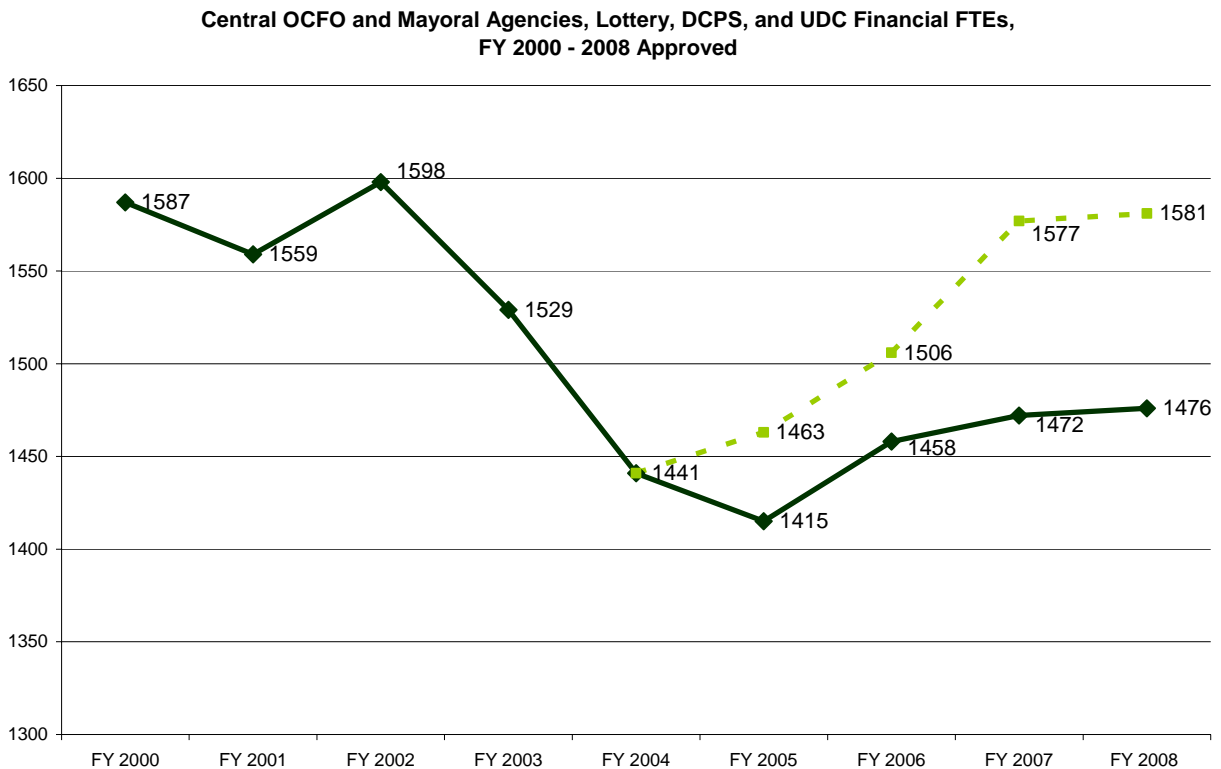


Note: The dotted lines include the effect of FTEs in OTR for compliance initiatives.

The FTE increases since FY 2004 have been primarily due to Council-mandated revenue generating initiatives and related revenue compliance activities in OTR. In FY 2005, the Council added 48 FTEs to the OCFO for a tax compliance initiative to produce additional revenue to support District operations. Without this initiative the FTEs would have declined further to 917 in FY 2005, or another 1.4 percent reduction. The FY 2006 approved budget added 33 FTEs in the central OCFO, including 17 for mandated functions and 16 for real property assessors. In FY 2007, an additional 62 FTEs were added for several tax compliance initiatives. The overall impact of the streamlining of OCFO operations during the past several years has enabled more than 100 FTEs to be added to direct revenue generating activities, at the same time as total staffing has decreased.

Downward Trend in Agency Financial Staff

Since August 2002, financial operations for the Mayoral agencies have been organized into five clusters. Five associate chief financial officers (ACFOs) manage the fiscal officers that reside within these agencies. The ACFO structure has been very successful. The structure contributes significantly to the efficient preparation of the Comprehensive Annual Financial Report (CAFR), as well as budget development and execution. Previously there were accounts payable, payroll, and accounting operations throughout these agencies; now there are now five shared service centers – one for each cluster.



Note: The dotted lines include the effect of FTEs in OTR for compliance initiatives.

By making these operations more efficient, since FY 2002, the last fiscal year before the ACFO structure was implemented, the FTEs in the Mayoral agency fiscal operations declined from 421 to 381 in FY 2005, or 9.5 percent. This has been largely the result of restructurings similar to those we have conducted in the central OCFO and in Lottery. In the Mayoral agency financial operations, restructurings reduced costs by \$2.6 million on an annualized basis.

Initiatives and Ongoing Work of the OCFO in FY 2008

The total FY 2008 budget for the OCFO from all funding sources is 1,048 FTEs and \$153.4 million. From local sources, we have 898 FTEs and \$112.0 million. Reflected in the budget are local fund increases of nearly \$5 million to cover the cost of mandated pay raises for both union and non-union employees, and nearly \$3 million as a baseline adjustment to cover the ongoing maintenance and support of our core tax system and related data warehouse. An increase of \$200,000 funds programming changes necessary to implement various tax legislation and \$150,000 funds the use of a nonprofit agency to provide outreach assistance regarding the Earned Income Tax Credit.

The FY 2008 budget also includes reductions to local fund totaling over \$15 million. Over half of this amount was for one time costs for revenue enhancement measures in FY 2007, and another \$2.7 million we were able to offset by using available nonlocal revenue funds. After adjusting for one-time costs, mandated increases, nonlocal fund adjustments, and transfers out to other agencies, the OCFO operating budget for FY 2008 provides 7 fewer FTEs and over \$4 million fewer dollars for ongoing OCFO operations. To achieve this we eliminated some of our vacant positions and reduced funding for equipment and contracts. As always, we seek to fulfill our mission in the most efficient and effective manner

possible with the resources that have been provided. (See Attachment 8 for a summary of changes from the FY 2007 to FY 2008.)

ACTIONS TO ADDRESS THE AUDITOR'S FY 2006 FINDING OF MATERIAL WEAKNESS IN DC PUBLIC SCHOOLS

Last year the independent auditor found the DC Public Schools (DCPS) to constitute a material weakness, citing the areas of grants management, human resource/payroll issues, procurement practices, and the Medicaid program. A detailed plan to remediate the weakness was developed and executed. Through the development of policies and procedures, employee training programs and the imaging of documents, significant progress was made to improve the performance in these areas. Most of the work was completed this past summer. The FY 2007 CAFR audit is still in progress and the independent auditors have not completed their work. However, we are hopeful that the remediation efforts yielded noticeable positive results.

DEBT MANAGEMENT AND BOND RATINGS

At the beginning of 1997, the ratings the District received from the three major bond rating agencies were B, Ba and BB. These were below investment grade, or "junk bond" ratings (see Attachment 2). Today, for many reasons, not the least of which is our healthy financial position, the ratings are A+, A1 and A+ from Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. They are the highest bond ratings that the District has ever obtained. These are considered to be sound investment grade ratings. These improved ratings help reduce the District's borrowing costs. We estimate that the cumulative effect of

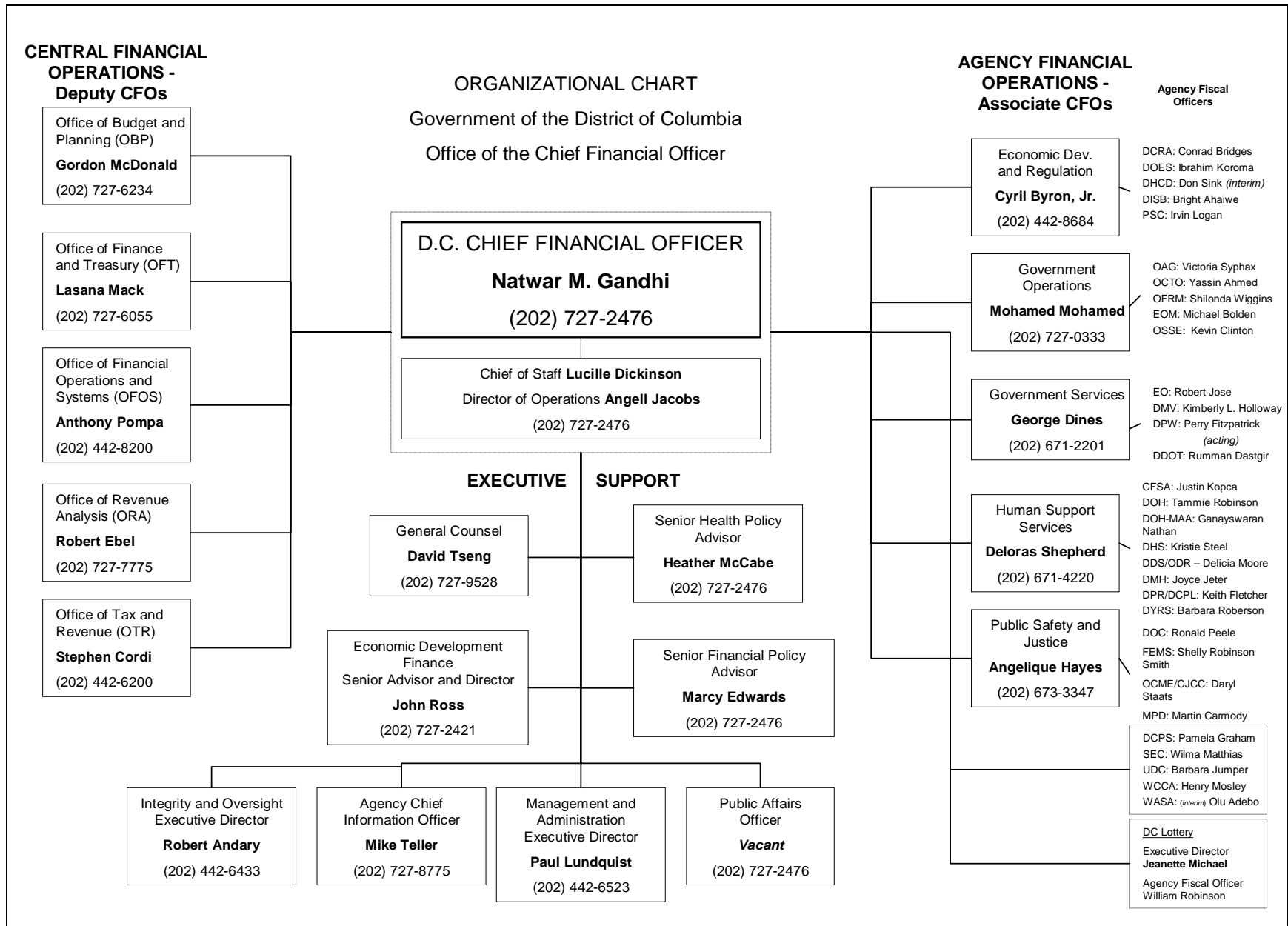
these upgrades is an annual savings of more than \$15 million in debt service and fees.

Our steadfast objective is to sustain the ratings we have achieved so far and to continue to make financial strides in order to achieve additional upgrades. To that end, in June 2007, the OCFO transmitted a letter addressing the growing burden of debt on the District, and recommending a target limit on debt service as a percent of expenditures of 10 percent, with a firm cap of 12 percent. One of our goals in making these recommendations was to ensure that we maintain flexibility in future budgets. Specifically, by limiting the percentage of debt service – a fixed cost – to no more than 12 percent, we would ensure that the balance of the District’s budget, that is, 88 percent to 90 percent of expenditures, would be available to fund services to taxpayers. I strongly urge our elected officials to work within these limitations on borrowing.

CONCLUSION

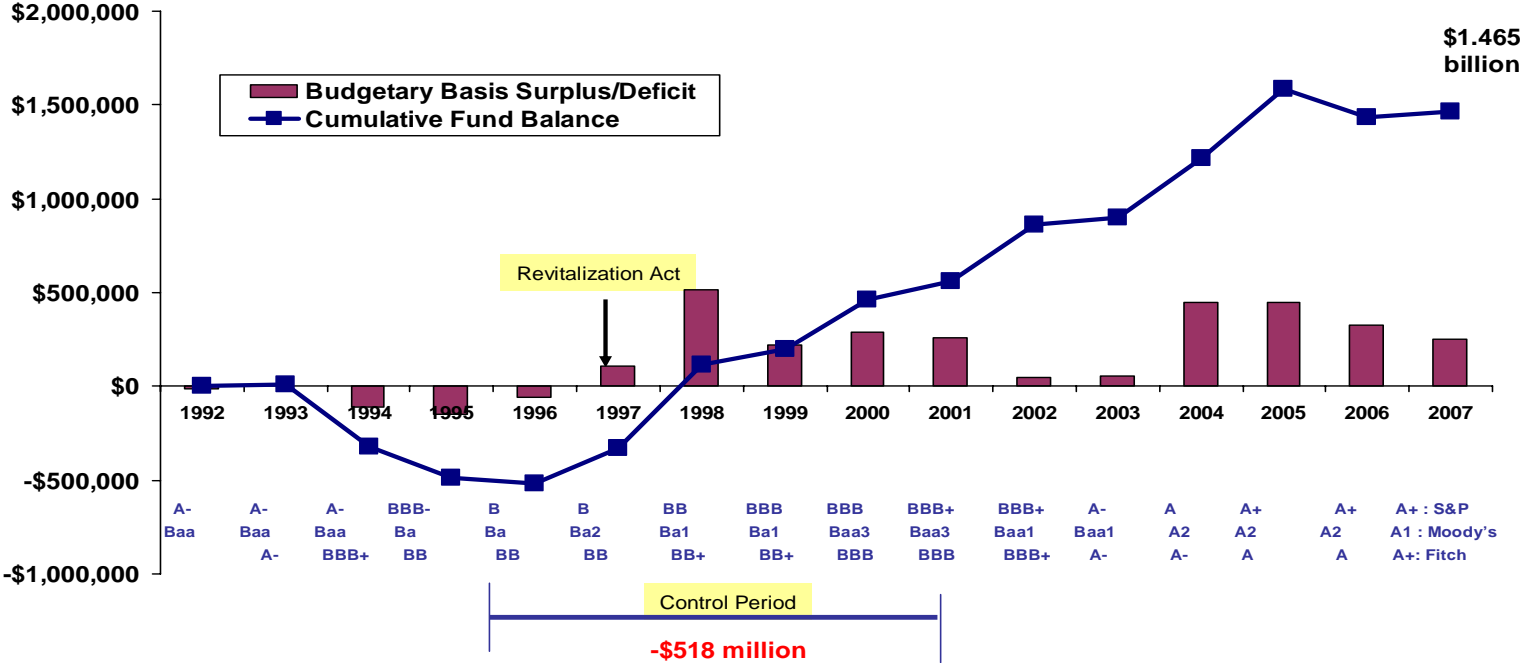
The continuing leadership provided by the Mayor, by you, Mr. Evans, and the Council has enabled the District to experience a major financial turnaround. The OCFO is committed to doing everything we can to support continued financial improvements in the city in FY 2008 and beyond.

This concludes my remarks. I would be pleased to answer any questions you may have.



Surplus and Bond Rating History

(FY 2007 Unaudited)



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

FY 2007 CAFR

1/28/08



GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



FOR IMMEDIATE RELEASE
Wednesday, December 05, 2007

Contact: Maryann Young
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**Chief Financial Officer Announces Audit Committee to
Review Financial Management and Internal Controls**

(Washington, D.C.) District of Columbia Chief Financial Officer Natwar M. Gandhi today announced the establishment of the Audit Committee to Review Financial Management and Internal Controls as another important step toward strengthening the District's financial operations for the long term following the recent changes in the Office of Tax and Revenue.

The Committee will assist the CFO in reviewing the internal control structures of the OCFO's financial management operations, as well as its compliance with existing policies and procedures. The distinguished leadership of the Committee includes (biographical briefs follow below):

- Sheldon Cohen, Chair (Director at Farr, Miller & Washington, LLP);
- Donald H. Chapin (Retired, Director of Auditing, Arthur Young & Company);
- John Hill (Chief Executive Officer of the Federal City Council);
- James Hudson (Retired, TChairman of the JAH Development); and
- Irving Pollack (Of Counsel, Fulbright & Jaworski).

The Committee's overriding objective is to review the performance of the Office of the Chief Financial Officer and the OCFO function in each District agency. The Committee will provide quarterly reports on its findings and recommendations

"The Office of the Chief Financial Officer must rebuild the trust and credibility that has been damaged by the allegations of gross impropriety in the Office of Tax and Revenue," said Gandhi, in unveiling the Committee members today. "I want this Committee to carefully and completely scrutinize our operations throughout the District. I very much appreciate the members' willingness to serve, and I pledge them the OCFO's full support."

"We will give this committee our full cooperation and support," said Mayor Adrian Fenty. "These individuals are committed to the District and we expect our financial management controls will benefit from their experience and diligence."

"This is a step in the right direction," said Finance and Revenue Committee chairman Jack Evans. "We have a long road ahead of us and the assistance of this committee will be invaluable."

-continued-

The Committee will be guided by the advice published in 1995 in OMB circular *A-123, Management Accountability and Control*, as well as the standards for reviewing the adequacy of internal controls contained in the Sarbanes-Oxley Act of 2002. The formation of an audit committee is also recommended to assist states and municipalities in complying with the GAO's new Government Auditing Standards (The Yellow Book), issued in July 2007 for implementation in 2008, making the District among the first major jurisdictions to have an audit committee assisting in Yellow Book compliance.

The Executive Office of the Mayor, the District Council and the Inspector General will each have a liaison to the Audit Committee.

The Committee has agreed to begin its work by reviewing the financial operations of the Office of the Chief Financial Officer. Their work is expected to begin immediately.

A more detailed explanation of the Committee's mission and principles follows, as well as the previously referenced biographies of Committee members.

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
04-1-27AT	OTR	1	Internal Control and Compliance. Develops and implements controls to prevent new property owners from obtaining the homestead deduction and/or senior citizen tax relief on multiple properties.	In FY 2006 and 2007 RPTA worked with Information Systems Administration to develop and design an automated Homestead Module to be implemented in summer 2008. The Homestead Module includes the process for granting Homestead, Senior and/or Disabled benefits. One of the steps in this soon to be implemented automated process for approving or denying applications for Homestead, Senior and/or Disabled benefits is verifying if the applicant (individual) is receiving such benefits on other properties. If so, the benefit(s) will be denied.
	OTR	2	Internal Control and Compliance. Results in DCRA and DCHA coordinating to detect property owners who simultaneously leased their properties and received the homestead deductions and/or senior citizen tax relief.	The automated Homestead Module includes annually comparing the listing of properties that receive the Homestead, Senior and/or Disabled benefits with an annual listing from DCRA and DCHA of those properties that are rented/leased.
04-1-27AT	OTR	3	Internal Control and Compliance. Requires property owners who receive the homestead deduction and/or senior citizen tax relief to submit documentation (such as utility bills, driver's licenses, etc.) along with their applications and confirmation.	Reconfirmation: As part of the 2006 and 2007 Homestead Audit Program, property owners were required to submit documentation supporting their entitlement to the benefits. The documentation was one or more of the following items: Ø A copy of their DC income tax, Ø A copy of their driver's license, Ø A copy of their vehicle registration, Ø A copy of their voter registration, Ø A copy of utility bills in their name, Ø If senior, documentation to substantiate birth date, and Ø If disabled, medical determination regarding disability. Application: Ø The application has the necessary questions for Homestead benefits and it is signed under penalty of perjury – penalty for providing false statements. Ø The application for Senior requires submission of Driver's License or ID Card, both of which include the date of birth. Ø The application for Disabled requires submission of documentation supporting medical determination of disability or aware of SSA benefits and/or annuity payments.

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
04-1-27AT	OTR	4	Economy and Efficiency. Recovers funds from residential property owners who received ineligible tax credits, and assesses interest and penalties.	<p>In March 2006, OTR identified approximately 8,200 property owners receiving the Homestead benefits who did not match one of the following criteria: 1) the owner did not file District income taxes, 2) the premise address did not match the property owner's drivers license and vehicle registration records, and 3) the property owners were not registered to vote in the District of Columbia. In April 2006 OTR revised the draft Homestead Audit Procedures and scheduled the Homestead benefit reconfirmation audit of approximately 8,000 benefit recipients identified as not matching the above criteria. This audit began in May 2006 with OTR requesting documentation from property owners to prove eligibility for the benefit.</p>
				<p>OTR RPTA (Real Property Tax Administration) completed the audit in December 2006 issuing in October, November and December bills for the retroactive removal of the benefits and prospective removal was included in the first half 2007 bills issued in March 2007. The bills included real property taxes, penalties, and interest. If requested, penalties were waived on the bills issued in October – December for those properties inadvertently granted the Homestead due to OTR procedural errors.</p> <p>The Homestead benefit was removed retroactively from 2nd Half 2005 forward for 368 properties and retroactively from either 1st or 2nd Half in 2005 or 2006 on 1,326 properties. Removal of Homestead on these 1,694 properties generated additional 1st Half 2007 taxes of \$1.7M.</p>
04-1-27AT	OTR	8	Internal Control. Ensures a sufficient number of confirmations are mailed each year, and develops a mechanism to ensure each property owner is audited at least once every 3 – 5 years.	<p>In FY 2006 and 2007 RPTA worked with Information Systems Administration to develop and design an automated Homestead Module to be implemented in summer 2008. The Homestead Module includes a reconfirmation process every year on those properties that have received the benefit for the past 3 years and not been part of the reconfirmation process in the past 2 years.</p>

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
05-2-10MA		1	Execute the Execute Fixed Costs MOU closer to the date the Mayor presents the proposed Budget top the Council.....	The fixed costs MOU is executed at the beginning of the fiscal year which begins on October 1st. The budget is submitted to the Council in March of each year. The annual fixed costs process starts at the beginning of the fiscal year and we cannot wait until the middle of the year to execute the MOU, collect funding and then make payment
	OFRM	2	Improve the language of the MOU to clearly identify buyer, seller and paying agency.....	The MOU format has been revised to more clearly identify the parties involved. There is now one citywide MOU that is signed by the City Administrator on behalf of all District agencies
	OFRM	3	Enhance the signatory section of the MOU to include lines for the printed.....	The current MOU has the names and positions of all the signers clearly identified.
	OCTO	8	OIG recommends that OCTO co-ordinate with	Though the recommendation pertains to OCTO, OFRM can definitively state that Requests for Telephone Services (RTS) are always for services that are budgeted. There are several functions that are done by OCTO and OFRM. 1. All RTS's are reviewed by OFRM for budgetary availability and OCTO for compliance and technical assessment prior to submission to the vendor. 2. All goods and services provided through RTS's are subject to the RTS closeout process whereby both OCTO and the agency agree that the goods and/or services meet the requirements of the RTS. 3. Prior to payments to vendors, OFRM conducts due diligence analysis to ensure compliance prior to payment.
	OPM	11	OPM develop written policies and procedures.....	Not the responsibility of OFRM. Letter forwarded to OCTO for action
	OPM	12	Establish a process to periodically monitor lessor's books and records.....	Not the responsibility of OFRM. Letter forwarded to OCTO for action
04-1-15CR(a)	DCRA	1	Tracking and Reporting Client Waivers Establish a uniform database to properly account for and track client waiver transactions for professional engineering license applicants	Implemented
	DCRA	2	Tracking and Reporting Client Waivers	Implemented

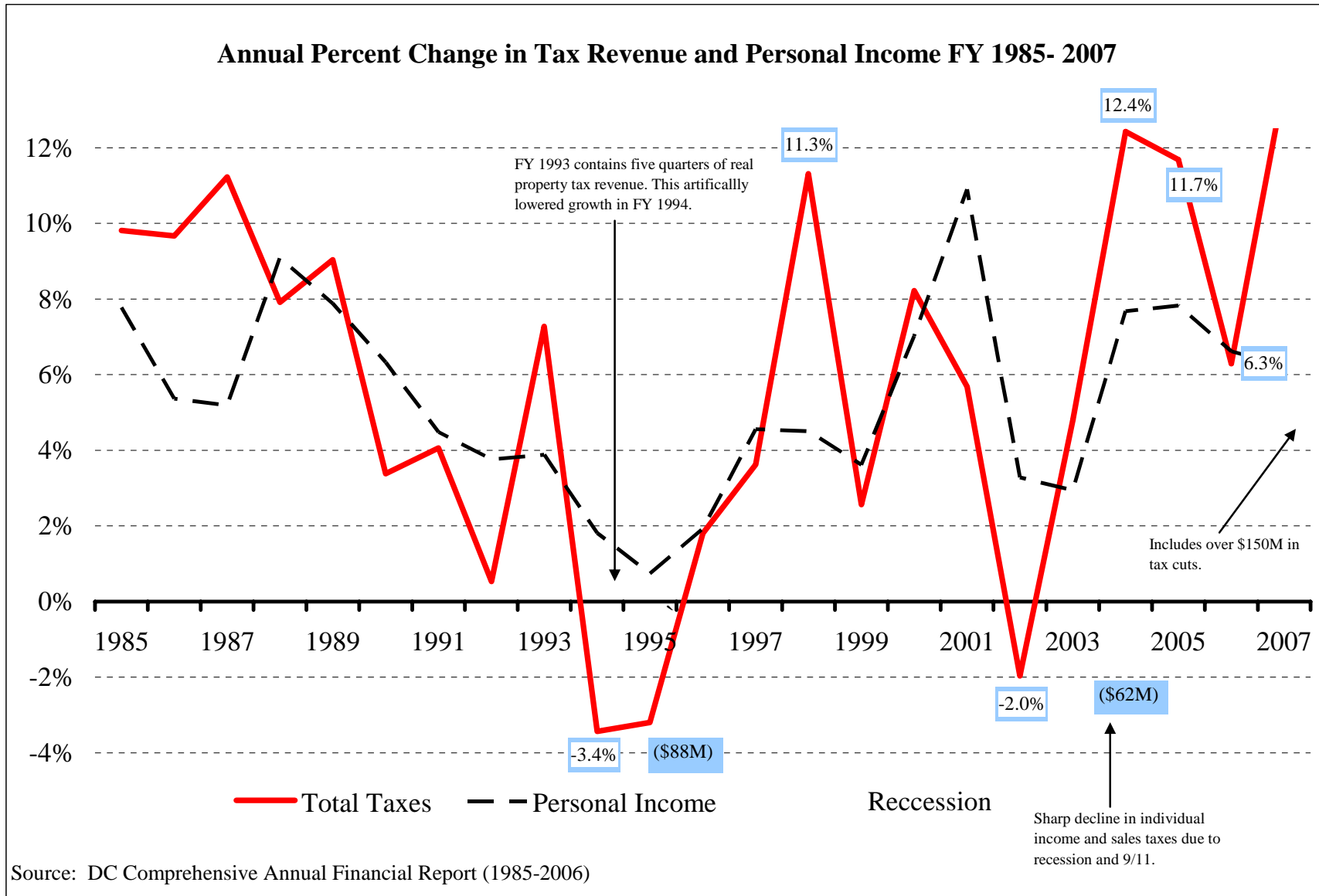
Report No.	Agency	Recommendation No.	Recommendation	Agency Response
			Establish written procedures for performing monthly reconciliations on client waiver balances as logged by DCRA, reported by contractor, and recorded in SOAR.	
	DCRA/OCFO	3	Internal Controls Over Revenues Implement improved controls and procedures for timely and accurate recording of PEF cash receipts and deposits to the D.C. Treasury	Implemented
	DCRA	4	Internal Controls Over Revenues Establish written procedures for DCRA staff to monitor monthly financial activity from the service provider.	Implemented
04-1-15CR(a)	DCRA	5	Internal Controls Over Revenues Request that the Office of Contracting and Procurement seek to modify the current contract for professional occupational licensing by: a) requiring the contractor to remit funds by a specific date each month and by providing for penalty and interest charges if remittances are late; and b) ensuring that all future contracts include a specific payment date, as well as a penalty and interest provision for late payments.	Implemented
	DCRA	6	Internal Controls Over Revenues Establish a policy to require staff to make timely deposits of all cash receipts in accordance with the OCFO Financial Policies and Procedures Manual.	Implemented
	OCFO	7	Accruing Interest on District's Pooled Cash Account Request that the Office of the Chief Financial Officer, (OCFO) allocate interest to the PEF according to funds on deposit with the District government.	OCFO disagreed with finding. Legislation does not specify interest earnings be allocated to the PEF.
05-1-04DB	DHCD	1	Compliance and Internal Control Ensures that DHCD refrains from future citation of the Quick Payment Act in grant agreements.	Implemented
	DHCD	2	Compliance and Internal Ensures that all District agencies are advised about the policies for citing the Quick Payment Act provisions.	Implemented

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
05-1-01MA	OFOS	1a	Internal Control and Compliance. Formalize and strengthen written policies and procedures for detecting and reporting deceased annuitants, and terminating those annuitants from the District's pay and retirement database.	Open
	OFOS	1b	Internal Control and Compliance. Formalize and strengthen written policies and procedures for the recovery of erroneous payments made to deceased or ineligible annuitants.	Open
	OFOS	1c	Internal Control and Compliance. Formalize and strengthen written policies and procedures for notifying deceased annuitants' next-of-kin when erroneous payments are made in order to properly recoup the payments.	Open
05-2-02MA	OFOS	1	Efficiency. Ensures timely receipt of funds by designee organization.	Closed
	OFOS	2	Efficiency. Includes language to promote a better understanding of the One Fund process.	Open
	OFOS	3	Internal Control. Strengthens internal procedures regarding operational controls over the One Fund.	Open
6-2-09KA	Government Services	1	OIG recommended that expenditures charged against the LRCMF are proper	The recommendation has been completed/implemented. DDOT management and OCFO allowed a one-time charge of \$1.48 million in expenditures in FY 2006 that was reversed in FY 2006 to allow timely payment of invoices that could not be paid in previously set up purchase orders due to PASS implementation and the way it interacted with budget balances. OIG was provided with copies of the reversing entries for inclusion in their work papers. The DDOT and the OCFO follow all District procedures, rules, and directives for procurement and for payment of resultant invoices.
	Government Services	2	OIG recommended that policies and procedures for communicating account code changes between budget and accounting personnel exist, are documented, and are consistently followed.	Procedures were provided to OIG in August, 2007. The defined procedures have been implemented.

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
<p>Review of the School Transit Subsidy Program Administered by the District of Columbia Department of Transportation. Issued by D.C. Auditor</p>	<p>Government Services</p>			<p>Recommendations 2 and 3 on page iv and Recommendations 1-3 on pages 14-15 have all been implemented. The OCFO works closely with DDOT's Mass Transit Administration to develop the School Transit Subsidy funding needs, based on historical trends, YTD actual expenses, and ridership figures. In addition, a monthly fiscal status update with forecast (identifying variances with potential surplus / shortfall) is being included in the monthly report package to the DDOT Director.</p>
<p>DC Auditor: Letter Report: Comparative Analysis of Collections to Revised Revenue Estimates for Fiscal Year 2005</p>	<p>ORA</p>		<p>Monitoring the revenue estimates for non-tax revenues (licenses, charges and fees, permits)</p>	<p>Both the May and August <i>Letters</i> call for further monitoring of the non-tax revenue estimates. In response to these recommendations, the ORA prepared a detailed <i>Briefing Note</i> on "Non Tax Revenue Estimates". The briefing note begins with a Statement of the Issue, and then proceeds to document the requirements of current law as it pertains to the OCFO role in the revenue estimating process. From there the proceeds to detail the (i) step-by-step process of revenue estimation for non-tax revenues; (ii) nature and role of the Audit Review; and (iii) the methodology used for revenue estimation of non-tax revenues. This note is available for OIO (and public) review.</p>
<p>DC Auditor: Letter Report: Comparative Analysis of Actual Cash Collections to Revised Revenue Estimates Through the 2nd Quarter of Fiscal Year 2006</p>	<p>ORA</p>		<p>Monitor Legalized Gambling Revenues (Lottery)</p>	<p>The August 26, 2006 <i>Letter</i> further recommends that the ORA monitor collections of the DC Lottery. In response the ORA staff prepared another detailed <i>Briefing Note</i> on the lottery. This "Lottery Overview" note addresses four issues: the (i) financial performance of the District of Columbia lottery compared to other state lotteries; (ii) earmarking of lottery revenue; (iii) the recent developments with respect to the issue of lottery privatization. The document includes a series of tables with state by state data (includes DC) on lottery financial performance. As with the briefing note on non-tax revenues, the analysis of the lottery is available for OIO (and public) review.</p>

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
Performance Incentive Award Payments Exceeding \$5000 to Executive and Excepted Service Employees	OGC		The Chief Financial Officer and Attorney General of the District of Columbia promptly initiate the appropriate process(es) to recover the \$15,600 payment made to the former District Employee.	The OCFO referred this claim to the OAG for action.
Letter Report: HIV/AIDS Crisis Area Capacity Building Fund Authorized by the Fiscal Year 2006 Budget Support Act of 2005	OGC		The Chief of Staff, Policy Analyst, Fiscal Officer, and other senior DOH officials timely seek legal counsel from agency legal staff, Office of the General Counsel for the Council, and/or General Counsel for the Office of the Chief Financial Officer when legislative language seems restrictive, unclear, or problematic.	The Associate General Counsel and Director of Legislative Affairs routinely provide written legal analyses of legislation affecting the OCFO
Review of Relocation and Related OCTO Employees' Expenses Paid for by the Office of the Chief Technology Officer for Fiscal Years 2001 through 2003	OGC		The Chief Technology Officer and Chief Financial Officer ensure that employees A and B reimburse the District government \$5,826.28 within 60 dys of the date of this report.	The Associate General Counsel and Director of Legislative Affairs annually provide a written analysis and review of the Budget Support Act for the OCFO.
04-1-04-HC	Human Support Services		<p>The OIG recommended that the Director, Department of Health in conjunction with the Chief Financial Officer establish and implement operation procedures to ensure that all paid taxicab vouchers are voided by date-stamping and/or perforating to avoid duplication of payment and to prevent re-use</p> <p>Establish and implement operatin policies and procedures that address the imprest fund disbursements and reimbursement functions, particularly in the following areas: a)maintenance of the Imprest fund reimbursement voucher log; b) preparation of the imprest fund reimbursement voucher; c) canceling or voiding taxicab vouchers.</p> <p>Scheduled training for imprest fund cashiers related to fund disbursements and reimbursement functions and ensure that the training is completed.</p>	Effective November 1, 2006, the Medical Assistance Administration (MAA) no longer uses taxicabs to transport recipients enrolled in the District of Columbia Medicaid program. MAA will not grant payment for any taxicab transportation services delivered to Medicaid recipients after October 31, 2006.

Report No.	Agency	Recommendation No.	Recommendation	Agency Response
			Properly segregate the duties of the imprest fund cashiers as they relate to custody of funds and record-keeping functions.	
<p>Letter to Chairman Cropp and members of the Council of the District of Columbia on the Auditor's Concerns Regarding Matters that May Adversely Affect the Financial Operations of the Washington Convention Center Authority</p>	OFT		OFT and WCCA need to develop and implement adequate procedures for paying WCCA interest earned on the investment of dedicated taxes held in the Exceptions Account	Implemented



**FY 2000 - FY 2007
APPROVED FTEs and
BUDGET**

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2000 - FY 2008	% Change
FTEs											
OCFO Agency (AT0) without revenue initiatives	1,069	1,026	1,036	1,013	930	917	950	955	943	(126)	-11.8%
Plus Required Initiatives						48	48	105	105		
OCFO Agency (AT0)	1,069	1,026	1,036	1,013	930	965	998	1,060	1,048	(21)	-2.0%
Total Mayoral Agencies	381	395	421	398	394	381	388	396	396	15	4.0%
Lottery AFO	10	10	10	10	10	10	10	11	11	1	10.0%
DCPS	89	89	89	70	65	65	69	69	75	(14)	-15.7%
UDC	38	39	42	38	42	42	41	41	41	3	7.9%
Grand Total OCFO	1,587	1,559	1,598	1,529	1,441	1,463	1,506	1,577	1,571	(16)	-1.0%
Annual percent change in AT0 without revenue initiatives		-4%	1%	-2%	-8%	-1%	4%	1%	-1%	-12%	
Annual percent change AT0		-4%	1%	-2%	-8%	4%	3%	6%	-1%	-2%	
Annual percent change grand total		-2%	3%	-4%	-6%	2%	3%	5%	0%	-1%	
AT0 Budget (millions)											
Local	63.9	64.9	68.2	76.9	73.4	93.2	105.1	118.9	112.0	48.1	75.3%
O-Type	10.3	9.9	9.9	9.9	8.4	9.2	14.3	31.1	36.0	25.7	249.5%
Total General Fund	74.2	74.8	78.1	86.8	81.8	102.4	119.4	150.0	148.0	73.8	99.5%
Federal grants	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.0	0.0%
Intra-District	6.4	4.8	5.1	5.1	5.9	3.7	3.9	3.9	4.5	(1.9)	-29.7%
Gross budget AT0	81.5	80.5	84.1	92.8	88.6	107.1	124.2	154.8	153.4	71.9	88.2%
Gross budget District wide	NA	NA	NA	NA	NA	NA	178.0	211.7			
Annual % change in local, AT0		2%	5%	13%	-5%	27%	13%	13%	-6%		
Annual % change in general, AT0		1%	4%	11%	-6%	25%	17%	26%	-1%		
Annual % change in gross, AT0		-1%	4%	10%	-5%	21%	16%	25%	-1%		
Annual % change gross, DC wide								19%			
Revenues generated by required initiatives						FY 2005	FY 2006	FY 2007	FY 2008	FY 2010	
From additional 48 FTEs in 2005						8,400	8,400	8,400	8,400	8,400	
From additional 57 FTEs in 2007								49,000	70,000	64,250	

OFFICE OF THE CHIEF FINANCIAL OFFICER
FY 2004 - FY 2008 FTEs

	Mandated Increases	Net Impact of Other FTE Changes	Total FTEs
FY 2004 Budgeted FTEs			930
OCFO PS Reductions		-13	
FY 05 Revenue Compliance Initiative	48		
	48	# -13	35
FY 2005 Budgeted FTEs			965
FY 06 Increases			
Non Custodial Fathers Initiative	8		
Baseball Initiative	3		
Anti-Deficiency Act	4		
OTR - Counsel (OAH work)	2		
Real Property Assessment	16		
FY 2006 Proposed FTE Changes	33	0	33
FY 2006 Budgeted FTEs			998
Note: other changes in FY 2006 netted to zero			
FY 07 Increases			
Revenue Initiatives	57		
IT Staff - convert capital to operating (convert contract IT staff to DC employees)		5	
	57	5	62
FY 2007 Budgeted FTEs			
FY 08 Increases/Decreases			
OCFO PS Reductions		-7	
Transfer out to DCRA	-6		
Compliance Auditor*	1		
(*funded by tobacco settlement)	-5	-7	(12)
FY 2008 Budgeted FTEs			1,048

FY 2004 - FY 2008 Summary			
FY 2004 Budgeted FTEs	930		
Mandated Increases/Decreases	133		
Other FTE changes	(15)		
FY 2008 Budgeted FTEs	1,048		
	25		

	<u>\$000s</u>	<u>\$000s</u>	<u>FTEs</u>	
FY 2007 Approved Budget		154,822	1,060	
Local Fund Changes				
Reduction of One Time Costs	(7,907)			Revenue Initiative IT contracts in FY 07 26 of these were moved to nonlocal funds
PS Reductions	(3,608)		(31)	
NPS Reductions	(3,433)			
PS Salary Increases	4,064			District-wide mandated increase
Fixed Costs	877			District-wide mandated increase
OTR - Integrated Tax System	2,852			Ongoing maintenance and support
Budget and Planning	300		3	Council restoration of FTE reduction
OTR - programming	200			Tax Relief Legislation
OTR - Outreach	150			EITC - Capital Area Asset Builders
Reduction of OTR funds	(175)			Transfer out to DOH, BRPAA
OTR - Transfer out to DCRA	(244)		(6)	Shifting of authority to designate and register vacant property
Subtotal, Local Fund Changes	(6,924)	(6,924)	(34)	
Nonlocal Fund Changes				
OTR Delinquent Tax Fees	1,300		13	Based upon FY 06 collection rates - permits transfer of compliance FTEs from local fund
Payroll Services Fees	1,200		11	Federal reimbursement for retirement benefits processing, and health benefits fees increases -- transfers FTEs from local fund
OTR Revenue Discovery Contracts	1,100			Increases budget for potential higher contingency fees only if revenue is realized
Bank fees increase	1,000			Increases budget to reflect actual costs
Cashiers (intra-District)	197			Adjusts budget to reflect actual cashier costs
Integrity and Oversight auditors	183		2	Auditors at DCPS, DCLB funded by those agencies
OTR Compliance Auditor	80		1	Tobacco Settlement Fund
I-D funds advanced from OCTO	300			Annual IT review Includes \$100k for Charter Schools administrative costs; also reduces grant FTEs no longer funded
Other nonlocal adjustments	130		(5)	
Subtotal, Nonlocal Fund Changes	5,490	5,490	22	
FY 2008 Approved Budget		153,388	1,048	