

**April 6, 2001**

Council of the District of Columbia

PUBLIC HEARING ON THE MAYOR'S FISCAL YEAR 2002 BUDGET SUPPORT ACT OF 2001

## **Testimony of Natwar M. Gandhi, Chief Financial Officer, before the Committee on Finance and Revenue**

Good afternoon, Mr. Chairman and members of the Committee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here to testify on the FY2002 budget for the Office of the Chief Financial Officer (OCFO). I will provide a brief overview of our budget, discuss some of our strategic issues and initiatives, and answer any questions you may have.

When I testified at my confirmation hearing before this committee in May of last year, I noted three overarching goals that must be reached for the OCFO to be successful. They were: (1) obtaining a clean opinion on schedule from the District's independent auditor for FY 2000 and all subsequent years; (2) assuring a balanced budget; and (3) providing effective, efficient financial systems and business methods to support the financial information needs and decision processes of District policymakers on a timely basis. Since then, we have met the first two goals and made progress on the third, although additional improvements are needed and possible, as I will discuss later.

With me today are Anthony Calhoun, Deputy Chief Financial Officer for the Office of Finance and Treasury (OFT) and Treasurer; Herbert Huff, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR) and Tax Commissioner; Anthony Pompa, Deputy Chief Financial Officer for the Office of Financial Operations and Systems (OFOS) and Controller; Barbara Jumper, Director of the Office of Finance and Resource Management (OFRM); and Anthony Cooper, Executive Director of the District of Columbia Lottery. Each of these individuals is prepared to provide specific testimony later on their particular areas of responsibility or to submit their statements for the record if you prefer.

Also with me are John Ross, Chief of Operations for the Office of Research and Analysis (ORA); and Paul Lundquist, Director of Financial Operations for the OCFO.

### **Summary of FY 2002 Request**

The overall budget request for the OCFO totals \$81,996,932 and includes 1,016 full-time-employee (FTE) positions, which represents an overall increase of \$276,276 and a decrease of ten FTEs from FY 2001. These totals result from adjustments up and down across components of the OCFO, and collectively they show our commitment to streamlining the operations and related costs of OCFO functions in the District. I believe the OCFO budget is a prudent one that will provide us with the resources we need in the next fiscal year to continue our progress.

Included in our request are 10 FTEs and related funds in OTR to implement the phased return to annual assessments of real property, 3 FTEs and related funds for OFT to manage implementation of the College Savings Act, and 9 FTEs and related funds to augment the staffing of the Office of Budget and Planning (OBP). Based on my own assessment and that of a study conducted by the Government Financial Officers Association (GFOA), we concluded that OBP must be strengthened if it is to meet the expectations of the Mayor and the Council for timely financial information and analyses. These increases totaling 22 FTEs are more than offset by overall productivity and management savings of 32 FTEs from the elimination of the Financial and Technical Services Division, the transfer of four FTEs from grant partnerships, and staff reductions from early-out participation. This results in a net decrease of 10 FTEs compared with the FY 2001 budget as appropriated.

### **OCFO Makes Continued Progress in Financial Management**

Over the past year, the OCFO has continued to improve the various financial processes of the District, with very positive results. We recently completed the securitization of the District's tobacco settlement funds; achieved a round of city bond upgrades from Standard and Poor's, Moody's, and Fitch; and, earlier

this year, received our fourth straight unqualified opinion ahead of schedule from the independent auditors on the FY2000 Comprehensive Annual Financial Report (CAFR). Improvements in the District's accounting systems allowed monthly account closings and cash reconciliations, which in turn made the annual closing easier, and not coincidentally improved the quality of information available to budget staffs to monitor spending.

In OBP, we have made strides in working with the Mayor and the City Administrator to ensure "truth in budgeting," so that the budgets presented to the Council and the Congress are realistic and can be delivered for the citizens. As part of the same dynamic, OBP has strengthened its knowledge of and linkages with individual agencies, so that all concerned can begin to identify cost drivers in the budget process itself and their relationship to program outputs.

In regard to OTR, no additional staff is being requested other than that needed to augment the Assessor's Office for the reintroduction of annual property appraisals. We expect collection of delinquent taxes to increase by \$5.4 million, or 7%. We will maintain our commitment to processing of tax refunds within 15 days for properly filed returns and expect to assist 410,000 taxpayers through our customer service center. We will also complete implementation of the Integrated Tax System (ITS), the comprehensive overhaul of the District's tax accounts and the management information structure that supports tax administration. This project, I am pleased to say, is ahead of schedule and under budget.

#### **Additional CFO Improvements Needed and Possible**

Despite these advances, there is still more to do in terms of streamlining the District's financial processes and in developing financial information to support the policy initiatives of its elected leaders. One of our strategic initiatives for FY 2002 is to develop activity-based accounting and performance budgeting capability. Progress in this effort starts with a better account structure, and we have already begun a review of the account structure now in place, which has evolved into its current configuration over time. At present, there is no accounting information on costs below the responsibility center level, so unit productivity cannot be measured. At the same time, there are over 600 responsibility centers, each representing an opportunity for reprogramming with its related delays. We will devise a plan for Mayoral and Council approval that will implement performance budgeting while at the same time streamlining the reprogramming process. The new structure will ensure that we capture accounting information at levels necessary to monitor spending effectively and build budgets more accurately.

Another strategic initiative for FY 2002 is the restructuring of the OCFO's management functions. Not counting OTR and the Lottery, which are front-line operating programs, the District has over 850 FTEs engaged in financial management activities, either in the OCFO or under agency CFOs. This budget proposes that all resources associated with the agency CFOs be consolidated under the OCFO. As you know, the OCFO currently has personnel management responsibility for these organizations, but the resources remain within the budgets of the agencies. With your approval of this consolidation, the OCFO will realign agency CFO resources into the OCFO for the congressional budget submission.

Between now and the start of FY 2002, we will restructure the operations of the agency CFOs to provide more standard staffing and performance expectations. This new alignment will also be constructed to provide clearer lines of communication to the CFO and to top officials in the District government. The agency CFO structure we have today is the result of many incremental decisions over the years and does not meet the current needs of District policy makers. Further, I believe restructuring can reduce overall financial management costs, and we will be alert for these opportunities in our implementation of the realignment.

Our final strategic initiative for FY 2002 is to enhance the linkages between the District's personnel and financial management systems. I testified before this Committee just last month on the problems in this area, such as the lack of a managed job-titling system and the lack of real-time information on personnel actions. Progress in this difficult task will be long-term but essential if we are to progress toward true performance budgeting.

I also want to reinforce the critical work done by ORA, which serves as the focal point for financial policy analysis, revenue and grant monitoring, economic analysis, and revenue estimating activities. Revenue forecasting by ORA played a major role in our success in achieving a balanced budget. We plan further improvements to the estimating process and a new income tax forecasting model, both of which will be important to policy makers seeking to maintain the balance between revenue and spending in the post-control period.

## **Conclusion**

I want to thank Mayor Williams and the Members of the Council on behalf of all the employees of the OCFO for their kind remarks about our role in developing the District's FY2002 budget. It is essential for our employees to know their work is important and appreciated. The budget was developed working closely with the Mayor and his staff, and we support the results of that cooperation. All of us in the OCFO are committed to continuous quality and productivity improvement in the delivery of financial management services and products.

Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions that you or the other Members may have.