

PUBLIC HEARING ON
THE FISCAL YEAR 2009 BUDGET 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

April 9, 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 hearing to testify on the FY 2009 budget request of the Office of the Chief Financial Officer (OCFO).

My five deputy chief financial officers and the Director of the Office of Integrity and Oversight 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); Stephen Cordi, Deputy CFO for the Office of Tax and Revenue; Robert Ebel, Deputy CFO for the Office of Revenue Analysis (ORA); and Robert Andary, the Director of the Office of Integrity and Oversight. Gordon McDonald, Deputy CFO for the Office of Budget and Planning (OBP), appeared before the Committee of the Whole on April 4, but is here to answer any questions. In addition, today, Jay Young, Chief Operating Officer for the DC Lottery testified on behalf of the Lottery and Jeanette Michael, the executive director of the DC Lottery. See Attachment 1 for an organizational chart of the entire OCFO.

OVERVIEW

In my testimony, I will demonstrate the following:

- The District's financial recovery in less than a decade has been phenomenal. Nothing should detract from this achievement by the District's elected leaders. Indeed, the District's independent auditors have

just issued another clean audit opinion for the FY 2007 financial statements.

- Effective remedial measures have already been taken since the alleged tax fraud was made public in November 2007.
- Progress continues, both on remedial measures and advancements in people, processes, and systems, throughout the OCFO, and, in particular, OTR.
- The OCFO is a leaner organization in FY 2008 than it was in FY 2000. The OCFO's baseline FTEs has declined since then. There have been increases to our authorized FTE level over the past several years, representing roughly 10 percent of the FTEs, but they are primarily the result of Council-imposed tax compliance initiatives and legal mandates. For example, for FY 2009, of the 30 FTE increase proposed, 25 will be dedicated to tax compliance and will achieve a 19-to-1 revenue-to-cost ratio.

As you review the budget 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 HISTORY SINCE 1995

You are certainly very aware of the District's 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, consecutively balanced budgets and clean audit opinions, cash reserves that are a far cry from the mid-1990s, remarkably improved bond ratings and well-deserved respect in the financial markets. Since 2000, when I assumed the role of Chief Financial Officer, working with the Mayor and under Council oversight, I have been proud of the record of the OCFO. Our team of experienced and highly professional public administrators have:

- 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 alone than in FY 1997 (in 1998 through 2007, an additional \$11.2 billion);
- 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 – as I have said so often, most recently when I testified last month at your oversight hearing -- the alleged tax refund fraud, which I deeply regret, has been so devastating, for me personally and my organization. The OCFO has been working diligently to rebuild the trust and credibility that has been so severely damaged. To that end, we have and will

continue to take actions to scrutinize and improve the financial operations throughout the District government.

Our annual closing process, which once was deeply flawed and problematic, has become routine. The external auditors requested additional time this year for their review of the FY 2007 financial statements in light of the alleged tax fraud. They completed their work, and we are very pleased to report that they issued a clean opinion on Friday, April 4. The Committee of the Whole will hold a hearing on the CAFR on April 14.

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.

When I appeared before you last month, I testified that, the alleged tax fraud notwithstanding, the financial management infrastructure of the District remains strong and functions well in support of the District's residents and their elected leaders. But whenever we find shortcomings and deficiencies in the three essential elements of the financial infrastructure – people, processes, and systems – we act immediately to study, diagnose, and remedy the problems. We are certainly focused on that task, as well as the budgetary challenges the District faces in this time of slow revenue growth.

We also take seriously our responsibility to operate within the minimum budgets 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.

OCFO OVERARCHING GOALS

As the Chief Financial Officer, my objective – indeed, my duty -- is to preserve and enhance the overall financial stability of the District. My colleagues and I are busy working toward this objective at all times, in activities such as estimating reliable revenues, exercising control of the budget, and improving relationships with the financial community and Congress. 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 budget 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 reliable internal checks and balances, effective internal audits, and the maintenance of accurate 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.

As I testified at the oversight hearings several weeks ago, 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. 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 later this month.

As I said, the entire OCFO is responsible for maintaining financial controls and safeguarding assets. The FY 2009 proposed local funds budget is \$120.7 million (not including purely pass-through funds), an increase of 7.8 percent above FY 2008. (See Attachment 4 for the OCFO's budget by fund and Attachment 5 for the budget by program.) However, at the risk of oversimplification, I would highlight the following programs in the OCFO as maintaining financial controls and safeguarding assets (which you can see in table AT0-4 on pages 180-182 of the OCFO budget chapter):

- Financial Operations and Systems, with 125 FTEs for FY 2009 (unchanged from FY 2008) and \$10.8 million in local funds (6.5 percent higher than FY 2008). I will discuss OFOS again later in my testimony.
- Tax Administration, with 633 FTEs for FY 2009, an increase of 25 FTEs from FY 2008 dedicated to enhanced tax compliance, which will produce \$30 million in additional revenues. Its local funds FY 2009 budget is \$68.6 million, 8.8 percent higher than FY 2008. I will return to OTR later in my testimony.
- Finance and Treasury, with 86 FTEs for FY 2009 (unchanged from FY 2008) and \$8.8 million in local funds (an increase of 9.6 percent). The proposed budget includes a \$385,000 policy initiative for a check guarantee system that would guarantee the payment of all checks presented to the

District. It is estimated that \$1.3 million annually in additional local revenues will be realized.

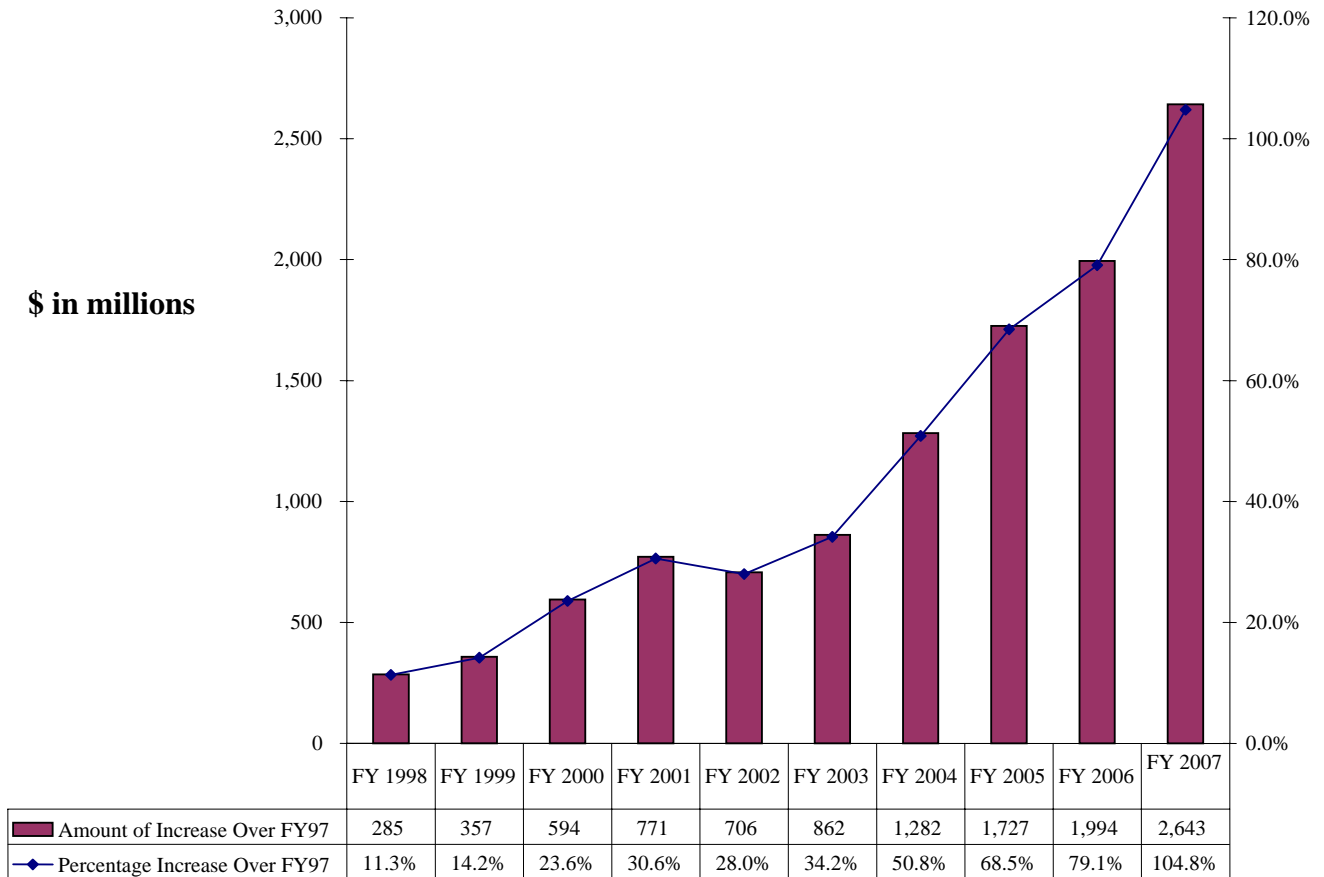
- Integrity and Oversight, with 24 FTEs for FY 2009 (unchanged from FY 2008) and \$3.3 million in local funds (an increase of 3.6 percent). OIO is working with OTR to ensure that the audit needs of OTR are met, by arranging for three dedicated OIO audit positions funded by OTR. These three auditors will work full-time and exclusively at OTR performing audits in areas that are determined to be high-risk. The auditors will continue the work of the three OIO auditors currently assigned to OTR to conduct risk assessments, review real property tax sale refunds and related refunds, and conduct a follow-up of an earlier review of the Integrated Tax System (ITS). OIO is also entering into a memorandum of understanding with the U.S. Department of the Treasury's Inspector General for Tax Administration (TIGTA) for 2 or 3 auditors on a 6 month detail to help identify and design audits to address the unique needs of a tax organization. We expect them to be on board by the last quarter of the fiscal year. Finally, OIO is the unit that monitors the use of funds passed through to entities identified by Congress (in the case of federal funds) or the Mayor and Council, to ensure that the funds were used for their intended purpose. Mr. Andary will describe this in more detail in his testimony.

2. 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 following graph shows each annual increase

in revenues since 1997 -- \$2.6 billion more in FY 2007 alone than in FY 1997, and in 1998 through 2007, an additional \$11.2 billion.

Annual Increase in Revenues, 1997 - 2007



The FY 2009 budget for OTR will continue the progress in this regard. As I mentioned, OTR would have 633 FTEs in FY 2009, an increase of 25 FTEs from FY 2008 dedicated to enhanced tax compliance, which will produce \$30 million in additional revenues. Its local funds FY 2009 budget is \$68.6 million, 8.8 percent higher than FY 2008. It includes the following policy initiatives:

Local Funds

- \$1.6 million for 25 FTEs to provide additional tax compliance enforcement. While accounts receivable remain at certain levels, each FTE has been shown to raise \$1.2 million. Thus 25 FTEs will raise \$30 million, for a 19-to-1 revenue-to-cost ratio. Mr. Cordi will discuss this in more detail.
- \$210,000 for a contract with an external vendor for certified mailings to improve billings. OTR has recently outsourced the production and mailing of certified enforcement notices to free up three revenue staff from this clerical effort and allow for their redeployment to programming and other critical IT needs.
- \$1.3 million for software licenses (\$300,000) and external tax and revenue system programming and support (\$1 million). Capital project funding supported the data warehouse/clean hands initiative, real property tax billing and other subsystems and mainframe infrastructure through their initial development but will no longer be available in FY 09. Plans to transition this work to in house resources have not been successful due to difficulties in recruiting the necessary skill sets. Because of the critical role of IT systems in the operations and integrity of OTR, this contract support cannot be eliminated or reduced without serious impacts to revenue collection and billing operations.

Special Purpose Revenue Funds

- \$12.6 million is budgeted to pay the expected contingency fees to external vendors who would identify and collect delinquent taxes from non-filers and other non-compliant taxpayers. All contingency fee forecasts above are based on vendor performance in other jurisdictions.

3. Prepare Audited Comprehensive Annual Financial Reports (CAFRs)

Our ability to record financial transactions timely and accurately is critical to the production of auditable financial statements on time and to maintain and improve the District's bond ratings. Routinely, formal activities for the annual fiscal year closing process begin on October 1. This year we provided the auditor with fully auditable statements in mid-January, as in past years. (This work has been done entirely in-house for the past few years, and this will continue.) This is due in large part to the philosophy that close-out is a 365-days-a-year process.

In the latter part of December 2007 BDO Seidman, the outside auditors for the District, requested additional time to complete their audit work. The Inspector General granted this request, which was consistent with auditing standards that provide guidance when there is detection of fraud. The contract for the audit of the FY 2007 CAFR was modified to extend the due date for the Auditors Report (opinion), initially to March 31 and then to April 4. As I said earlier, we are pleased to report that they completed their work and issued a clean audit opinion.

AUDITOR'S FY 2007 FINDINGS ON THE OFFICE OF TAX AND REVENUE

However, the independent auditor's report on internal controls (the so-called "Yellow Book") finds that the refund process in the Office of Tax and Revenue is a material weakness. This was, of course, the area where the alleged fraud occurred, in manual property tax refunds.

Last fall, the tax refund process, specifically manual tax refunds, was identified as an area of particular concern. Since November, we have overhauled that process,

establishing and enforcing procedures for preparation and review of refund requests. We have a new head of OTR, Stephen Cordi, who is a highly accomplished professional with an established record of sound tax management. We are also currently reevaluating and strengthening our anti-fraud programs, not just in OTR but throughout the OCFO.

In response to the auditor's findings on refunds:

- To reduce the need for manual refunds, when OTR encounters a problem processing a refund in ITS, we are making systemic solutions our priority rather than resorting immediately to manual processes.
- Procedures are in place for higher-level reviews of and internal controls over manual refunds. All tax refunds over certain thresholds are reviewed, and a new signature approval process has been developed, employees have been trained and the process is being followed. Thus the problem of inadequate documentation has been remedied. The auditor sampled 134 manual refunds and validated most, but they were severely hampered by inadequate documentation. This must not and will not recur.
- The practice of allowing checks to be "held for pickup" has been virtually eliminated with the guidelines promulgated by Office of Finance and Treasury. (Attachment 6 is the "hold for pickup" policy promulgated by OFT on March 4, 2008.)
- The system of authorization and approval of manual tax refunds has been revised to address separation of duties, roles and responsibilities.
- We reviewed all the automated tax refunds found by the auditor to lack adequate documentation; there are no fraudulent payments among these refunds.

- Checks issued from SOAR and ITS are formally reconciled and compared to the General Ledger on a monthly basis.
- Business processes have been implemented to improve the legibility of scanned documents.

As I mentioned, OFOS would have 125 FTEs in FY 2009 (unchanged from FY 2008) and \$10.8 million in local funds (6.5 percent higher than FY 2008). OFOS will use existing OCFO resources to staff a Financial Policies and Procedures Division to strengthen internal controls. The FY 2009 budget for OFOS does, however, include a policy initiative -- 2 FTEs at a cost of \$167,000 – to expand the staff for District-wide training in the procurement and personnel systems.

4. Produce Reliable Revenue Estimates

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 far more complex than 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 (33 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 observing, as now, a “turning point” in the macro-economy -- is that from our perspective as a municipality, we are more vulnerable than other cities to the inherently volatile income and sales taxes (Attachment 7).

The 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, resulted in an estimate of total revenues less than we expected as of last

December. Similarly, for our May revenue estimate we are closely monitoring April tax collections and the evolving economic picture for any signs that the revenues are growing even more slowly.

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 Council.

The FY 2009 budget for ORA funds 26 FTEs, an increase of 1 from FY 2008 to expand the resources available to prepare fiscal impact statements. The local funds budget for ORA would be \$3.5 million, an increase of 7.4 percent.

5. 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.

The FY 2009 budget for OBP, about which Gordon McDonald testified before the Committee of the Whole on April 4, includes \$7.2 million in local funds (an increase of 6.4 percent) and 62 FTEs, an increase of 1 from FY 2008. One FTE was transferred to the Office of the Chief Information Officer, and OBP budget includes one policy initiative – 2 FTEs at a cost of \$184,000 – to improve grants management.

MULTI-YEAR CHANGE IN NUMBER OF FTEs IN CENTRAL OCFO

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. 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.

We are currently operating under an approved FY 2008 budget that has 1,048 FTEs, a decrease of 12 FTEs from last year and a decline of 21 FTEs since FY 2000. Increases to our authorized FTE level over the past several years are primarily the result of Council-imposed tax compliance initiatives and legal mandates:

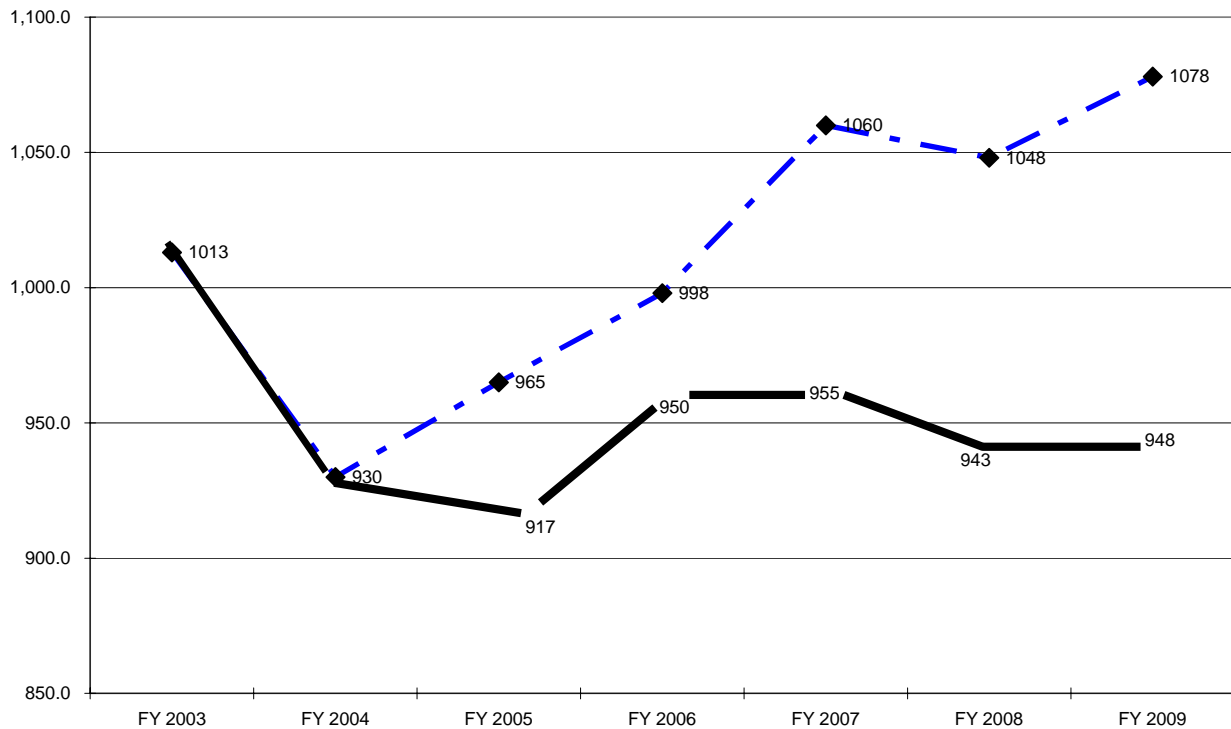
- In FY 2005, the Council added 48 FTEs to the OCFO for a tax compliance initiative to produce additional revenue to support District operations. During FY 2005 the Compliance Administration realized increased productivity for each auditor and revenue officer, and by the end of FY 2006 the ratio of revenues to expenditures was more than 4 to 1.
- The FY 2006 approved budget added 33 FTEs in the central OCFO, including 17 for mandated functions and 16 for real property assessors. Adding the assessors allowed for improved field inspection, sales verification, and permit review activity, which resulted in a 2 percent

improvement in assessment accuracy for approximately \$16 million more revenue assessed.

- In FY 2007 our FTEs increased 62, with 57 dedicated solely to revenue generating activities in OTR and 5 relating to the conversion of contract employees to District staff. Six FTEs were transferred to DCRA to do vacant property enforcement; the 51 employees remaining in OTR raised \$46 million in FY 2007 and will raise an estimated \$70 million in FY 2008, for a ratio of revenues to expenses of 23 to 1.
- In FY 2009 there would be an increase of 30 FTEs, with 25 devoted to revenue generating activities in OTR, to raise an estimated \$30 million, for a revenue-to-cost ratio of 19 to 1. The other 5 FTEs would improve grants management in OBP (2 FTEs), expand OFOS staff for training District employees in the procurement and personnel systems (2 FTEs), and monitor tax audits required by the Organ and Bone Marrow Act (1 FTE).

See the following chart and Attachment 8.

OCFO FTE's FY 2003 - FY 2009 Proposed



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

DISTRICT WIDE OCFO STAFF

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.

Since 2003, associate chief financial officers (ACFOs) have represented the major appropriation titles in the District's annual budget and manage agency financial

operations. At that time, the agency fiscal offices were regrouped and restructured to reduce redundancy. ACFOs serve as the OCFO's key representatives to the executive leadership in managing the city's finances and the government's programmatic priorities. They manage the following financial clusters: Economic Development and Regulation, Government Operations, Government Services, Human Support Services, and Public Safety and Justice. Some vacant positions in the agency fiscal offices were eliminated as a cost saving measure during the formulation of the Mayor's proposed budget. We are evaluating the need to continue each of those positions, and we will take appropriate next steps.

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

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 to the Mayor and the Council 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.

Let me take this opportunity to address the issue of variable rate debt that was raised at the FY 2009 budget presentation last week. Auction Rate Securities and variable rate demand obligations, far from being “exotic,” are a common form of variable rate debt that resets interest rates periodically. The District has about \$900 million of Auction Rate Securities and other variable rate bonds insured by bond insurers that have been downgraded (FGIC, MBIA and XL Capital). In addition, we have about \$325 million of variable rate and auction rate securities insured by companies that have not been downgraded.

The average interest rate on auction rate/variable rate securities in FY 2007 was 3.63 percent. Historically, interest rates on variable rate bonds are 150 to 200 basis points below fixed rates. Short-term variable rates in the past few years have been very low – sometimes below 2 percent and for a very brief period, even below 1 percent. Thus, compared to a fixed rate of interest, the District has saved about \$15 million per year on its portfolio of \$1.2 billion of variable rate bonds.

The market disruption led to failed remarketing/auctions over the past several weeks, leading to higher interest rates. Interest rates have been reset as high as 15%, the maximum allowed by law or the bond documents. The District is moving quickly to take action to replace some or all of the Auction Rate Securities and variable rate bonds that are currently, or may be, exposed to higher than average short term interest rates. We are working with our financial advisors, bond attorneys and underwriters to determine the best economic outcome for the District. We now plan to refinance these bonds with another form of variable rate debt with credit enhancement from a bank Letter of Credit. We expect to close by the end of May.

CONCLUSION

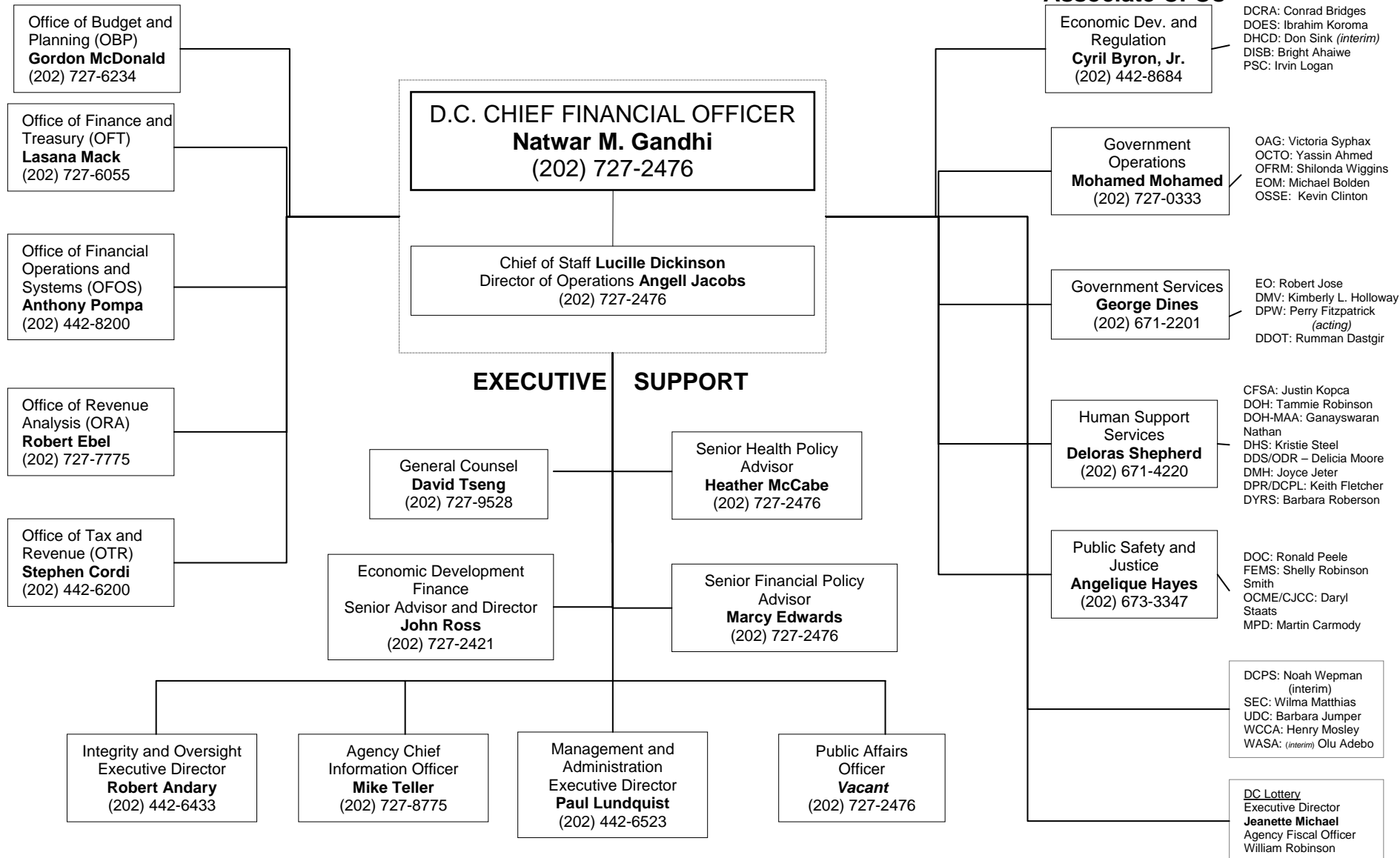
The continuing leadership provided by the Mayor, by you, Mr. Evans, and the Council has enabled the District to experience a major financial turnaround. The OCFO is committed to doing everything we can to support continued financial improvements in the city in FY 2008 and beyond.

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

CENTRAL FINANCIAL OPERATIONS - Deputy CFOs

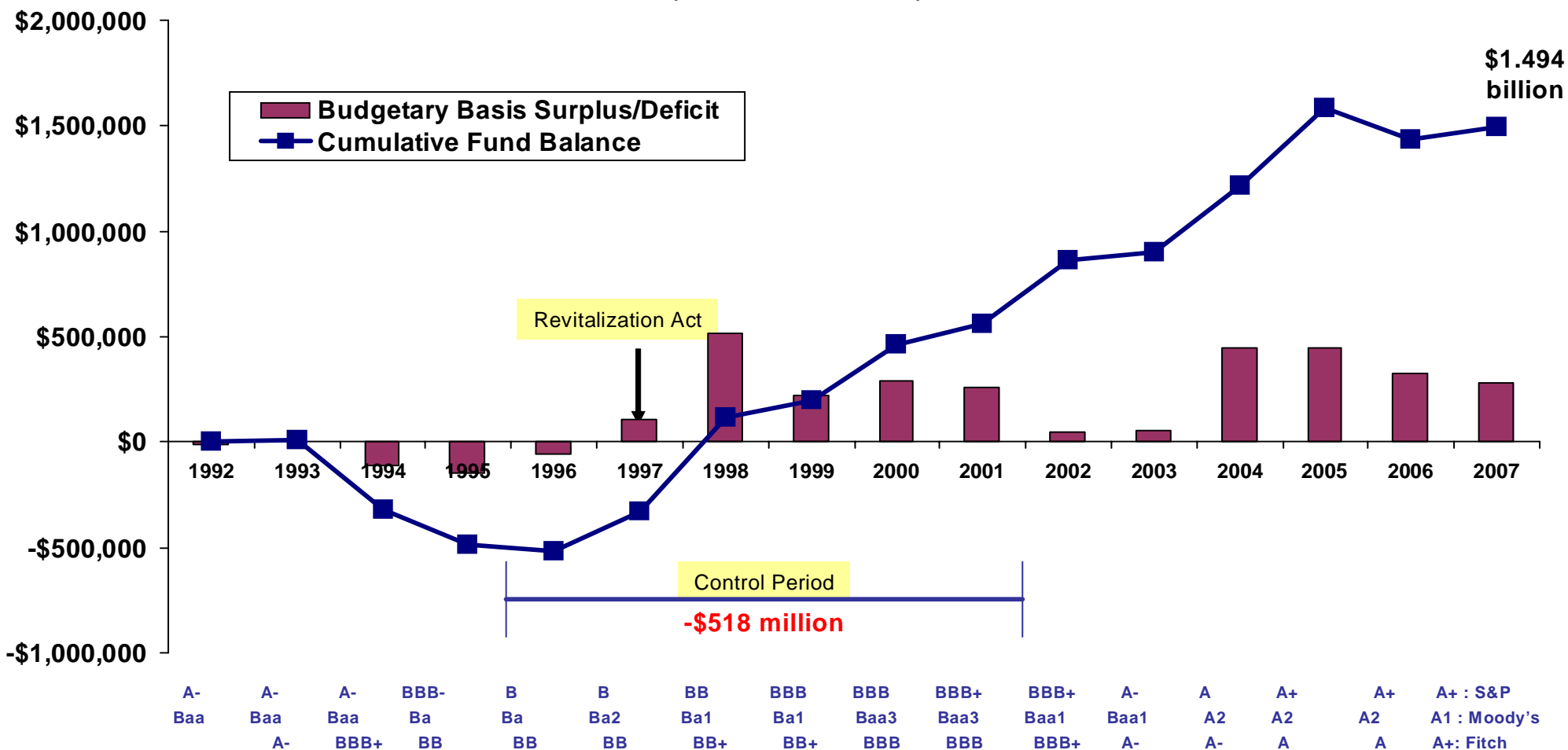
ORGANIZATIONAL CHART
Government of the District of Columbia
Office of the Chief Financial Officer

AGENCY FINANCIAL OPERATIONS - Associate CFOs



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



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



**AUDIT COMMITTEE APPOINTEES
BRIEF BIOGRAPHIES**

Sheldon Cohen, Chairman

The Honorable Sheldon S. Cohen, Esq. is currently a Director at Farr, Miller & Washington, LLP and a professional lecturer at the George Washington Law School. Mr. Cohen retired as a partner in the law firm of Morgan, Lewis & Bockius in 2005. Mr. Cohen served in the Internal Revenue Service on several different occasions. During the period 1952-1956, he served as a legislative draftsman during the drafting of the 1954 Code and Regulations. In the period from January 1964 through January 1969, Mr. Cohen served as Chief Counsel for one year and then as Commissioner of the Internal Revenue Service for four years. He was the youngest person to ever serve in that position. He has also served as an officer and Trustee of the National Academy of Public Administration and has served as a panel member of several studies dealing with the administrative aspects of the Internal Revenue Service. He served as a consultant to the United Nations Development Program assisting developing countries with tax administration. He is the Chair of the Audit Advisory Committee of the GAO.

Donald H. Chapin

Mr. Chapin has been a consultant on accounting, auditing, and financial management issues from 1997 to date. He is a member of the Audit and Review Committee of the Smithsonian. He has advised the New York City District Attorney on Tyco related auditing issues and law firms on Enron related accounting issues, auditor independence issues and the application of accounting standards in a dispute. He evaluated the external and internal audit functions of a major telecommunications company and advised on related financial management issues. He also aided a law firm to evaluate an audit failure by a major accounting firm. He is a recent former member of the Standing Advisory Group (SAG) of the Public Company Accounting Oversight Board (PCAOB) and prior to his appointment consulted with the PCAOB staff. He served on the NASDAQ Listing and Hearing Review Council where he was Chairman of its committee on Accounting and Audit Committees. He also served on the Federal Accounting Standards Advisory Board, the Government Auditing Standards Advisory Council, the Loan Loss Accounting Task Force of the AICPA and the Public Sector Committee of the International Federation of Accountants. From 1989 to September 30, 1996, Mr. Chapin was employed by the GAO, ending his service as the Assistant Comptroller General for Accounting and Information Management responsible for GAO's financial and systems audits of federal agencies and corporations and for its reports and Congressional testimonies on financial management issues.

John Hill

Mr. Hill is Chief Executive Officer of the Federal City Council, with more than 28 years of experience in federal, state, local, and private sector entities. He formerly served as director of state and local government consulting services for Arthur Andersen, LLP, and was the founding

executive director of the Washington, D.C. Financial Control Board. Mr. Hill has also served as a director in the U.S. General Accounting Office, director of audits with the Marriott Corporation, and audit manager for Coopers and Lybrand and Price Waterhouse.

James L. Hudson

Mr. Hudson served as the Vice-Chair of the National Capitol Revitalization Corporation and is currently involved in real estate and venture capital development. He was the Special Legislative Counsel for the cities of Detroit, New Orleans, Oakland and Kansas City where he provided legal and executive department support on city finance and economic development plans. In addition, he served as principal liaison with the U.S. Congress and the U.S. Departments of Housing and Urban Development, Labor and Transportation. Mr. Hudson also served as Finance Counsel for the District of Columbia government from 1974 to 1982.

Irving Pollack

Mr. Pollack was a former Commissioner and Director of the Divisions of Enforcement and Market Regulation for the U.S. Securities and Exchange Commission, Mr. Pollack is serving as Of Counsel to Fulbright & Jaworski L.L.P. He has consulted for numerous governmental and private institutions, including the World Bank, the International Finance Corporation (World Bank affiliate), the International Organization of Securities Commissions (IOSCO), the National Association of Securities Dealers, the Ontario and Quebec Securities Commissions and Merrill Lynch Pierce Fenner & Smith, Inc., Edward Jones, and the U.S. Synthetic Fuels Corporation. Mr. Pollack has rendered expert services for Dow Jones, the New York Stock Exchange, and other organizations. He recently served as a Director of ML Life Insurance Co. of New York and a member of its Audit & Compensation Committee.

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



**Audit Committee to Review Financial Management and Internal
Controls Organizational Summary**

Overview

Historically, the Chief Financial Officer (CFO) has appointed several advisory boards to advise the office on a variety of matters. These boards, such as the CFO Advisory Council, Business Advisory Council, Real Estate Advisory Council, Revenue Estimating Technical Review Committee, and Tax Advisory Council, provide substantive expertise and recommendations to the CFO on an ongoing basis.

Audit Committee Mission

The CFO is establishing a new advisory board, the Audit Committee to Review Financial Management and Internal Controls (Audit Committee), to assist the CFO in reviewing internal control structures and compliance with established policies and procedures for the District's financial management operations.

Audit Committee Appointees

The CFO will be appointing the following individuals to serve on the Audit Committee, each for a three-year term ending December 31, 2010 (see brief biographies, below):

- . • Sheldon Cohen (Chair)
- . • Donald H. Chapin
- . • John Hill
- . • James Hudson
- . • Irving Pollack

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

- . • Executive Office of the Mayor – Peter Nickles, General Counsel
- . • District Council – TBD
- . • Inspector General -- TBD

Guidelines

The Audit Committee will be guided by the advice published in 1995 in OMB Circular A-123, Management Accountability and Control, which set forth eight principles for control standards in a mature organization:

- .(i) Compliance With Law;
- .(ii) Reasonable Assurance and Safeguards;
- (iii) Integrity, Competence, and Attitude;
- .(iv) Delegation of Authority and Organization;
- .(v) Separation of Duties and Supervision;
- .(vi) Access to and Accountability for Resources;
- (vii) Recording and Documentation; and
- (viii) Resolution of Audit Findings and Other Deficiencies.

These eight principles apply to management controls in general, in any sort of program. The Audit Committee will assist the CFO by reviewing its programs, processes, and systems for financial management and controls throughout the District, for their conformance with the eight principles, and will recommend corrective actions where needed.

The Audit Committee will also be guided by the section 404 of the Public Company Accounting Reform and Investor Act of 2002, also known as the “Sarbanes-Oxley Act of 2002,” which sets forth standards of review for the assessment of the adequacy of internal controls for financial reporting of publicly traded companies.

Initially, the Audit Committee will be charged with review of the financial operations of Office of the Chief Financial Officer (OCFO). It will then move on to the financial operations of all other District government agencies, including the financial operations of the Office of Contracts and Procurement, the Department of Health, and, if it is enacted, the proposed Department of Health Care Finance.

The Audit Committee will meet on a monthly basis, commencing in December, 2007, and concluding in December, 2010, subject to renewal by the Chief Financial Officer. It will hire staff and, if necessary, contract with an accounting firm to carry out its mission, supported from the budget of the OCFO.

The Audit Committee will report to the CFO on a quarterly basis, with its final report due no later than March 31, 2011. The quarterly and final reports will be posted timely on the CFO’s website. The Audit Committee will also provide quarterly briefings on its findings for the Mayor and the Council

**Office of the Chief Financial Officer
FY 2007 - FY 2009 Operating Budget and Authorized FTEs Evolution By Fund**

Operating Budget (\$000)

BUDGET BY FUND (\$000)										
	FY 2007 Actual		FY 2008 Congressional Approved		FY 07 - FY 08 % Change		FY 2009 Proposed		FY 08 - FY 09 % Change	
Fund	FTEs	Exp's	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Budget
Local	841	120,842	898	111,956	6.8%	-7.4%	928	120,672	3.3%	7.8%
Federal (150/200)	0	836	1	877	-	4.9%	1	877	0.0%	0.0%
Other	73	12,438	100	36,013	37.7%	189.5%	100	37,541	0.0%	4.2%
Intra-District	43	10,583	49	4,541	12.9%	-57.1%	49	6,152	0.0%	35.5%
TOTAL	957	144,699	1,048	153,387	9.6%	6.0%	1,078	165,242	2.9%	7.7%
Pass through								24,600	-	-
TOTAL	957	144,699	1,048	153,387	9.6%	6.0%	1,078	189,842	2.9%	23.8%

Office of the Chief Financial Officer
FY 2007 - FY 2009 Operating Budget and Authorized FTEs Evolution By Program
Operating Budget (\$000)

Program	FY 2007 Actual		FY 2008 Congressional Approved		FY 07 - FY 08 % Change		FY 2009 Proposed		FY 08 - FY 09 % Change	
	FTEs	Exp's	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Budget
Management	68	10,126	84	9,122	23.5%	-9.9%	84	9,547	0.0%	4.7%
Financial Operations & Systems	115	15,782	125	13,596	8.4%	-13.9%	125	14,507	0.0%	6.7%
Budget Development & Execution	58	6,541	61	7,099	5.2%	8.5%	62	7,237	1.6%	1.9%
Research and Analysis	26	3,508	25	3,276	-3.8%	-6.6%	26	3,518	4.0%	7.4%
Office of Tax & Revenue	551	72,193	608	88,060	10.3%	22.0%	633	93,537	4.1%	6.2%
Chief Information Officer	30	13,051	35	9,627	16.3%	-26.2%	38	10,201	8.6%	6.0%
Treasury Operations	85	18,663	86	19,278	1.2%	3.3%	86	21,854	0.0%	13.4%
Integrity and Oversight	23	4,794	24	3,329	4.3%	-30.6%	24	4,841	0.0%	45.4%
TOTAL	957	144,658	1,048	153,387	9.5%	6.0%	1,078	165,242	2.9%	7.7%
Pass Through Funding		41					24,600		-	-
TOTAL	957	144,699	1,048	153,387	9.5%	6.0%	1,078	189,842	2.9%	23.8%

Notes: Agency Financial Operations are included in the Management total as follows:


Agency Financial Operations	11	1,348	11	986			11	1,063		
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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Office of Finance and Treasury

**MEMORANDUM**

TO: All Agency Directors
All Agency Fiscal Officers

FROM: Lasana K. Mack 
D.C. Treasurer and Deputy Chief Financial Officer

DATE: March 4, 2008

SUBJECT: "Hold for Pickup" Checks

Please be advised that, effective immediately, the following will be required for any check that an agency requests as a "hold for pickup" check:

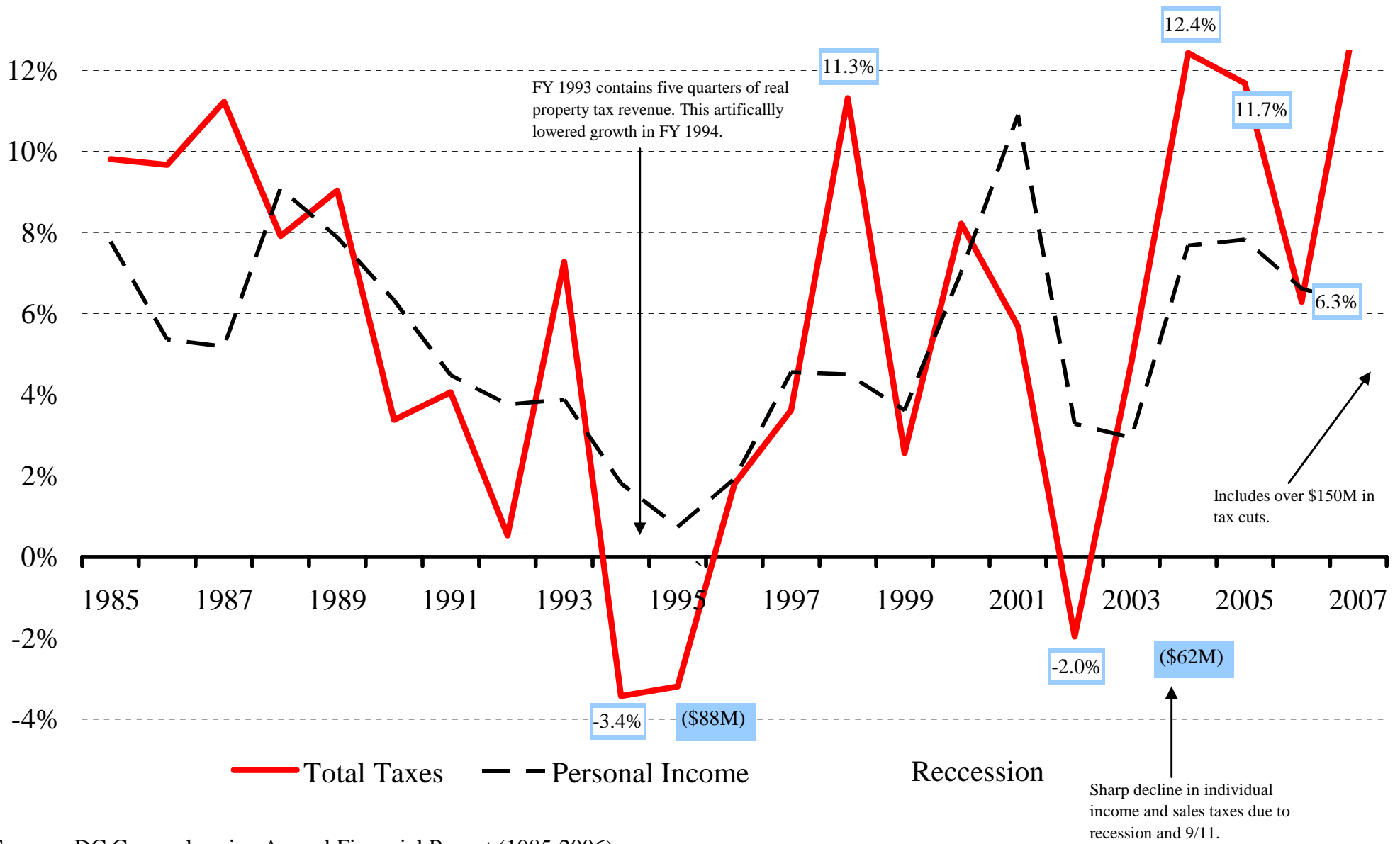
Any such check must be retrieved from the Office of Finance and Treasury (OFT) and signed for by an agency official who is pre-authorized by OFT. The process of pre-authorization will include each such agency official signing a form certifying that he or she is not authorized to enter or approve payments in the District's financial system. Such form shall also be signed by the Agency Fiscal Officer (AFO) for such agency. Further, any such receiving official is required to provide a copy (of the front panel of the folded and sealed check) of all received "hold for pickup" checks to their AFO. Each AFO is required to provide to OFT on a monthly basis a listing, including the addressee and check number, of all such checks received by their respective agency(ies) in the immediately preceding month. In addition, prior to a check (or set of checks) being retrieved from OFT, a pre-authorized agency official must provide to OFT a written justification for having the check(s) held for pickup as opposed to being mailed.

Agencies should seek to minimize the use of the option to have a check held for pickup. This option should only be used if there is a compelling business reason to do so, and OFT's approval of an agency's use of this option will be based on that standard. OFT will continue to facilitate timely payments and provide quality customer service to District agencies, vendors and taxpayers, conducted via processes that are efficient, effective and secure.

The above-stated requirements are in effect as of the date of this memorandum and until further notice. Please contact me or Emma Chappell, Associate Treasurer, at 727-6055 if you have questions or need additional information regarding this matter. Thank you in advance for your cooperation.

cc: Natwar M. Gandhi, Chief Financial Officer
Anthony Pompa, Deputy CFO for Financial Operations and Systems
Robert Andary, Director, Office of Integrity and Oversight, OCFO

Annual Percent Change in Tax Revenue and Personal Income FY 1985- 2007



Source: DC Comprehensive Annual Financial Report (1985-2006)

OFFICE OF THE CHIEF FINANCIAL OFFICER
FY 2008 - FY 2009 Operating Budget Evolution

	<u>\$000s</u>	<u>\$000s</u>	<u>FTEs</u>
FY 2008 Approved Budget		153,387	1,048
Local Fund Changes			
Reduction of One Time Costs	(350)		OTR - EITC Outreach, tax rate programmings
PS Salary Increases	3,880		District-wide mandated increase
Fixed Costs	1,166		District-wide mandated increase
OTR - Bone Marrow	56		1 Compliance audits
OFT - Postage rate increase	125		Cost increase
OTR Systems Programming Support	1,301		External programming support for tax systems
OTR Mailing Services	210		Outsource certified mailings
OTR Revenue Enhancement	1,584		25 \$30 million revenue from compliance efforts
OFOS PASS/Peoplesoft Trainers	167		2 District-wide training on financial systems
OBP Grants Management	184		2 District-wide grants management
OFT Check Guarantee System	385		Fewer dishonored checks expected
Pass Through	24,600		District-wide grants
Subtotal, Local Fund Changes	33,316	33,316	30
Nonlocal Fund Changes			
OTR - Hotels.com litigation	(15,000)		Transferred to non departmental budget
OTR - Hotel Tax Discovery Collections	12,600		Available as needed to pay collection contracts
OTR - Compliance	2,361		Delinquent fees support OTR efforts
Several adjustments to other SPR	(13)		
OFT - Bank Fees	1,580		Bank fees paid out of interest earned
OIO - Single Audit	1,400		Cost recovery from District agencies
OFT - EBT Summer Youth Program	175		O type cost adjustment
Several adjustments to other I-D	36		
Subtotal, Nonlocal Fund Changes	3,139	3,139	-
FY 2009 Budget Request		189,842	1,078