

**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

**January 6, 2006, 10:00 a.m.
Council Chamber, John A. Wilson Building**



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

Good morning, 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 along with my Deputy Chief Financial Officer for Financial Operations and Systems, Anthony Pompa, to report on the city's actual experience with direct vouchers in FY 2004. Also with me is Ben Lorigo, the Director of the OCFO's Office of Integrity and Oversight, to discuss the results of audits into travel and purchase cards.

As Mr. Pompa and I indicated in testimony before this committee on December 9 and on December 19, a 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 used to pay vendors when it is not practical to have an obligation established by a contract or a purchase order. Acceptable uses for direct vouchers are defined under CFO Financial Management and Control Order No. 05-002, which was updated July 22, 2005. There are currently 28 specified uses of a direct voucher payment, including, for example:

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

In FY 2004, there were 21 permissible uses for direct vouchers pursuant to the OCFO order. If you look at the raw data from FY 2004, \$446 million (or 15,648 transactions) appear as if they were outside the scope of the CFO order. We have analyzed all 15,648 transactions. The results are presented in the attached table. Very briefly, of the \$4 billion in total non-personal service expenses in FY 2004, only \$4 million – one-tenth of one percent – were paid by direct voucher without complete documentation. This low error rate is a measure of very good performance by the OCFO staff in the agencies.

Our review indicates that essentially all of the invoices contained program officials' approval to pay, thereby signifying that goods and services were actually received by the District for these payments. Admittedly, some lapses in the performance of agency financial personnel were identified through our review. However, the OCFO will continue to take steps to ensure that all OCFO staff is trained in the proper use of direct vouchers citywide. As I said in December, the OCFO has instituted a bi-weekly review and control process, whereby each agency's use of direct vouchers is monitored, and inquiries or corrective actions can be addressed with specific agencies where there appears to be a direct voucher issue. 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.

The direct voucher process is not intended to circumvent the normal District procurement and payment process for goods and services received by the District government, and our analysis shows that it is not used in this way. As I said on December 19, compliance with the law with respect to payments is not an option. It is a requirement. I maintained then that the Chief Financial Officer performs due

diligence to ensure that all payments are appropriate, correct, and legal, and this analysis is confirmation.

One should not lose sight of the days in our not too distant past when vendors would not be paid timely, if paid at all, without the benefit of a court order. Because of this problem, many suppliers would not do business with the District government. I believe prompt payment of vendors is critical and must not be adversely affected or impeded by any internal problems such as breakdowns in communications between agencies or systems of the District. However, the OCFO will not make payment where such payments would be in violation of applicable laws and regulations.

Sound financial management and controls are of paramount importance. We will not compromise in this area. I believe that the District performs exceedingly well in this area. For evidence of this, one needs to look no further than at the reports of the independent auditors over the past 6 or 7 years. Findings of material weaknesses and reportable conditions in the internal control structure have virtually been eliminated. The number of findings in the auditors' management letters over that same time frame has been reduced significantly. Our goal is to further reduce or eliminate these findings. This admittedly is an ambitious goal, when one considers the structural, operational and financial complexities of the District. Despite the significant challenges, this will continue to be our goal.

I am committed to ensuring that we in the OCFO do all we can to be part of the solution. I welcome any questions you or other councilmembers may have at this time.

Analysis of FY 2004 Use of Direct Vouchers			Dollars (millions)	Number of Transactions			Percent of Total NPS Dollars Number	
1	Total Non Personal Services (NPS) expenses in FY 2004		\$3,997	128,371				
2	Total payments by direct vouchers in FY 2004		\$556	21,199			13.9%	16.5%
3	Of total payments by direct vouchers (line 2), it would appear from the raw data in the system that \$446M were not authorized because they were outside the list of 21 explicitly approved uses of direct vouchers specified in the CFO order in FY 2004.		\$446	15,648			11.2%	12.2%
ANALYSIS OF \$446 MILLION					Percent of DVs outside list of 21 uses specified in FY 2004 (line 3)			
					Dollars	Number		
4	Adjustment to line 3: The order was updated in 2005 because the previous order was found to be insufficient to cover all the circumstances where a direct voucher would be necessary and appropriate; the specific uses on the list was increased from 21 to 28. Thus, the \$446M can be reasonably reduced by a total of \$217M.		(\$217)	(11,052)	48.7%	70.6%	5.4%	8.6%
5	Subtotal: Of total payments by direct vouchers in FY 2004 (line 3), those outside the list of 28 explicitly approved uses specified in the 2005 order.		\$229	4,596	51.3%	29.4%	5.7%	3.6%
6	Review of supporting documentation shows that, for \$32M of payments, contracts and purchase orders were in place.		(\$32)	(978)	7.2%	6.3%	0.8%	0.8%
7	Rents, utilities, stipends		(\$188)	(2,666)	42.2%	17.0%	4.7%	2.1%
8	Reclassification		(\$5)	(491)	1.1%	3.1%	0.1%	0.4%
9	Remaining: The direct voucher payments in FY 2004 that fell outside the intent of the order as revised in FY 2005.		\$4	461	0.9%	2.9%	0.1%	0.4%