

**PUBLIC OVERSIGHT ROUNDTABLE ON
CONTRACTING AND PROCUREMENT
IN THE DISTRICT OF COLUMBIA**

**Before the
Committee on Government Operations
Council of the District of Columbia**

The Honorable Vincent B. Orange, Sr., Chairman

**December 19, 2005, 2:00 p.m.
Council Chamber, John A. Wilson Building**



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

Good afternoon, Mr. Chairman and members of the Committee on Government Operations. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia. I am here today with Anthony Pompa, my Deputy Chief Financial Officer for Financial Operations and Systems, to address the city's process for the use of direct vouchers, as well as to clarify recent articles by *The Washington Post* on the District's procurement processes that enable the government to pay for much needed goods and services throughout the District of Columbia.

Direct Vouchers

Before this committee on December 9th, Mr. Pompa explained that the direct voucher is a vehicle that allows the liquidation of a liability for the District in the accounting records (i.e., the System of Accounting and Reporting, or "SOAR"). It is also used when it is a more practical method to pay vendors, rather than by a contract or a purchase order. Acceptable uses for direct vouchers are described in CFO Financial Management and Control Order No. 05-002, updated July 22, 2005. There are 28 exceptions that allow for payment by direct voucher, including:

- Settlements and judgments transactions;
- Payments for court orders;
- Court-ordered fines; and
- Procurements due to emergencies from unanticipated and nonrecurring extraordinary needs, such as natural disasters, a calamity or declared state of emergency.

While the CFO order provides for 28 exceptions, a District agency may also request to use direct vouchers for circumstances that are not specified within the

order. The District CFO has delegated the authority to review and approve or disapprove such agency requests to Mr. Pompa. As the Office of the Chief Financial Officer (OCFO) reviews all agency transactions, if it discovers or suspects misuse of direct vouchers, that agency is stopped immediately from further exercising this tool. The OCFO mandates that agencies are required to fulfill the OCFO's criteria specifically addressing the prudent use of direct vouchers as the most efficient and practical means of payment.

The direct voucher process is intended to provide efficiencies, not to circumvent the normal procurement and payment process for goods and services received by the District government. As you will likely recall, in the past, when the OCFO discovered incorrect uses of direct vouchers, we took immediate steps to ensure that all OCFO staff city-wide were – and continue to be – trained to understand the correct use of direct vouchers. Additionally, the OCFO established a bi-weekly review and control process whereby each agency's use of direct vouchers is monitored, so inquiries or corrective actions can be addressed immediately.

Compliance with the law with respect to payments is not an option. The Chief Financial Officer performs due diligence to ensure that all payments are appropriate, correct, and legal. That said, we recognize that we are not a procurement shop, and we do not have procurement expertise. Our due diligence includes (but is not limited to) reviewing the certifications made by program officials, confirming there is a legal sufficiency certification by counsel (from agency counsel, the Office of Contracting and Procurement, or the Office of the Attorney General), certifying the availability of funds, ensuring a proper contract exists, verifying there is a valid purchase order, and checking to see if the required signatures are in place.

Additionally, we are currently reviewing our processes and procedures with respect to direct vouchers. Beyond the bi-weekly review, we have a working group evaluating the payment process, and identifying whether additional resources are necessary to strengthen our controls and due diligence. We recognize that the procurement process has weaknesses, and, as such, the OCFO will continue to strengthen our due diligence in this area. We believe, however, that the role of the OCFO in addressing deficiencies in the procurement system should not be overemphasized. The goal, after all, is an effective and efficient procurement process – one that does not require additional layers of oversight to correct program deficiencies.

Chairman Orange and others on the Council, I know you would agree with me that the proper expenditure of public funds is a core management responsibility. Accordingly, the District must focus not only on effective management systems and controls, but on improving program performance through management accountability.

Recent Press Coverage

As you are aware, I was quoted in a *Washington Post* article on this subject on November 27, 2005, expressing my displeasure with problems with the overall system and how it, in effect, forces the Office of the Chief Financial Officer to pay bills to ensure that essential city services continue. The OCFO was very accommodating to *The Washington Post* in its investigation of procurement practices in the District of Columbia. We provided more than 14 hours of interviews and many more hours of intense review of the many, many pages of documents given to the *Post*. Nevertheless, the context for my statements and

those of my colleagues at the OCFO is omitted from the article. I very much regret the impression that my statements may have conveyed, and I appear before you today to dispel any inference that we have merely thrown up our hands and gone along with a dysfunctional system.

The OCFO is particularly dismayed by the implications made by the *Post* that the District's fiscal health has led to lax financial management. Whether we're spending \$1 million or \$100 million, we are governed by the same high standards, and we will not allow even the appearance that we are not watching every cent. We have made significant improvements from the days of vendors lined up outside the CFO's door looking for their money, and we are committed to paying the bills on time and with all the proper documentation.

The role of the CFO provides a unique perspective on government programs. OCFO officials operating in the agencies are positioned to alert me to emerging problems, and OCFO internal auditors provide me with an independent review and appraisal of OCFO operations. My approach is to fix the problem if it is within my purview, notify program management if it is their responsibility, and offer assistance where appropriate. We also coordinate closely with D.C government independent oversight entities to ensure that issues are referred to them for audit, investigation or other action.

In recent years, the OCFO has been vigorous in identifying and addressing procurement problems in the government, some of which involved working with the Committee on Government Operations in connection with its oversight role. Some examples are:

- In 2003, we conducted audits of the purchase and travel card programs, recommending specific improvements to these programs and ensuring that indications of improper actions were properly coordinated with the Inspector General. We worked closely with the Committee on Government Operations in this area.
- In 2003, OCFO internal auditors initiated a review of the direct payment process at D.C. Public Schools (DCPS) to evaluate internal controls and determine whether direct payments made were in accordance with applicable District regulations. The audit identified problems, and DCPS management subsequently took corrective action.
- In 2004, my internal auditors reviewed cost overruns of the Administrative Services Modernization Program and the vendor payment process at the Office of the Chief Technology Officer (OCTO) to determine whether there were any violations. As a result of issues we identified, we referred specific information to the Office of the Inspector General, and we also briefed the D.C. Auditor. We also notified the Inspector General in 2005 concerning contract issues relating to OCTO that came to our attention.
- In 2005, OCFO officials became concerned about pricing and billing in connection with the D.C. Net project in OCTO. We intervened in view of the significance of this project, not only in terms of having a negative fiscal impact in future years, but because of its critical impact on the operations of the government and the public. We recommended to senior program officials that they obtain external expertise, and we facilitated obtaining this assistance from key federal agencies with the unique expertise needed to develop and manage

complex information technology projects, including addressing compliance with contractual provisions.

In conclusion, we recognize that there are problems with the procurement system in the D.C. government. Although the principal emphasis must be on improving procurement program performance through management accountability, I am committed to ensuring that we in the OCFO do all we can to be a part of the solution. I have a task force of senior OCFO officials meeting regularly to determine what we in the OCFO can do to strengthen our due diligence in this area. We are also considering other initiatives, such as performing pre- and post-award reviews to prevent problems in significant and costly projects. We have had preliminary discussions with the Office of the Inspector General and the D.C. Auditor, who have expressed interest in exploring this approach. Likewise, I look forward to working with the Committee on Government Operations in its effort to improve the procurement process in the District of Columbia.

I welcome any questions you or other councilmembers may have at this time.

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