

**PUBLIC OVERSIGHT HEARING ON
THE FISCAL YEAR 2013 AND 2014
SPENDING AND PERFORMANCE BY
THE OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)**

Before the
**Committee on Finance and Revenue
Council of the District of Columbia**

**The Honorable Jack Evans, Chairman
February 27, 2014 10:00 a.m.
John A. Wilson Building
Room 500**



**Testimony of
Bert Molina
Deputy Chief Financial Officer
Office of Financial Operations and Systems**

**Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia**

Good morning Chairman Evans and members of the committee. My name is Bert Molina and I am the Deputy Chief Financial Officer for Financial Operations and Systems (OFOS). I am pleased to be here today to present testimony on the spending and performance of the Office of Financial Operations and Systems for fiscal year (FY) 2013 and the first five months of FY 2014.

The Office of Financial Operations and Systems is responsible for maintaining accountability, fiscal discipline, and effective internal controls throughout the District's financial operations. OFOS also processes payroll for District employees and annuity payrolls for certain federal annuitants. To fulfill these responsibilities, OFOS is divided into two functional areas: the Controller's Office and the Office of Pay and Retirement Services.

FY 2013 ACCOMPLISHMENTS

I would like to take this opportunity to share some of the key accomplishments made by OFOS during FY 2013.

A. Controller's Office

General Ledger Maintenance

Of all the functions performed by OFOS, maintaining the District's general ledger (commonly referred to as the District's "books") is perhaps the most important because it establishes the foundation for so many other accounting, reporting, and financial management activities. Accurate and reliable financial data is needed to prepare revenue estimates, develop operating and capital budgets, analyze financial trends, prepare accurate and timely financial statements, and maintain strong bond ratings and

thus, the confidence of Wall Street. The District's Comprehensive Annual Financial Report (CAFR) simply could not be prepared timely with a clean audit opinion without proper maintenance of the general ledger.

Two divisions within OFOS are responsible for maintaining the District's general ledger: Accounting Operations and Financial Control and Reporting. The Accounting Operations Division analyzes certain general ledger account balances for accuracy and reasonableness and works with the appropriate agencies to make adjustments as needed. This Division also prepares monthly cash and investment account reconciliations; monitors the management of certain clearing accounts; maintains the vendor database; and prepares payroll tax filings.

The Financial Control and Reporting Division advises agency financial staff on the appropriate accounting treatment to be applied when recording transactions in the financial system. This Division also: analyzes account balances (such as current liabilities, general revenues, reimbursable revenues, Intradistrict balances, etc.) throughout the fiscal year and works with agency financial staff to prepare and post needed adjustments in the financial system. The Financial Control and Reporting Division also manages the interim and annual closing processes.

I am proud to report today that the efforts made by OFOS, in conjunction with those of agency financial staff across the District, to properly maintain the District's books during FY 2013 were effective, as evidenced by the favorable outcome of the District's annual financial audit and the timely issuance of the FY 2013 CAFR. Also of noteworthy significance is the fact that there were no *material* audit findings related to general ledger maintenance or the accuracy of account balances.

Annual Financial Reporting

Although the CAFR cannot be prepared without the hard work and collective efforts of the District's program and financial staff as well as the independent auditors, the primary responsibility for compiling data and preparing the CAFR for issuance rests with OFOS's Financial Control and Reporting Division. I am pleased to report that the FY 2013 CAFR was issued before the legally mandated February 1 deadline and the independent auditors, KPMG, LLP, issued a clean audit opinion on the District's financial statements for that year.

These achievements are significant because the District's CAFR is prepared internally by OFOS staff during a four-month period between October and January each year, while most jurisdictions take six months or longer to prepare their CAFRs, often using resources that are external to the government. Completing the District's audit on time with a clean opinion is a complicated undertaking given the complexity of the District's operations and its financial reporting entity.

I am pleased to report that despite the complex nature of the District's financial operations, we were able to timely prepare and issue a CAFR that is of the highest quality. I am also happy to report that the District was again awarded the prestigious *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association (GFOA) for its FY 2012 CAFR. The District of Columbia has received this award for 29 of the last 30 years. As in prior years, the District's FY 2013 CAFR will be submitted to the GFOA for review and consideration for this prestigious award. I am confident that it will also meet the GFOA's standards of excellence in financial reporting.

Remediation of Findings

As in the prior year, the FY 2013 Yellow Book Report did not present any material

weaknesses. However, the independent auditors reported significant deficiencies in four areas: general information technology controls, procurement and disbursement controls, financial reporting for capital assets, and financial reporting for cash and investments in the FY 2013 report.

The methodology used during recent years to review and resolve Yellow Book findings has proven to be effective. Our approach involves a comprehensive analysis of each finding and the development of detailed corrective action plans by subject matter experts (SMEs) at the affected agencies. An OFOS liaison works with the designated agency personnel to analyze the reported findings; however, each Agency SME is responsible for developing the necessary corrective actions and ensuring that such actions are implemented. OFOS's goal in spear-heading the remediation effort is to ensure that the necessary steps are taken to prevent the recurrence of reported findings. As planned actions are completed, auditors from the Office of Integrity and Oversight (OIO) will perform the procedures to confirm that planned corrective actions have been fully implemented. To further enhance the effectiveness of the remediation process, a Yellow Book Oversight Committee, comprised of OFOS liaisons, Agency SMEs, and OIO internal auditors, will meet periodically throughout the remediation process to monitor progress of remediation efforts and enforce measures needed to ensure the timely implementation of planned corrective actions. OFOS will alert key OCFO managers, Council representatives, and the Office of the City Administrator (OCA) whenever issues arise which may threaten the successful remediation of findings.

We are confident that through the joint efforts of the OCFO, the OCA, and the agencies, the District will be able to adequately address the deficiencies reported by the auditors in the FY 2013 Yellow Book report. I would like to add that recruitment is currently underway to fill several Accountant positions within OFOS. These positions will be available to assist in the remediation of reported deficiencies, particularly in the area of

Capital Assets Reporting.

SOAR Replacement

The District's current financial system, the System of Accounting and Reporting (SOAR), was implemented more than 12 years ago and is based on technology that is more than 20 years old, which has become obsolete. For that reason, The DCSRPP will replace the District's current financial system and budget formulation system. The project is currently involved in go-forward and readiness planning activities. A District-wide requirement gathering and validation effort led by OFOS and the Office of Budget and Planning (OBP) on the functional side and the Office of the Chief Information Officer (OCIO) on the technical/non-functional side was completed in early December. In January 2014, the Quality Assurance Independent Verification and Validation contractor conducted an independent review of the complete requirement set along with the project plan timetables. As requirements are the foundation of any system implementation, the District aims to present potential integrators with a set that is complete, clear and concise, verifiable, viable, traceable, and utilizes consistent language/terms. We are also reviewing our plans for project support to ensure that sufficient subject matter expert resources are devoted to the project while maintaining ongoing operations.

The CFO is conducting comprehensive reviews of all IT implementations to ensure readiness and appropriate timing. This includes current funding and staffing levels, licensing, change management and other necessary elements for a successful implementation.

While the replacement effort proceeds, steps have also been taken to ensure necessary upgrades to the existing SOAR (System of Accounting and Reporting) and Budget Formulation Application systems are made.

Policies and Procedures

Written policies and procedures are important elements of a well-designed and effective system of internal controls because they serve as the basis for standardizing business practices and ensuring consistency in operations. In addition, the development of policies and procedures provides management with the opportunity to establish processes and workflows needed to address potential risks.

Over the last several years, significant progress has been made with respect to the District's accounting policies and procedures. OFOS's Accounting Policies and Procedures Division continues to work with agencies to ensure that the District-wide financial policies and procedures manual as well as the manuals for each cluster and central agency are "up-to-date" and reflect the District's current business practices. OFOS also completes quality assurance reviews of the manuals on an on-going basis and revises them, as appropriate, to incorporate current best practices for state and local governments.

Office of Pay and Retirement Services

The Office of Pay and Retirement Services (OPRS) administers the District's payroll systems for all active District employees and the retirement system for the United States Secret Service and the United States Park Police. During FY 2013, OPRS processed two biweekly and one semi-monthly payrolls for approximately 32,000 employees and one monthly annuity payroll for approximately 3,800 federal annuitants. These payrolls were processed using two different payroll systems, the PeopleSoft Payroll System for active employees and the Pension Automated Payroll System (PAPS) for Federal Annuitants. With the assistance of the Office of the Chief Technology Officer's (OCTO) PeopleSoft support team, OPRS implemented the new PeopleSoft Pension Payroll System for all federal annuitants. On October 1, 2013, the federal annuitants

received their first pension payments from the PeopleSoft system, replacing the legacy PAPS system.

OPRS continued to implement enhanced capabilities through PeopleSoft through the Employee Self Service System (ESS). Employees can log into the PeopleSoft system from any computer with Internet connection to view and print current and prior pay period earning statements; enter time worked (which still must be approved by their supervisor); and print their W-2 Wage and Tax Statement for the most recent calendar year (2013) and the last three years. The ESS features allow employees to perform a variety of actions such as start/stop/change allotments; change withholdings for Federal and State taxes; designate dollar amounts for contribution to the District's 457 Deferred Compensation Plan; change their home address and update other personal information regarding self and/or dependents.

FY 2014 DEVELOPMENTS AND GOALS

A. Policies and Procedures

OFOS's Policies and Procedures Division will continue to seek ways to improve the process for ensuring the continuous update of the OCFO's financial policies and procedures manuals. The Policies and Procedures Division will also identify and implement innovative approaches for disseminating information to agency financial staff on new accounting standards and practices, as deemed appropriate and necessary. The Division will also determine the most feasible approach for establishing and conducting training on critical processes as documented in the policies and procedures manuals.

B. Monthly and Interim Closes

Throughout FY 2014, as part of OFOS's on-going internal operational assessment process, we will continue to identify opportunities to improve overall operations. In so

doing, OFOS will continue to require monthly closes, and interim closes will be conducted at the end of March and June 2014. Furthermore, we will seek ways to further enhance the interim closing process each time it is conducted, placing particular emphasis on areas that have been susceptible to increased audit scrutiny and/or are reported as Yellow Book findings. OFOS will continue to closely monitor the overall monthly and quarterly closing activities to proactively identify and address problem areas before year-end.

C. Office of Pay and Retirement Services

As we move forward in FY 2014, OPRS and staff in the D.C. Department of Human Resources (DCHR) and the Office of the Chief Technology Officer (OCTO) continue to closely work together to enhance customer service and user experience with the PeopleSoft Payroll System.

In coordination with DCHR staff and OCTO's PeopleSoft support team, we are in the initial stages of a major upgrade to the PeopleSoft system. This upgrade is projected to be completed in June - July 2015. It will provide users with more enhanced system features. Additionally, OPRS, along with OCTO PeopleSoft Support, continue to work with District agencies for improvement in the automated interfaces into PeopleSoft as required. OPRS is moving forward to improve features of the just completed PeopleSoft Pension Payroll System, to provide the federal annuitants with a web site to allow them to review and update personal information changes, as well as make benefit changes online during the annual open enrollment season. OPRS expects to have this completed by the end of FY 2014.

Mr. Chairman, this concludes my formal testimony. I would be happy to answer any questions you may have at this time. Thank you.