

March 8, 2002

Council of the District of Columbia

PUBLIC HEARING ON FY 2001 AND 2002 SPENDING AND PROGRAM IMPLEMENTATION FOR
DISTRICT OF COLUMBIA PUBLIC SCHOOLS AND CHARTER SCHOOLS

**Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee on
Education, Libraries and Recreation**

Good morning, Mr. Chairman and members of the Committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the District of Columbia. I am here to testify about the financial aspects of the public education system in the District of Columbia, particularly with respect to DC Public Schools (DCPS). Here to assist me are Bert Molina, deputy chief financial officer for Budget and Planning, and Cheryl Edwards, my special assistant who has been working with DCPS on financial issues.

FY 2002 Issues at DCPS

In FY 2002, DCPS is on target to spend in excess of its appropriated budget. Attached to this testimony is a memorandum of understanding dated Jan. 29, 2002, that I entered into with the Superintendent stating financial adjustments totaling \$82.8 million that I would support with the Mayor and the Council. I have sent implementing actions to the Mayor and the Council as part of the overall strategy for addressing FY 2002 spending pressures. DCPS accounts for approximately 16 percent of the total District gross operating budget. The gross operating FY 2002 budget for DCPS as proposed to Congress was \$845 million in local and federal funds. When combined with the budgets of Charter Schools and the State Education Office, the District's commitment to primary and secondary education accounts for approximately 20 percent of all District expenditures. This fact alone dictates that the District exercise the most careful program and financial oversight over its operations. In addition, the huge impact public education has on the long-term economic and social viability of the District makes public schools one of the most important programs in the District.

Here is the broad financial context regarding DCPS. Over the FY 1998 - 2002 period, the local fund budget for DCPS has increased by 44 percent, from \$460.1 million to \$661.1 million. The total student population has decreased by 11 percent, from 77,111 to 68,449. The District maintains a total of 154 public schools. From my vantage point as the steward of the District's finances, these numbers are not headed in the right direction. The charts attached to my testimony show why very clearly.

Part of the remedy for DCPS overspending was a commitment to reduce program costs by \$35 million in FY 2002. These adjustments must be made in a timely fashion in order to realize these savings. Data indicates this may not be happening. Since half the fiscal year has elapsed, the DCPS may have to cut spending by a substantially larger amount in order to save \$35 million by fiscal year end.

At our last monthly briefing for DCPS administration officials and the Board of Education, which used expenditure data through January, DCPS was on a track to overspend its allocation by \$23 million over and above the additional \$90 million to be provided for FY 2002. This overspending, combined with the \$35 million in savings still to be achieved, would force DCPS to have to reduce spending by \$58 million by Sept. 30, 2002. This is an alarming situation. At the current rate of spending, and if savings are not achieved, the DCPS will run out of funds by late August 2002.

To prevent a possible anti-deficiency violation at the DCPS as well as to protect the financial viability of the District, we have taken stringent measures such as cash apportionment beginning March 1. I have provided advance notice to all stakeholders. I will keep the Mayor, the Council and all school officials regularly apprised of the DCPS budgetary status.

I agree with the Council, that all agencies must remain within their authorized budgets. To that end, this year DCPS and all other agencies are required to submit spending plans so that quarterly cash

allocations can be made. To my knowledge, this is the first time agencies have been asked to prepare such plans, which are a standard financial management tool. I have not yet received the DCPS plan.

This will hopefully instill a sense of urgency into the financial monitoring process. In order to run the program successfully while constrained by these allocations, the Mayor and the Council will need to be intimately involved in both the finance and program decisions for the remainder of the year.

In my testimony before the Committee of the Whole yesterday, I referenced three major legacy problem areas that have had an adverse impact on the District's budget. These are: 1) a health care system that consistently costs much more than budgeted — a problem that consumed us all last year; 2) Medicaid reimbursements that continually fall short of projections and create a local fund liability for the District — a problem we identified last year and are addressing this year; and 3) DCPS spending that is substantially out of line with budgeted amounts.

Since July of last year, my office has been in a consistent dialogue with DCPS. We have taken a number of actions to bring effective financial management to DCPS. We instituted a change of CFOs at DCPS because of mounting concerns regarding its financial situation. I have previously testified at length concerning the DCPS FY 2001 spending situation, and explained that DCPS spending pressures are caused both by costs that exceed projections and revenues that fall short of projections.

The overarching spending driver for DCPS is the cost of special education, which is dictated by congressional requirements and court-ordered mandates, such as attorney's fees related to special education suits that the District frequently loses; exorbitant transportation costs for special needs students that are driven by court order because the District has limited special education capabilities; and non-public tuition and other costs for a special education population that is rising rapidly. Every year, special education costs are rising and exceeding projected and budgeted levels. Imbedded within the special education program is a Medicaid reimbursement program that is continually collecting reimbursements that are below the budgeted expectations, creating additional liabilities for the District.

Three Challenges at DCPS

Consequently, the District confronts three challenges. First, what can be done to contain and ultimately reduce special education costs? While it is beyond my responsibility to speak to program solutions in this area, the OCFO can help provide policymakers and program managers with the data they need to assist them in making program and policy decisions.

Second, how can we project costs better? We can and should do a better job of estimating growth in the special education population and the likely costs associated with it. Part of the answer is to isolate special education cost centers in some detail, so that data can be developed upon which to base solid estimates. This has not been done thus far with respect to this program. I have directed our DCPS financial staff to begin this task. We can also help program people monitor how budget planning assumptions are holding up in budget execution. I believe this is fundamentally a responsibility of program managers, but we can help them along the way.

Third, what can be done to address our deficiencies in the Medicaid arena? Medicaid has been a particularly thorny problem in recent years, and one that will continue to have an enormous impact on the financial health of DCPS. My office has exerted significant leadership in trying to resolve this challenge. Nevertheless, we project a \$27 million deficit in Medicaid revenues for 2002. For 2003, we have instituted a new Medicaid certification process, in which agencies have to build their projections from the ground up examining assumptions around workload and costs. We will also be tracking monthly Medicaid revenue collections, making adjustments as necessary.

It is fair to say that this office shares some of the responsibility for the muddled management of the Medicaid contract. During the last several months, we have been working closely with DCPS in the context of our citywide Medicaid strategy to create a clear division of labor, accountability and results. It is our goal to create predictability, transparency and maximum yield on our Medicaid revenues.

DCPS has agreed to extend the existing Maximus task order for 18 months, to August 2003. During this time, we will place responsibility for Medicaid billing within DCPS, with accountability to this office and the Superintendent for all Medicaid efforts. We will also focus on training. We have gotten a detailed project plan from Maximus and will now work toward monthly benchmarks. I am also going to provide technical assistance to DCPS, so that we can use the next 18 months to build a new Medicaid billing operation.

As a result of these actions, we expect to see major improvements in Medicaid revenue estimation, case documentation, billing management and audit timeliness. However, translating these improvements into additional Medicaid revenue is not a quick fix. We should begin to see improvements in administration and billing accuracy next fiscal year, with a significant impact in increased Medicaid collections occurring in FY 2004. Medicaid management is an area that needs strong central leadership across agency lines. While the OCFO has been heavily involved in this area over the past several months, once the situation is stabilized, our role should be limited to certifying Medicaid revenue estimates and assuring proper documentation of accounts.

Program Problems Demand Program Solutions

The OCFO can exert financial controls over DCPS spending, and we will do so. We can provide status information to school executives, and we are doing so. Ultimately, however, DCPS presents a management, as well as a financial, challenge. Key program questions need to be addressed in order to control DCPS spending. What is the appropriate number of administrative and support personnel to provide adequate assistance to teachers? What level of special education assistance should be provided by District of Columbia institutions as opposed to out-of-jurisdiction entities? How many teachers are needed to provide instruction to the current and projected population of students? How many schools, and their attendant infrastructure, are needed to meet current education needs?

These are not financial questions, but they have serious financial consequences. My concern is that, in the absence of consensus on program direction, arbitrary alterations are made to the budget and financial plan. Financial controls are the last line of defense in assuring effective, efficient programs. They need to be combined with proactive program management and executive reviews of program and financial performance.

Charter School Audits

Before concluding my remarks, I would like to make one comment about Charter Schools, which now account for about 14 percent of the District's public school population and about 18 percent of the District's K-12 public education budget. As you know, the Charter School Board is charged with assuring independent audits of charter schools and looks to each school to engage its own independent auditors. I believe this arrangement should be changed immediately.

Our OCFO Internal Audit organization has started to review these independent audits. Our very preliminary findings suggest that there are large differences in the quality of these audits. I believe Charter Schools should be audited by a single audit firm using a common audit template selected by the financing authority – the District of Columbia government.

I am convinced that under this approach, audits will be completed in a more timely fashion, at a higher level of quality and at a lower cost. This regime should be put into effect for the FY 2002 Comprehensive Annual Financial Report, and I have proposed enacting legislation to accomplish this. I would greatly appreciate your support and early action on this proposal.

This concludes my oral comments. I ask that my written testimony be entered into the record. My colleagues and I would be pleased to answer any questions you may have.

D.C. Public Schools and D.C. Public Charter Schools Illustration of Number of Students

D.C. Public Schools Enrollment Compared to D.C. Public Charter Schools Enrollment (FY 1999 - FY 2002)

Fiscal Year	DCPS Enrollment	PCS Enrollment
1999	71,889	3,594
2000	70,677	6,980
2001	68,978	9,555
2002	68,208	10,731

D.C. Public Schools Enrollment & Congressionally Approved Local Budget (FY 1996 - FY 2002)

Fiscal Year	October Enrollment	Approved Budget
1997	78,648	\$ 472,320,000
1998	77,111	\$ 460,142,642
1999	71,889	\$ 545,000,000
2000	70,677	\$ 600,936,404
2001	68,978	\$ 629,308,852
2002	68,208	\$ 661,123,760

D.C. Public Charter Schools Enrollment & Local Funds Expenditures (FY 1999 - FY 2002) Dollars in Thousands

Fiscal Year	October Enrollment	Expenditures
1999	3,594	\$ 11,113
2000	6,980	\$ 46,480
2001	9,555	\$ 104,992
2002	10,731	\$ 102,257

D.C. Public Schools Enrollment vs. Congressionally Approved Local Budget (FY 1997 - FY 2002)

