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Council of the District of Columbia

PUBLIC ROUNDTABLE ON DISTRICT OF COLUMBIA PUBLIC SCHOOLS SPECIAL EDUCATION AND TRANSPORTATION

Testimony of Bert Molina, Chief Financial Officer, District of Columbia Public Schools, before the Committee on Education, Libraries, and Recreation

Good morning, Chairman Chavous, members of the Committee, and other members of the Council. I am Bert Molina, Chief Financial Officer for the District of Columbia Public Schools. I am here today to report on financial issues related to special education and transportation. I would like to start by briefly explaining the role that special education and transportation played in DCPS' FY 2001 spending pressures. I would then like to discuss my plan for addressing these items during FY 2002. Finally, I would like to address some of the systemic changes that I am making to ensure that we do not repeat the mistakes of FY 2001.

FY 2001 Spending Pressures

As you know, when I arrived at DCPS in July, I discovered an \$80 million spending pressure. The largest component of this spending pressure was special education-related programs, including transportation. The special education portion of the shortfall totals \$68.7 million and is comprised of:

- Medicaid revenue shortfalls against claims for special education costs totaling \$38 million;
- Special education tuition overspending of \$18.2 million;
- Attorneys' fees shortfall of \$6.1 million; and
- Other special education cost overruns totaling \$300,000, for additional costs related to the Special Education Tracking System (SETS) and payments for unbudgeted hearing officers.

I would like to note briefly that upon my arrival at DCPS, I immediately set to work examining the school district's financial condition. When I discovered the severity of the spending pressures, I immediately notified all relevant parties. As a result, it is possible that the numbers will change moderately over the course of the next few months as we go through the annual audit. There is no doubt that DCPS will show considerable spending pressures for FY 2001. However, I am not currently in a position to pinpoint the precise amount of overspending.

It should not be surprising to any of us that special education is the area where the largest spending pressure occurred. While special education students account for 17% of DCPS' total enrollment, special education and related programs, including transportation, account for 29% of DCPS' FY 2001 budget. At the same time, DCPS' special education population is growing at an alarming rate, from a financial point of view. Total special education enrollment has grown by over 40% in less than three years and by 23% in the past two years. Finally, special education is the area of the budget over which we have the least discretion, as many of our expenditures in this area are governed by court mandates.

Medicaid

Before addressing the programmatic overspending with regard to special education, I would like to spend a moment discussing the revenue shortfalls associated with Medicaid. There are three pieces to DCPS' Medicaid revenue shortfall in FY 2001. First, DCPS' revenues were lower than budgeted by \$9 million. Second, DCPS lost \$12 million of FY 2001 revenues due to untimely submission of reimbursement requests. Finally, according to the most recent audit, DCPS must repay \$17 million due to overpayments in FY 1996-1998.

Upon discovering the shortfall in Medicaid, I immediately set to work in developing a system to address these issues. First, I am establishing sensible, conservative forecasts for Medicaid. This will prevent DCPS from incurring revenue shortfalls in the future. Second, I am developing accruals in anticipation of discovering that DCPS received overpayments in FY 1999, FY 2000, and FY 2001. Finally, I am working to strengthen DCPS' Medicaid unit and to improve our oversight of consultants during the final months of their contract.

Causes of Spending Pressures

I feel that there were basically three reasons why DCPS allowed special education related spending pressures to go unrecognized until so late in the fiscal year. First, staff in the Office of the Chief Financial Officer did not properly track expenditures and project year-end costs for special education-related functions. Second, DCPS' OCFO and program offices did not exchange information on a regular basis. As I will explain later in my testimony, I have already put in place systems to ensure that these things will not happen again. I want to make clear that I fully acknowledge that DCPS' Finance Department was at fault for not immediately reporting a spending pressure of this size. I will ensure that in the future my office will perform the due diligence necessary to develop accurate forecasts of spending and will share this information with all stakeholders. However, the DCPS Office of the Chief Financial Officer cannot make decisions to change the school district's programmatic approach to special education. It will be up to responsible DCPS officials to take the information that my office provides and use it to establish policies that address students' needs within the confines of the budget.

This brings me to the third and final reason that spending pressures were not identified earlier. DCPS' program offices did not monitor and report cost drivers such as enrollment and number of bus routes to ensure that expenditures would fit within budget. As I will discuss later, all of these things must happen to ensure that DCPS identifies special education-related spending pressures quickly and accurately.

FY 2002 Spending Pressures

All of these spending pressures will occur again in FY 2002. This is true because none of the conditions that created the spending pressures have changed. DCPS must therefore account for these spending pressures early in the year to ensure that the school district has developed a budget that will balance while providing all of the required special education services for its students. A realistic, balanced budget is needed.

At this point, I am anticipating that special education-related programs including losses of Medicaid reimbursements will account for a spending pressure of \$52.7 million above the FY 2001 budget. These numbers are still fairly rough and are being reviewed both by my office and by the relevant program offices. As in FY 2001, the largest part of this spending pressure is lost Medicaid reimbursements. I am anticipating that DCPS will fail to receive or will have to repay approximately \$20.7 million relative to the FY 2001 budgeted level for Medicaid. I would also expect a cost of about \$25 million over the FY 2001 level for tuition and attorneys' fees, and a \$7 million cost overrun for transportation. It is my strong feeling that DCPS must account for all of these expenses in a fully reconciled FY 2002 budget.

OCFO – Addressing the Problem

Having good forecasts for spending is the first stage to ensuring that DCPS avoids cost overruns. However, this is not enough. DCPS must also be vigilant, both on the program side and on the finance side, in identifying indications of cost overruns. I would like to devote some time to discussing how I am reorganizing my office to ensure that we will perform the due diligence needed to track expenditures accurately.

It is my belief that a Chief Financial Officer needs three basic ingredients to ensure that we can track financial information accurately. First, I need seasoned professionals in all key positions. Second, I need to organize our office in such a way that we have redundant systems to track spending. Third, I need financial systems that will display all necessary financial information, particularly labor costs, in a timely manner.

I have already begun to bring in seasoned professionals to oversee all vital functions in DCPS' Office of the Chief Financial Officer. I have four years of experience as the Chief Financial Officer for Milwaukee Public Schools, a district with over 100,000 students and a budget of over \$800 million. In addition, I have brought in staff with experience in Baltimore City Public Schools, Baltimore County Public Schools

and Prince George's County Public Schools. Our new office structure will emphasize accounting and finance skills to a greater degree and will seek to capture efficiencies through improved use of technology.

The staff will have more accounting experience and a greater ability to forecast expenditures. I am confident that the people I have brought to DCPS and the structure that we are establishing will ensure that we will not repeat the mistakes of this past fiscal year.

Along with my staff, I am also developing systems to allow us to look at expenditures in a variety of ways. It is my belief that the best way to ensure that all financial tracking is done accurately is to look at expenditures in as many ways as possible. To achieve this, I am developing computer models that will allow my staff to look at expenditures on a daily basis, to track expenditures and to anticipate impending shortfalls. These models will allow us to look at current year spending as compared to projections from the budget and as compared to prior years' expenditures. All of this information, taken together, should allow us to get the most accurate possible forecast of expenditures.

Finally, it is critical that DCPS fully implement the PeopleSoft financial system. This freestanding system will facilitate DCPS' financial tracking. Under PeopleSoft, DCPS will be able to summarize financial information in real time, without worrying about delays in posting labor charges. Also under PeopleSoft, DCPS will be able to create summary reports at a variety of levels to allow for better tracking both within finance and in DCPS' program offices.

Conclusion

As I have stated previously, both DCPS program offices and the finance office share responsibility for ensuring that there are no budgetary shortfalls. As we have learned from our experience in FY 2001, we must be vigilant in tracking and forecasting expenditures and the cost drivers that lead to increased expenditures.

We have heard that it will take three to five years to bring about significant cost savings in the delivery of special education services. Consequently, the key factor affecting the financial stability of DCPS will be special education enrollment over the next three years. We will need a three-year enrollment projection with operating costs and realistically balanced budgets.

This concludes my testimony. I will be pleased to try to answer any questions you may have.