Public Oversight Roundtable on

Budget Execution and Agency Overspending

Before the Committee of the Whole

Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

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Room 412, John A. Wilson Building

Testimony of Glen Lee

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Good afternoon, Chairman Mendelson and members of the Committee of the Whole. I am Glen Lee, Chief Financial Officer of the District of Columbia. I appreciate the opportunity to appear before the Committee. I look forward to discussing today how our team at the Office of the Chief Financial Officer (OCFO) can further support the District Council in conducting its fiscal oversight responsibilities. With me today are OCFO Deputy CFO and Budget Director Eric Cannady and General Counsel David Tseng.

INTRODUCTION

My testimony will first focus on our collective budget execution processes. I will conclude with some thoughts on fiscal oversight.

Before I start, I want to thank my team at the OCFO for their hard work and dedication. In particular, I would like to thank the Office of Budget and Planning (OBP), the Office of Revenue Analysis, Associate Chief Financial Officers, Agency Fiscal Officers (AFOs), and all staff that work tirelessly to deliver and help maintain balanced budgets, strong bond ratings, and annual clean audits. I would also like to thank the Mayor's budget team, as well as the Council's Budget Office, for their collaboration in the often-arduous task of producing and maintaining balanced budgets year in and year out.

Approved Budgets

The Council appropriates resources for District expenditure in the annual Local Budget Act and supplemental local budget acts. Generally, the District's local budget appropriations acts set the topline and agency appropriation amounts by fund type, along with various provisions directing the use of those funds as detailed by the District's policy makers. Working collaboratively with Council and Mayoral budget staffs, OBP produces a multi-volume set of budget books that supplement the Council's approved Local Budget Act to provide guidance at a granular level for implementation of the approved budget. However, the budget is not a static document and, from time to time, may need adjustment to reflect unexpected needs or revenue fluctuations. One way the District addresses these circumstances is through a supplemental budget which changes appropriations for the current fiscal year. Historically, drivers for these supplemental requests largely fall into three categories: 1) unanticipated changes in the use or demand for existing programs, 2) changes in the costs of personnel, goods, or services not contemplated in the approved

budget, and 3) the introduction of new programs or services during the current year that are not included in the approved budget.

The District Anti-Deficiency Act (ADA)

The District Anti-Deficiency Act (ADA) provides critical institutional guardrails for managing the District's budget execution. The ADA provides a variety of rules that essentially prohibit agency managers from spending in excess of appropriations established by Council.

In addition to these rules, the ADA requires agency managers and their AFOs to develop monthly spending plans based on the approved budget. These plans are developed at the start of the fiscal year for virtually all District agencies.

The monthly plans form the basis of the District's quarterly expenditure reporting processes, required by the ADA, known as the Financial Review Process (FRP). The monthly plans also serve as the basis for OCFO's apportionment of agency budgets within the District's financial system. An apportionment is a division of an agency's appropriated budget authority by program and activity by period within a fiscal year. Both quarterly expenditure reporting and the OCFO's apportioning of the budget are mandated by the ADA. These processes provide the baseline ecosystem for budgetary monitoring and control in District government.

Monitoring the District's budgets with the FRP

Whether mandated by the ADA or not, the size and complexity of the District's budget makes monitoring budget execution an on-going necessity in order for the OCFO and the Executive to identify and correct overspending trends. The primary tool used to monitor budget execution is the FRP. FRP reports and supporting materials are completed at the end of the first, second and third quarters of the fiscal year.

FRP assessments are developed by agency staff and AFOs. AFOs support the development of these assessments by validating financial data, spending projections and assumptions made by program staff members.

Once completed and signed by the AFO and agency head, FRP assessments are then submitted to OBP for review and approval. While OBP's review of assessments is comprehensive, particular attention is paid to spending pressures. Specifically, OBP collaborates with the AFO to ensure that the gap-closing plan developed by agency program staff ensures spending does not

exceed expectations. Over the past three years, OBP and the AFOs have focused on improving gap-closing plans so that they provide detailed insight into the proposed approach to resolving spending pressures.

An important component of the FRP process is convening Spending Pressure Task Force meetings for the purpose of developing and vetting strategies that mitigate spending pressures. Participants include OBP staff, members of the Mayor's Office of Budget and Performance Management, AFOs, and Associate Chief Financial Officers. Completed FRPs are submitted on a quarterly basis to the Council.

Reprogrammings

Reprogramming is one tool used to make necessary changes to the budget throughout the year and aids in preventing ADA violations. A reprogramming permits a budget modification at a more granular level than that provided in the Council's annual appropriation, by allowing for the reallocation of spending authority to address either unforeseen developments or changes to spending identified subsequent to the approval of the budget.

Reprogrammings are submitted by the Mayor to the Council for review and approval. My office's role with respect to reprogramming is to verify that the reprogramming will not have an adverse impact on an agency's budget or the District's financial plan, and that it does not violate other restrictions imposed by law. Once the OCFO verifies that these two criteria are met, a reprogramming is then sent to the Council for approval. Due to the level of detail required by the reprogramming law, my office spends a significant amount of time analyzing and processing each reprogramming request.

Generally, reprogrammings constitute a small share of the District's budget. For example, operating budget reprogrammings between agencies constitute approximately one percent of the overall approved budget per year.

The reprogramming law and the ADA work together to support budget execution and management. The ADA prohibits spending more than is available in an agency budget, but reprogrammings are permitted after the appropriation of the annual budget and any supplemental budget. Agencies are prohibited from overspending greater than 5% of an agency budget. With

notice to stakeholders, however, a reprogramming can be requested to make an offsetting change to budget authority.

As I have described, the District's budget execution processes include multiple activities executed by staff from OCFO, the Executive, and Council. My team alone commits thousands of staff hours to these processes. Our efforts range from working with agency managers to mitigate spending pressures, to assisting agency staff create reprogramming requests and the proposed supplemental budget. Collectively, this work ensures that the District doesn't spend more than what the Council appropriates.

My colleagues and I believe strongly that robust fiscal oversight by the Legislative branch is essential to this process; it is the cornerstone of our democracy. Fiscal oversight is an opportunity to evaluate if public resources are being used in a way that achieves the goals of policymakers at a reasonable and predictable cost. Such oversight also serves to enhance transparency for elected leaders and the public, which is especially important during these challenging economic times.

Whether during budget hearings or at other times in the year, I think the Council can provide critical oversight by assessing whether programs are providing adequate benefits given their costs. To that end, the OCFO staff, in collaboration with agency partners, will continue to gather information and consider which areas of inquiry may best serve the Council's assessment efforts.

In addition, our team is available and stands ready to engage with you, Chairman Mendelson, and each committee chair throughout the year to review agency spending in advance of, and subsequent to, the publication of FRPs. We can work, alongside agency staff, with committee chairs to determine what information can be helpful with their oversight and is supported by the reporting we already provide to the Council.

Mr. Chairman, thank you for the opportunity to testify. I look forward to answering any questions you and the Committee members may have.