

**OFFICE OF BUDGET AND PLANNING  
PERFORMANCE OVERSIGHT HEARING ON  
FISCAL YEAR 2004/2005 BUDGETS**

**Before the  
Committee of the Whole  
Council of the District of Columbia**

**The Honorable Linda W. Cropp, Chairman**

**February 22, 2005, 2:30 PM  
John A. Wilson Building, Rm. 412**



**Testimony of  
Bert Molina  
Deputy Chief Financial Officer  
Office of Budget and Planning**

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

Good morning, Madam Chair and members of the committee. My name is Bert Molina, and I am the deputy chief financial officer for budget and planning. I am pleased to appear before you today to present testimony on the Fiscal Year 2004 and Fiscal Year 2005 expenditures and performance for the Office of Budget and Planning (OBP).

This is the fourth year that I am appearing before this committee, and I am pleased to present testimony on the accomplishments of my office and what our plans are for improving our performance.

With me today are Gordon McDonald, associate deputy CFO; Dallas Allen, director of budget formulation; and James Spaulding, director of strategic budgeting and the Capital Improvements Program. Tony Calhoun, the deputy chief financial officer for finance and treasury, and Lasana Mack, associate treasurer, will address questions related to cash and debt management.

In my remarks I will cover the following three areas:

- Fiscal Years 2004 and 2005 operating expenditures and performance;
- Fiscal Year 2005 operational goals; and
- The Capital Improvements Program.

### **Fiscal Years 2004 and 2005 Operating Expenditures Performance**

In Fiscal Year 2004, the Office of Budget and Planning (OBP) operated within its budget of \$4.8 million, spending almost 100 percent of its available funds.

The Fiscal Year 2005 budget for OBP is \$5.5 million, an increase of \$700,639 over the FY 2004 budget. This increase is primarily due to the conversion of capital projects to operating. Operating expenditures and obligations through February 10, 2005 total \$1.4 million, or 25.9 percent, of the approved budget. We expect to end the fiscal year within our approved budget.

### **FY 2004 Performance**

Over the course of the past fiscal year, OBP achieved some major accomplishments. For example, we

- Transitioned another 24 agencies to performance-based budgeting (PBB),
- Rolled out the CFO\$ource Executive Dashboard, and
- Improved grants management in the District.

#### *Transitioned 24 Agency Budgets to Performance-Based Budgeting*

During FY 2004, OBP transitioned an additional 24 agencies to Performance-Based Budgeting (PBB) in preparation for formulation of the FY 2005 budget. As a result, a total of 56, or 80%, of the 70 operating agencies identified for PBB have completed this transition. Meanwhile, an additional 11 agencies have begun the process of transitioning to PBB for the FY 2006 budget. As part of the Administrative Services Modernization Project (ASMP), the District invested in an online Scorecard application to streamline and automate agency reporting of performance data. All 56 PBB agencies are currently using this system. To comply with the Council's mandate, five agencies began the transition to service-level budgeting with the development of the FY 2005 budget. Council identified 20 services, such as the Auto Theft Unit within the

Metropolitan Police Department, for which service-level detail was provided. The District will continue to phase-in service-level budgeting over the next few years.

*Rolled out the CFO\$ource Executive Dashboard*

Bringing information together into one place is the CFO\$ource Executive Dashboard, which we developed in FY 2004. The Dashboard provides agency heads and other managers and their staff the ability to get financial and programmatic information to help them in their decision-making. Information related to budget, payroll, procurement, and agency performance is currently linked to the application. Links to published monthly financial reports and customized analytical cubes, which contain data for operating, capital and grants, give users the necessary information to effectively monitor their agencies. Since its initial release in July 2004, we have added upgrades in a new release. This provides users enhanced tools for inquiring about vendor/procurement information. It allows users to filter, sort, and view history of procurements for any vendor. We plan to roll out additional releases during FY 2005 to provide information on agency performance, cost drivers and payroll, as well as other key information.

*Improved Grants Management*

We have made significant improvements in grants administration. In FY 2004, District agencies spent \$1.63 billion in federal operating grants (including Medicaid) an increase of 12% over the \$1.46 billion in FY 2003. My office processed more than 1,000 grant budget modifications during the year for Council approval.

In the FY 2005 Budget Request Act, we suggested, and you and the Congress concurred, that modifying a grant's budget authority level should not require Council approval if the grant has already been accepted and appropriated. These modifications often are simply recalculations of carryover amounts that had to be estimated during the budget formulation process and become known with certainty during the year, after the books close on the previous year. In accordance with the revised appropriation language, we are making these budget modifications administratively in FY 2005, and only newly received grants, those not already in the budget, will come before the Council for approval. This has already reduced the paperwork Council receives and streamlined the process of getting budget authority to agencies so they can spend grants quickly, while still carrying out Congressional intent that Council have the opportunity to review new grants that the District receives. We will continue to work closely with agencies to ensure grant dollars are spent to the fullest extent possible.

### **Fiscal Year 2005 Operational Goals**

Our goal in FY 2005 is to build on the successes of the past year. OBP's major operational goals are to:

- Continue improvements in our financial management systems,
- Produce timely anti-deficiency compliance and financial status reports,
- Develop a sound baseline budget,
- Maintain a high caliber budget staff, and
- Improve the development and execution of the District's capital program.

Continue Systems Improvements

We remain committed to monitoring and controlling expenditures. To achieve this goal, we must continue to improve our financial management systems. I will now discuss some of these improvements.

**C-SPIN:** Following the success of the CFO\$ource Operating Spending Plan (SPIN) application, OBP implemented for FY 2005 the Capital Spending Plan (C-SPIN). This application allows agencies to develop a monthly spending plan online based on the annual allotments approved for each capital project.

Through various reports, C-SPIN will help OBP monitor capital spending on a monthly and quarterly basis. I believe that this application will help to ensure that the District's overall capital spending plan remains within the available financing.

Produce Timely Anti-Deficiency Compliance and Financial Status Reports

FY 2004 was the first year in which agencies had to develop monthly and quarterly spending plans online using the CFO\$ource SPIN application and in which they would be monitored and reported by OBP to the Board of Review for Anti-Deficiency Violations (BRADV), as required.

BRADV's new anti-deficiency and budgetary compliance activities added substantially to the budget execution branch's other activities, including managing the District's financial review process, analyzing agency projections, managing spending pressures, coordinating the District's reprogramming and intra-District modification processes, and preparing monthly financial status reports. In FY 2004, the budget execution branch consisted of 3 FTEs. Due to

the increased workload and limited staff, OBP was behind in preparing the monthly financial status reports and quarterly Anti-Deficiency Compliance Reports in FY 2004. To address the staffing needs in budget execution in FY 2005, we have merged the cost analysis unit into the budget execution unit. The budget execution unit will be staffed by 6 FTEs, compared to 3 FTEs in FY 2004. With the additional resources, we plan to issue monthly financial status reports and Anti-Deficiency Compliance Reports on a timely basis in FY 2005. Moreover, because of the importance of anti-deficiency compliance and the new requirement to apportion agencies' budgets in SOAR no later than April 2006, we may need to devote more resources to this area in FY 2006.

*Develop a Sound Baseline Budget*

Our goal is to develop a sound baseline budget that accurately assesses the cost of providing District services with future improved accuracy anticipated from incorporating cost drivers in baseline formulation. We will deliver the baseline budget to the Mayor and Council on February 28, 2005.

*Maintain a High Caliber Budget Staff*

My vision for OBP continues to be the development of a high caliber budget and financial staff that produces and delivers quality financial information to the District's stakeholders. The employees of the Office of Budget and Planning are extremely dedicated and hard working. As noted above, a number of new financial and performance management systems have come online during the past year. To keep abreast with these important changes, we required our staff to reinforce their skills and acquire related training in the new systems. I believe that the OBP team is fully prepared to assume the challenges associated with

effectively managing the state-of-the-art budgeting systems in the District government.

### **District's Capital Improvements Program**

OBP is taking several steps to improve controls over the Capital Improvements Program (CIP). Agencies have been successful over the last few years in spending capital funds, but, as you know, the District's General Capital Improvements fund balance had an accumulated shortfall of about \$250 million at the end of FY 2004. Preliminary analysis of the components of this fund indicate that the general obligation (GO) bond-financed portion of the fund may have a shortfall closer to \$350 million, offset by \$100 million of positive positions in the other financing sources to result in the overall \$250 million shortfall.

When this fund has a deficit, the District's General Fund lends money to it to cover capital expenditures, and the General Fund is repaid when GO bonds are sold. A deficit in the capital fund has a positive impact on the District's operating budget, because the District is not paying interest on borrowed funds while the funds sit idle. However, the deficit must be kept within reasonable parameters, because the General Fund is limited in how much it can lend to the capital fund without raising cash flow problems.

As I have indicated previously, the Office of Budget and Planning has expanded its explicit role to include that of the fiscal officer for the entire CIP, and we will ensure a much closer match between budget, finance, and accounting going forward. In addition, OBP and the OCFO are developing strategy to resolve



most of the shortfall within a three-year period. As we complete our analysis, we will formulate a specific recommendation for implementing this strategy. We will discuss this with you and the Mayor before proceeding, and, if there is concurrence, we will begin to implement it this fiscal year.

OBP's budget control objective for FY 2005 and forward is to limit each fiscal year's capital expenditures of GO bond financed capital projects to the amount of each fiscal year's available GO bond financing. Specific steps we are taking or plan to take include:

- Monthly spending plans, which most agencies have already submitted and which we are currently analyzing;
- Budget Review Team (BRT) meetings to review spending plans, prioritize capital projects, and set spending targets;
- Reductions to allotments in SOAR based on BRT decisions;
- Expanded capital capabilities within CFO\$ource, including adding capital information to the executive dashboard; and
- Quarterly reporting on capital activity during FY 2005.

## **Conclusion**

OBP and OCFO staff is currently working with the City Administrator and the deputy mayors to develop the Mayor's FY 2006 Budget and Financial Plan, which will be transmitted to the Council on March 21. I look forward to working with the Council and the other policy makers during the consensus process.

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