

**June 3, 2002**

Council of the District of Columbia

PUBLIC ROUNDTABLE ON TRANSFERRING FINANCIAL AUTONOMY AND AUTHORITY TO THE  
UNIVERSITY OF THE DISTRICT OF COLUMBIA

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

Good afternoon, Mr. Chairman and members of the committee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia. I am here to testify about transferring financial autonomy and authority to the University of the District of Columbia (UDC). Accompanying me are Cassandra Alexander, chief financial officer for UDC, and Tony Pompa, deputy chief financial officer for financial operations and systems. I appreciate the opportunity to present my views on this important topic.

### **Overview**

Let me start by stating what I believe should be guiding principles governing decisions regarding financial management in the District of Columbia. First, in the District's current home rule structure, all financial management actions and arrangements must be in conformance with not only local law but also applicable federal law.

Second, the District of Columbia government in general, and the Office of the Chief Financial Officer (OCFO) in particular, should exercise financial oversight over all units of government that have the potential to affect the District's financial solvency, its independently audited financial statements or create legal liabilities for the District.

Third, financial oversight should be administered in a manner that facilitates accomplishment of agency missions and takes into account the record of the agency in executing its financial management responsibilities. I have instructed all agency CFOs to cooperate closely with agency heads to ensure that financial information is routinely available and used in agency management decisions.

### **OCFO Position on Financial Independence**

With these principles in mind, let me give you my views with respect to the legislative proposal before you. Under current federal law governing District financial operations, the OCFO is required to exercise jurisdiction over all accounting, budget and financial management personnel in the District; this includes not only those within the OCFO, but also those in city agencies. As you are aware, this statutory provision is now under review by the Congress, taking into account the views of the Mayor and the Council of the District of Columbia. As matters now stand, however, should the District desire to change the financial oversight structure of UDC or any other unit of the District government, it is our view that the proper legislative vehicle for doing so would be a proposed amendment to the District of Columbia Home Rule Act.

Of the total UDC annual budget of \$85.3 million, approximately half (\$45.9 million) is local funds. The entire capital budget of \$56 million is to be covered from District long-term financing. I believe District policy makers should be extremely circumspect in fractionalizing responsibility for the financial oversight of funds that are appropriated to it and that are allocated in accordance with the direction of the mayor and council. Once financial independence is granted to an agency, the ability of the CFO, the mayor and the council to affect financial outcomes is considerably circumscribed.

### **Criteria for Financial Independence**

It is my view that to successfully operate independent financial authority, the following criteria should be met: the entity must be independently financed; the entity should be responsible for its own CAFR, the results of which will not affect the District's CAFR; and, the entity should have no recourse to the District Treasury to resolve financial issues once its annual financing has been determined.

I have previously testified before the District of Columbia Subcommittee of the House Government Reform Committee as regards the potential for financial independence for the DC Public Schools (DCPS). At that hearing this past December, I outlined what I thought should be the steps that needed to be taken for such independence. I believe many of the same steps would apply for UDC, and they are as follows:

- **Grant UDC expanded authority over controls within its personnel, procurement, payroll, budgeting, and accounting operating systems.** This could be done by the District because UDC is a component unit of the District government.
- **Create an independent financing source or a statutorily binding maximum fund allocation for the fiscal year that cannot be exceeded.** This would be coupled with removal of District and congressionally imposed reprogramming guidelines that restrict UDC's capability to reorder financial priorities quickly in the face of changing conditions. A binding limit or separate funding source would protect the District's Treasury and at the same time encourage innovative program solutions to solve financial issues. It would also be a basis for removing UDC as an entity that could affect the District's CAFR.
- **Establish the Office of the Chief Financial Officer of UDC as a unit of UDC.** UDC CFO personnel would interact with the CFO of the District of Columbia in building budgets but would be appointed by and report to the president or his designee. The president, in turn, would be responsible to the board for ensuring that his program plan and financial plan are in balance.
- **Change the UDC fiscal year to a July/June basis.** Operating on a fiscal year that does not coincide with the school year is a handicap for UDC. However, the Congress, which appropriates all DC funds, has twice considered and twice rejected proposals to change to an academic fiscal year for DCPS.

However, the District has been successful in obtaining authority to provide funds to DCPS as though it were operating on an academic fiscal year. This was done by providing DCPS with access in the current fiscal year to a portion of the funds of the upcoming fiscal year, to facilitate the start of the academic year. While such funds as are used must be accounted as expended in the subsequent fiscal year, the provision provides DCPS with considerable financial flexibility. Similar language for UDC is included in the FY 2003 Budget Request Act, and we are optimistic it will be enacted.

- **Devise an oversight structure with mayor/council representation to periodically review during the fiscal year reports from UDC on both program operations and financial status.** This information would be used to help in the development of the UDC budget and assess the amount of subsidy to be underwritten by the District general fund.

#### **Recent UDC Financial History**

One also needs to take into account the financial management history of agencies in any plan to increase autonomy. In the case of UDC, considerable improvement has been made since FY 1999 when UDC received a disclaimer on its financial statements from its independent auditors. Under the auditing rules adopted for FY 2000 and subsequent fiscal years, such a disclaimer or other qualification would have compromised the District's overall CAFR.

During the FY 2000 CAFR process, UDC was an area where the OCFO had to invest considerable assets to ensure a successful outcome. Because of concerns raised at audit review committee meetings, I directed my Chief of Staff to guide the closing process to a successful conclusion, using such external assistance as was needed.

The UDC CFO has since been replaced and, working with UDC management, considerable financial management progress has been made. Notwithstanding these efforts, UDC accounting and financial reporting remains an area of material weakness, as reported in the independent auditor's management letter accompanying the FY 2001 CAFR. It is one of only three reported areas of material weakness. In addition, the independent auditor's March 5, 2002, letter to the UDC Board of Trustees listed 12 current

year (2001) recommendations for further improvement, and noted that only 9 of the 19 prior year's findings had been resolved.

It should be noted that UDC budgeting and accounting is more complex than that of most agencies. It has a wide variety of revenue sources – local funds, federal grants, unrestricted receipts such as fees and tuition, and restricted funds such as endowment amounts. This requires that its costs be distributed to these various revenue sources timely and accurately, in order to properly monitor spending and account for results. In this respect, it is clearly to the advantage of UDC to be able to call on the capabilities of the larger OCFO organization to assist in issue resolution. This is an advantage they would lose were they to be independent of the OCFO. Not the least of the challenges UDC would face in becoming an independent financial entity would be the creation of its own administrative information systems – system of accounts, accounting system, and payroll and personnel systems. Currently, UDC uses the SOAR system to provide accounting capabilities and relies heavily on other District-wide information systems such as payroll.

Mr. Chairman, this concludes my prepared remarks. I ask that they be entered into the record. I would be pleased to answer any questions you may have at this time.