JOINT PUBLIC OVERSIGHT HEARING

ON

THE CAPITAL IMPROVEMENTS PROGRAM

before the
Committee of the Whole, Chairman, Vincent C. Gray
Committee on Finance and Revenue, Chairperson, Jack Evans
Committee on Government Operations and the Environment,
Chairperson, Mary M. Cheh
Committee on Economic Development,
Chairperson, Kwame R. Brown
Committee on Public Works and Transportation,
Chairperson, Jim Graham
Committee on Human Services, Chairperson, Tommy Wells

February 20, 2009, 10:00 a.m.
Council Chamber, John A. Wilson Building

Testimony of
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Chief Information Officer

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

Good morning, Chairman Gray, Chairperson Evans, Chairperson Cheh, Chairperson Brown, Chairperson Graham, Chairperson Catania, Chairperson Wells, and members of the Committees. My name is Mike Teller, and I am the Chief Information Officer for the Office of the Chief Financial Officer. I am pleased to appear before you today to present testimony on the capital projects for the OCFO that are included in the District's Capital Improvements Program (CIP).

OCFO Capital Projects

The OCFO is committed to making periodic necessary investments to ensure that the critical financial systems of the District remain reliable and functional. Under the Home Rule Act these independent financial systems must be maintained at an arm's length, fairly and impartially serving the needs of the Council, the Executive, and the Congress. In facing the challenges of maintaining and modernizing these systems the OCFO has two overarching imperatives.

1) Strengthening and support of OCFO business processes and internal controls, and

2) Making highly selective and modest improvements to critical areas of need for our financial system, rather than embarking on large mega-system procurements.

In brief, the systems must leverage investments in technology to deliver improvements in financial performance, security and transparency. Our testimony will provide a high level discussion of each of these objectives, followed by how these objectives are planned within the design of each major system

Major Capital Projects

Chairman Gray requested in his letter to Dr. Gandhi, that we concentrate in this hearing on major capital projects that affect more than one agency and to identify any major issues. Before reviewing the systems there is one overriding issue, which is funding. The OCFO has been very frugal and respectful of the debt service burden that capital projects place on the district's finances. We have reduced our scope to the absolute minimum and have anticipated potential savings from increased competition among vendors due to the economic slowdown. Even under the best of circumstances our cost estimations are admittedly extremely aggressive. The Council has already reduced the amount of funding for the Core Financial Systems by $5 million and the Tax System by $3 million. Because our initial requests were not large, absorbing these cuts is a challenge.

OCFO financial systems affect every agency and our investments may be categorized in three areas, 1) Core Financial Systems, such as SOAR and Budget

Systems, 2) Tax Systems, such as Real Property, Business and Personal, and 3) Financial Reporting. While there are a number of individual projects in each of these categories, today our testimony will concentrate on the overall plans in each area by the OCFO and outlines the anticipated improvements in the areas of financial performance, security and transparency.

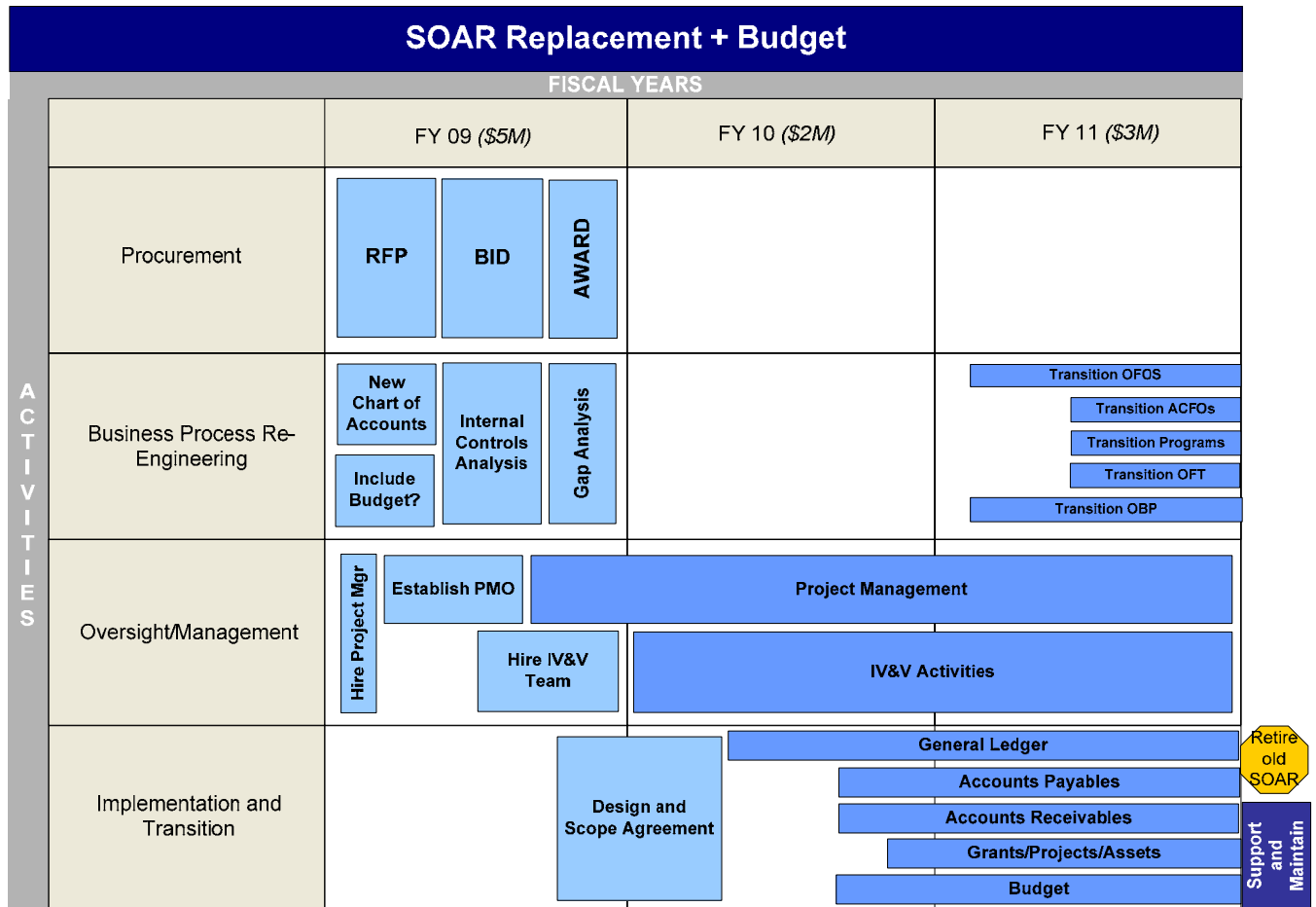**Core Financial Systems - SOAR and Budget**

Overview:

While the existing systems are stable, due to their age they do not easily lend themselves to the modifications necessary to ensure that all entries from all supporting systems across the District are cross-checked, verified and certified in a timely and automated fashion.

In addition, the current Budget Formulation System was developed only as an interim solution in response to the failure of the Argus Project. A modern System of Record with an effective Budget Development and tracking module will provide greater flexibility and responsiveness to both the Council and the Executive. Immediately following the funding for the Tax Systems, the next priority for funds in our Capital allotment will go towards the replacement of SOAR which will include the replacement of the Budget module.

Plans:

We have our project manager on board and he has started the business process work to redesign our underlying chart of accounts to better meet the needs of the agencies and the finance community. The RFP is essentially complete and will be ready to be released in the spring. If we can award and begin work at the beginning of FY 2010, we would anticipate the new system to be operational beginning in FY 2012.

SOAR Replacement + Budget

FISCAL YEARS

ACTIVITIES		FY 09 ($5M)			FY 10 ($2M)	FY 11 ($3M)
	Procurement	RFP	BID	AWARD		
	Business Process Re-Engineering	New Chart of Accounts / Include Budget?	Internal Controls Analysis	Gap Analysis		Transition OFOS / Transition ACFOs / Transition Programs / Transition OFT / Transition OBP
	Oversight/Management	Hire Project Mgr / Establish PMO / Hire IV&V Team			Project Management / IV&V Activities	
	Implementation and Transition		Design and Scope Agreement		General Ledger / Accounts Payables / Accounts Receivables / Grants/Projects/Assets / Budget	Retire old SOAR / Support and Maintain

5

Tax Systems

Overview

Of primary importance is maintaining a robust state-of-the-industry tax system.

The current system used by the Office of Tax and Revenue, the Integrated Tax

System or ITS, will be nearing the end of its expected life cycle by the time it can

be replaced through an RFP process. Following consultation with our peers in the

industry and following research into the state-of-the-art, the OCFO has determined

that we will separate the Real Property system from the Business and Personal Tax

System. Further, the replacement of the Real Property Tax System will occur first.

Under the leadership of Steve Cordi, we have re-staffed the executive leadership in

OTR and have assigned responsibilities for the development of business

requirements for not only Real Property but also the Business and Personal Tax

processes. This has been a major effort and has consumed much of the past fiscal

year. We are pleased to report that we fully expect the RFP for the Real Property

System to come out this Fiscal Year and the RFP for the balance of Business and

Personal Taxes to follow.

The replacement of the Real Property Tax System is the top priority for OCFO and

will receive the first call on Capital resources. The replacement of the Business

and Personal Income systems will receive the next highest priority.

Plans:

Steve Cordi has hired the project manager and we are pushing ahead to complete the requirements and release an RFP by midsummer. We anticipate an award in early FY2010 with the new system being in production by early 2011.

Once the RFP for the Real Property System has been released, the OTR team can begin work on the requirements for the ITS replacement. We anticipate those requirements to be completed in FY2010 and an award no later than FY2011 with the new system in place by 2013.

Real Property, Business and Personal TAX Systems
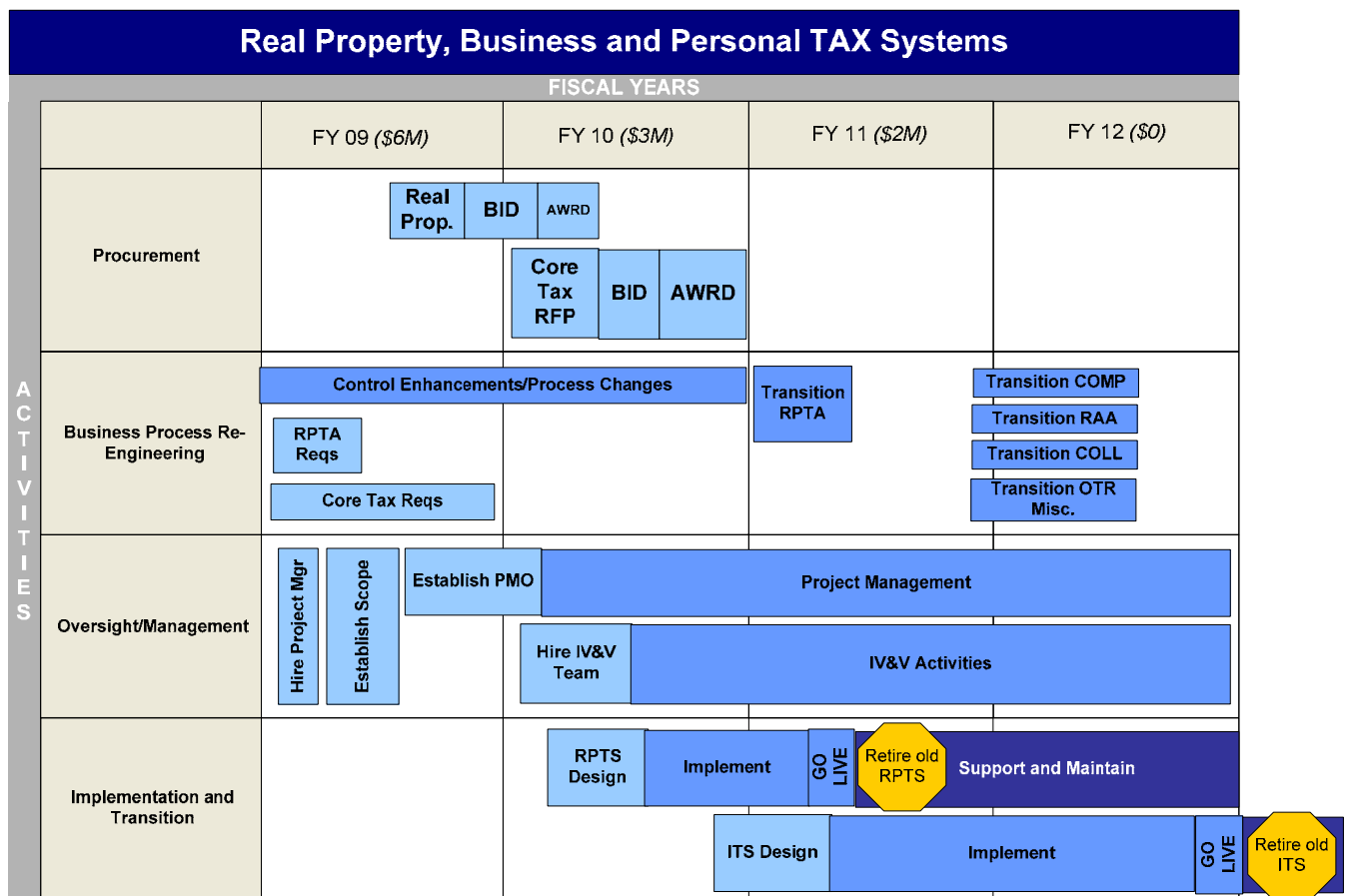
Reporting Systems

Overview

The OCFO and all District agencies depend on the reporting and analysis tools provided by the OCFO to accurately report and interpret the information in the underlying General Ledger and transactional accounts of the District that are maintained in SOAR, in the Budget, and in the Agency Fiscal Offices across the District. In keeping with the need to maintain and keep these critical reporting tools operational and current with changes in the underlying technology; we continue to provide life-cycle upgrades to enhance reliability and to add functionality. We have already added on-line dashboards and greatly increased usability and functionality, while reducing overlapping legacy systems and establishing a firm underlying technical infrastructure that can be maintained and enhanced by the District's workforce.
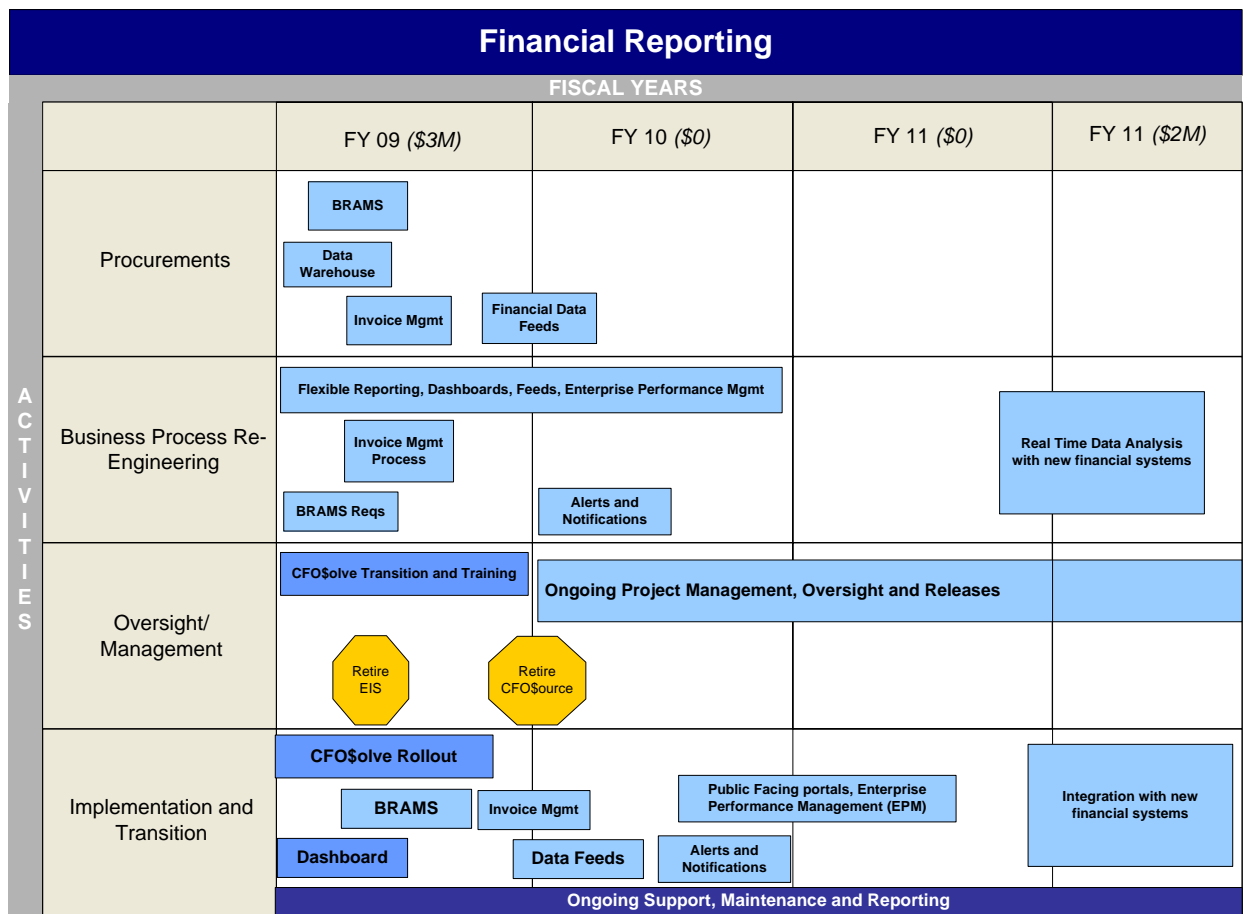
Plans:

Work on these systems continues in a series of smaller projects rather than a single large procurement. The OCFO has completed work on the functional replacement of our two current systems, EIS and CFO$ource. The new combined system, CFO$olve has gone into production and the two older systems will be retired this summer. Enhancements planned for the coming year include continued enhancements to our Dashboards, providing a workflow architecture for MOU's

reprogramming, and invoice tracking, as well as other back end technical

efficiencies to reduce operating costs and increase reliability.

While these enhancement will be completed during the current fiscal year, we have

requested an additional $2m in FY 2012 in anticipation of future requirements.

OCFO will hold these funds in reserve for our critical core systems if necessary.

Financial Reporting					
		FISCAL YEARS			
		FY 09 *($3M)*	FY 10 *($0)*	FY 11 *($0)*	FY 11 *($2M)*
A C T I V I T I E S	Procurements	BRAMS Data Warehouse Invoice Mgmt	Financial Data Feeds		
	Business Process Re-Engineering	Flexible Reporting, Dashboards, Feeds, Enterprise Performance Mgmt Invoice Mgmt Process BRAMS Reqs	Alerts and Notifications		Real Time Data Analysis with new financial systems
	Oversight/ Management	CFO$olve Transition and Training Retire EIS	Ongoing Project Management, Oversight and Releases Retire CFO$ource		
	Implementation and Transition	CFO$olve Rollout BRAMS Dashboard	Invoice Mgmt Data Feeds	Public Facing portals, Enterprise Performance Management (EPM) Alerts and Notifications	Integration with new financial systems
		Ongoing Support, Maintenance and Reporting			

I will now outline specific benefits in the areas of financial performance, security

and transparency that are anticipated as a result of OCFO's investment in these

financial systems, with the support of the Council and the Executive.

Financial Performance

OCFO's ability to meet the ever growing challenges in managing the finances of the District of Columbia rely on the core financial systems' ability to be flexible and adaptable to the changing operational and economic conditions in the District. Challenges such as enhanced financial controls, compliance with increasingly stringent audit and oversight standards, fraud detection and mitigation, budget reductions, changes to tax law, and management of federal stimulus funds all require that the District's core financial systems can be adopted quickly and cost effectively to meet the needs of the stakeholders. Our current financial systems, while stable, are based on inflexible technology that requires major investments in time and effort to perform the most basic control implementations. This inflexibility directly impacts our ability to ensure state of the art financial performance by our business units.

When the new systems are operational, the anticipated benefits in the area of financial performance would include:

- Flexible interfacing between all District systems of record (budget, revenues, HR, Payroll, Procurement, Treasury, DCHR, OCP, etc.) to ensure data integrity, consistency and reconciliation.

- Ability to track and audit individual transactions for greater financial oversight and management.

- Automated notifications, escalations, tiered approvals, and alerts to provide greater financial oversight, tighter internal controls and management.

- Ability to perform flexible scenario based budget analysis for data driven policy decision making.

- Effective rules based Case Management allowing District personnel to focus on the right cases to maximize return and mitigate risk.

- Flexibility to allow timely and cost effective configuration changes to allow for changes in tax law, accounting principles, internal controls, policies, legislation and reporting/audit requirements.

- Ability to provide flexible financial reporting and analysis to facilitate data driven decisions

- Providing snapshot level web based dashboards to Agency Program staff to ensure sound financial and budget management in real time.

- Providing District leadership the ability to view the overall financial "health" of the District in real time, and to drill down into

troubled areas to investigate solutions and proactively mitigate problems.

Security

Security of financial systems and data is of paramount importance to ensure the health of the District's finances. OCFO places a high premium on ensuring the security and integrity of its financial systems, and undergoes rigorous yearly reviews as part of the District's Comprehensive Annual Financial Report (CAFR). As good practice and IRS requirements dictate, OCFO systems are maintained within a higher security zone within the District's overall network. Care is taken to ensure that individuals only have the access that they need to execute their responsibilities, and the systems are well protected from vulnerabilities. The District's financial systems store and manage critical and protected information, such as private taxpayer information, bank account numbers, and the District's taxpayers trust us to safeguard their information with the utmost care and diligence.

As technology advances and the universe of threats to financial systems broadens. OCFO's older technologies are more vulnerable to security risks due to discontinued vendor support, advent of new and more dangerous threats, and

overall inability of the vendors to mitigate modern day challenges. Hence, it is important to continually adapt new technologies to ensure that the integrity of key financial information is protected

Related to this risk is the need to ensure that the integrity and security of key financial business processes are maintained through extensive audit trails embedded into the financial systems. Modern systems allow the ability to track and audit individual transactions at the most detailed levels, with reviews and sign-offs built into the system's business logic, and the ability to automatically identify "signatures" of fraud and misconduct before it becomes a problem. Such functionalities were not generally available in older systems based on mainframe batch technology. Updating our core systems are critically important for OCFO to meet the challenges of today and tomorrow.

When the new systems are operational, the anticipated benefits in the area of security would include:

- Role based security for users to ensure accountability and "need to know" access.

- Modern hardened databases to mitigate any IT security risks.

- Continual auditing and supervisory reviews to enhance fraud detection and facilitate mitigation.

- Ability to host systems in hardened off-site dedicated data centers enhancing security and reducing costs.

- Ensure integrity of District's finances by ensuring that any individual or business transacting with the District complies with their obligations to the District.

- Double entry mechanisms so at-least two different individuals are required to enter and approve any transaction to ensure fraud mitigation

Transparency

Transparency of financial data and policy decisions is a key area of focus, not only of the CFO, the Council and the Executive, but also of the newly elected Obama Administration. Under the leadership of the Council and the Executive, there is a renewed focus on ensuring that government data is available and visible to the taxpayer, decisions are based on data and sound policy and that government is held responsible for the effective management of taxpayer dollars. The District's financial systems play a large role in fulfilling this mission.

The District's current financial systems are based on mainframe based technology that does not allow for real-time reporting and dashboarding of financial information for the tax-payers as well as for internal government needs. Basic functions such as reporting financial data can be cumbersome and sometimes require extensive knowledge of accounting and budgeting principles to make sense. Moreover, financial reporting is inflexible, limiting the ways and mechanism that reports can be generated, saved, used and distributed. The budget formulation system lacks the ability to perform complex scenario based analyses to make sound policy decisions. Similarly, the systems do not provide the ability for government officials and citizens to monitor and analyze the financial performance of District agencies, decision makers, programs and projects.

The OCFO has made significant progress in this area over the past year, and much more remains to be done. Although our core financial systems are based on older technology, the OCFO has developed and deployed web based financial dashboards, flexible reporting mechanisms and systems that allow viewing financial data in a flexible manner. However, much more remains to be done. Migrating our core financial systems to newer technology platforms will provide OCFO with the ability to make financial data transparent and available to the taxpayers using a variety of mechanisms including data feeds, mash-ups, email

alerts and web based delivery. New systems will allow the ability to share the financial health of agencies, programs and projects in real time, automatically send alerts based on critical events, and allow the ability to marry financial data with agency performance metrics to show a true picture of how well government is operating.

Moreover, greater transparency in financial management requires that finances can be managed, audited, reviewed and tracked for every dollar that the District collects and spends. As an example, stipulations in the Federal stimulus bill require that States and jurisdictions receiving federal assistance account for and report on how ever dollar is spent, and what value was delivered to the tax payer as a result (how many jobs created, which projects were funded, what services delivered, etc.) Delivering this ability require systems to be based on flexible databases, interfaces and technologies so that finances can be easily tied to agency performance, initiatives, polices, programs, projects and other types of metrics, so that taxpayers can see the true impact of their tax dollars at work, and District leadership can hold agencies and programs responsible for meeting their commitments.

When the new systems are operational, the anticipated benefits in the area of transparency would include:

- Ability to tie financial performance with program performance to provide greater transparency and analysis to District leadership and tax payers.

- Ability to track and audit each individual transaction along with approvals and decisions for greater accountability.

- Ability to share the District's budgetary decision making process with the taxpayers and decision makers at all levels of government

- Ability to generate financial management reports, dashboards, and alerts to track agency performance as well as integrity of the financial business processes, and make them available to District stakeholders and taxpayers in multiple flexible formats such as SMS, Email, Web, Mash-ups, and data feeds etc.

- Ability to provide public facing data on real property taxes collected, and the ability to store and provide public information related to assessments, adjudications, reviews, approvals, appeals, notices and related property information,

- Ability to merge program performance, financial performance and policy initiatives to get a holistic view of the performance of the government.

This concludes my testimony. Thank you for your support and I am available to respond to any questions you may have at this time or in the future.

Acronyms

ACFOs – Associate Chief Financial Officers

AWRD – Abbreviated version of the word "Award"

BRAMS – Budget Revisions Automated Management System – Planned system to automate the process of all budget revisions including re-programming and other types of re-allocations.

CAFR – Comprehensive Annual Financial Report

COLL – Collections Division of the Office of Tax and Revenue

COMP – Compliance Division of the Office of Tax and Revenue

DCHR – DC Department of Human Resources

EIS – Executive Information System – District's legacy financial reporting system

EPM – Enterprise Performance Management

HR – Human Resources

IRS – Internal Revenue Service

IT – Information Technology

ITS – Integration Tax System – District's existing Tax system integrating Real Property Tax processing, Individual and Business income tax processing

IV&V – Independent Verification and Validation

Mash-ups – Technical term for an application that allows merging of discrete data sources to produce business intelligence

MOU – Memorandum of Understanding – Budgetary vehicle to transfer intra-district funds between agencies for services rendered

OBP – Office of Budget and Planning

OCP – Office of Contracts and Procurement

OFOS – Office of Financial Operations and Systems

OFT – Office of Finance and Treasury

OTR – Office of Tax and Revenue

PMO – Program Management Office

RAA – Revenue Accounting Administration of the Office of Tax and Revenue

Reqs – Requirements

RFP – Request for Proposal

RPTA – Real Property Tax Administration of the Office of Tax and Revenue

RPTS – Real Property Tax System

SMS – Short Message Service – Popular text messaging capability inherent in cellular phones

SOAR – System of Accounting and Recordation (District's Core Financial General Ledger System)