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DISTRICT OF COLUMBIA

Oversight in the Post-Control Board Period

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GAO-01-845T

Madam Chairwoman, Mr. Chairman, and Members of the Subcommittees:

I am pleased to be here today to discuss issues relating to the suspension of the activities of the District of Columbia Financial Responsibility and Management Assistance Authority (Authority). As agreed with the Subcommittees, my comments this morning will cover three topics. First, I will highlight the central elements in the District's financial recovery since 1995 and the continuing long-term challenges it faces. Second, I will discuss some of the new reporting requirements that Congress has put in place since 1995 to assist it in oversight and decision-making regarding the District. Finally, as requested, I'll identify some additional mechanisms that Congress may wish to consider to ensure that it and the District have the information needed to help the District maintain its financial viability.

In response to the District's severe financial crisis, Congress passed the District of Columbia Financial Responsibility and Management Assistance Act (commonly known as the Financial Responsibility Act) in April 1995.[1] The Financial Responsibility Act established the Authority to assist the District in restoring financial solvency and improving management effectiveness during a "control period." The Financial Responsibility Act also established an independent Office of the Chief Financial Officer (CFO) within the District government. The CFO was given responsibility for all financial offices of the District (budget, controller, treasurer, finance, and revenue). During a control period, the CFO is nominated by the Mayor and appointed by the Authority. The act also revised the Office of the Inspector General's (OIG) powers and responsibilities and provided that the Inspector General (IG) be appointed to a 6-year term by the Mayor and approved by the Authority, during a control period. In 1997, Congress passed the National Capital Revitalization and Self-Government Improvement Act (Revitalization Act), which provided key structural changes to the District's finances, including the federal government's assumption of the District's unfunded pension liabilities and a larger share of the District's Medicaid expenditures.

As you know, the Authority has certified that the relevant provisions of the law have been met and, on September 30, 2001, the control period will end and the Authority will suspend its activities. The relevant provisions include the following: all borrowings by and on behalf of the District of Columbia from the U.S. Treasury have been repaid; the District has

[1]Public Law No. 104-8, 109 Stat. 97 (April 17, 1995).

obtained access to both short-term and long-term credit markets at reasonable rates to meet its borrowing needs; and the District has balanced its budget for 4 consecutive fiscal years in accordance with generally accepted accounting principles (GAAP) based on the Comprehensive Annual Financial Report (CAFR) for the District.[2]

The District's outstanding return to financial health is the direct product of the combined, cooperative efforts of the District and its elected and appointed leadership, the Authority, and Congress. It in no way minimizes this remarkable achievement to note, however, that the District, similar to many other cities, continues to face a series of substantial, long-term challenges to its financial viability. Addressing these challenges requires continued dedicated and inspired leadership to make the hard decisions and often painful trade-offs among equally compelling needs and priorities. Sound financial and program cost and performance information is and will be critical to making these decisions in an economical, efficient, and effective manner.

Toward that end, the District must ensure that its new financial management system is effectively implemented and provides decisionmakers with reliable and timely data. In addition, since 1995 Congress has put in place a number reporting requirements to help provide the financial, planning, and performance information that it needs to conduct effective oversight and make decisions. Congress may wish to consider additional mechanisms to ensure that it and the District have the information needed to help the District maintain its financial viability and address its current and emerging challenges. Such mechanisms must be considered and implemented within a context that seeks to balance two sets of values: the overriding importance of Home Rule and respect for the District's democratic institutions on the one hand and Congress' oversight and decision-making responsibilities for the nation's capital on the other.

My comments today are based on our reviews of the District's Comprehensive Annual Financial Reports for fiscal years 1990 through 2000 and related financial management reports and documents issued by the District CFO, the IG, and the Authority; our recent work on the District's financial management system and performance planning and

[2]A fourth provision, that all obligations arising from the Authority's issuance of bonds, notes, or other obligations be discharged, was not relevant since the Authority never had to issue its own bonds, notes, or other obligations; thus, there were no such obligations to discharge.

reporting efforts;[3] and our discussions with the Deputy Mayor/City Administrator, the D.C. Council Budget Director and other representatives of the District Council, the CFO and other officials in the Office of the CFO, the IG and other officials in the OIG, and officials from other states and cities that have experienced local government fiscal crises and recoveries, including officials from the Miami Financial Emergency Oversight Board and Florida Auditor General's Office, the Office of the New York State Comptroller, and the Ohio State Auditor.

The District's Financial Recovery and Continuing Challenges

In 1995, the District of Columbia faced the worst financial crisis in its history. Unable to pay its employees or its contractors, the District was running a significant operating deficit, carrying a large accumulated deficit, and relying on the U.S. Treasury for help in funding its operations. The District's ordinary services, such as motor vehicle inspections and building permits, were difficult to obtain, and the District could not sell its bonds at market rates. In short, as we testified in February 1995, the District was without the cash to pay its bills.

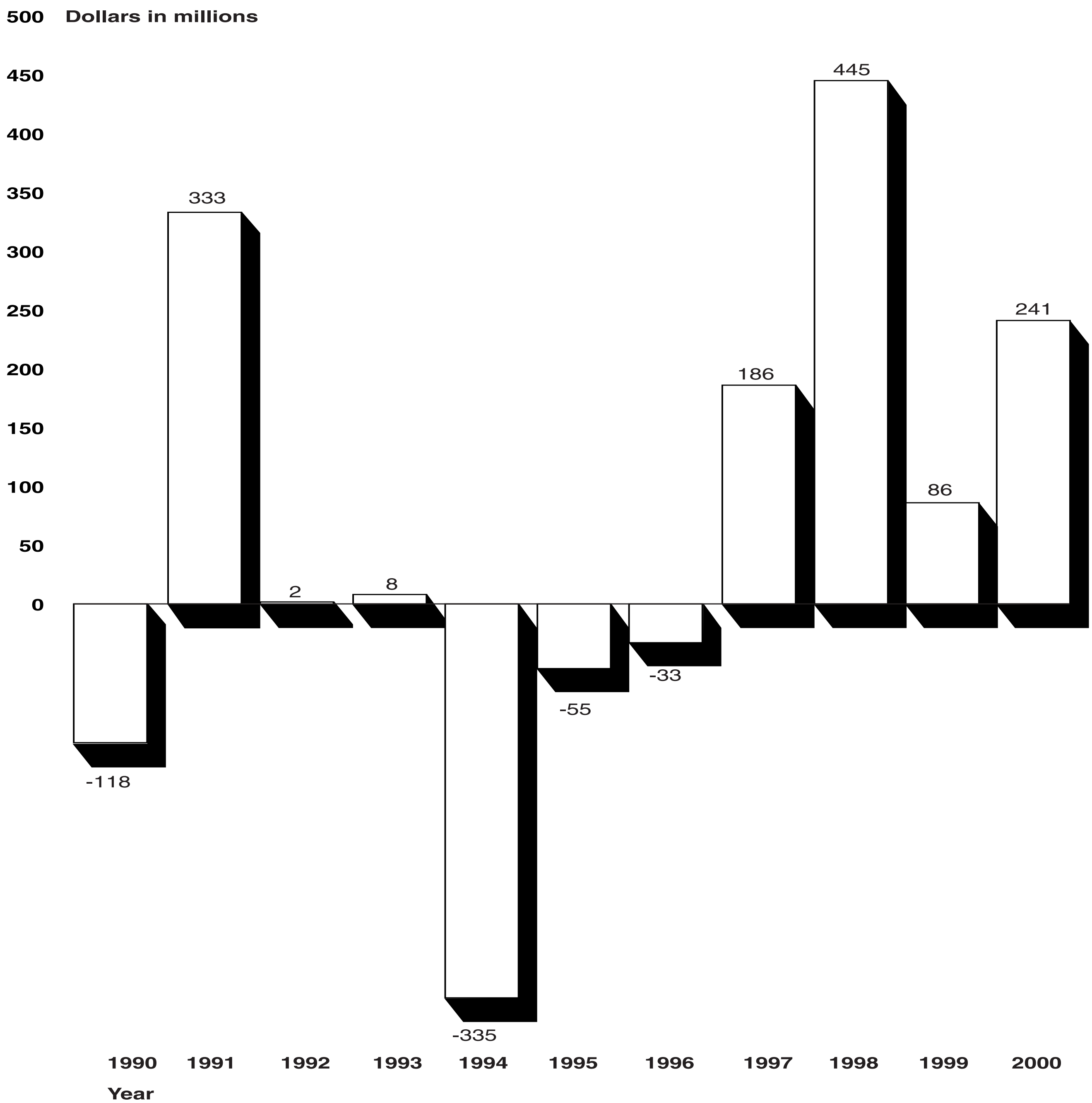
Since then, aided by a strong local economy and through the combined and cooperative efforts of the Authority, the District government, Congress, and the citizens of the District, the District has experienced a remarkable turnaround in its financial condition. For example, in fiscal year 1996, the District ended the year with a $33 million operating deficit and a $518 million accumulated deficit. In contrast, for fiscal years 1997, 1998, 1999, and 2000, the District generated operating surpluses. The District has eliminated its accumulated deficit and at the end of fiscal year 2000 had a positive fund balance of over $465 million—a turnaround of almost a billion dollars from its accumulated deficit in September 1996.

As shown in figure 1, in looking at the trends in the District's general fund balance from 1990 through 2000, its financial situation has improved remarkably since fiscal year 1997. Prior to fiscal year 1997, the District had experienced operating deficits in 4 out of 7 years, and the surplus in 1991 reflected a one-time sale of $331 million of "deficit reduction bonds" that were designed to eliminate the District's accumulated deficit at the time. In addition, the surplus it showed in 1993 included a "windfall" of $173

[3] *District of Columbia: Weaknesses in Financial Management System Implementation* (GAO-01-489, April 30, 2001), and *District of Columbia: Observations on Management Issues* (GAO-01-743T, May 16, 2001).

million in real estate taxes due to a change in the tax year—recognizing 15 months' worth of taxes in a 12-month period. These transactions masked the financial crisis that was brewing in the District. In 1994, the District's financial crisis became apparent, and the District experienced 3 consecutive years of significant operating deficits. Once the District's financial situation began to turn around in 1997, the District reported an operating surplus of $186 million. Currently, the District has achieved its fourth consecutive balanced budget, showing a $241 million surplus for fiscal year 2000—a major achievement for a city that had been struggling to recover from financial difficulties for years. The District expects this trend to continue through 2001 with a projected surplus of $65 million.

Figure 1: The District's General Fund Annual and Accumulated Surplus /(Deficit) for Fiscal Years 1990 Through 2000.



Source: District of Columbia Comprehensive Annual Financial Reports, Fiscal Years 1990-2000.

Bond Ratings

During 1995, the District's general obligation (GO) bond ratings were lowered by Standard and Poor's Corporation, Moody's Investors Service, and Fitch IBCA to levels that were considered to be below investment grade. The bond ratings were lowered because of the District's financial deterioration and its lack of a short- or long-term plan for resolving its budget problems. In 1998, after the District's financial situation had turned around, all three rating agencies began to increase the rating on the District's GO bonds, a trend that has continued through the most recent bond ratings. In February 2001, Standard and Poor's upgraded the District's bond rating from BBB to BBB+, citing the District's improved financial operations due to substantial operating surpluses and its enhanced debt position. In March of this year, Moody's also upgraded the District's bond rating from Baa3 to Baa1, citing, among other things, the District's fourth consecutive budget surplus in fiscal year 2000. Also in March 2001, Fitch IBCA upgraded the District's bond rating from BBB to BBB+ because of the District's positive financial performance and strengthening economic indicators.

Audit Opinions

The District was unable to achieve unqualified, or "clean," opinions on its fiscal years 1995 and 1996 financial statements and received qualified opinions.[4] The reasons for the qualified opinions included the District's inability to provide evidence to support business tax receivables and credit balances in the tens of millions of dollars and the related impact on revenues, expenditures, and fund balances as a result of business system inadequacies. The auditors also cautioned that the District experienced increases in its accumulated deficit and declines in its pooled cash. Then, in fiscal year 1997, the District began to turn its financial reporting around and was able to receive a clean opinion on its financial statements. The District continued its recovery and, most recently, in fiscal year 2000, also received a clean opinion on its financial statements.

Continuing Challenges

While the District has made significant progress over the last 6 years, it still faces short- and long-term challenges to its financial situation. For example, the District's current projection for its fiscal year 2001 surplus is approximately $65 million. This represents a fairly tight financial margin

[4] A qualified opinion means that the financial statements are presented in conformity with generally accepted accounting principles, with the exception of any issues(s) identified in the opinion.

for a budget of approximately $4.9 billion. In order to ensure that the District does not experience unexpected deficits, constant monitoring of actual revenues and expenditures is needed throughout the year. As budget pressures are identified, the District needs to take quick, decisive actions in order to address the budget pressures and avoid running deficits. Over the longer term, as Authority Chair Rivlin noted in her February 14, 2001, statement,[5] significant challenges still facing the District are securing its financial future for the longer run and addressing the structural imbalance of a jurisdiction caught between the need for greatly improving services and a narrow tax base. Moreover, the bond rating companies also have issued cautions about future factors that could affect the District. For instance, Moody's cautions that the District could be vulnerable in two areas: (1) potential costs and obstacles to improving the quality and efficiency of public services and (2) whether elected officials will have the ability and will to produce results to continue to build stakeholder confidence. Standards and Poor's cautions that financial pressures will come from the District's limited revenue flexibility, significant amount of capital needs, and risks associated with the District's unique economic profile. Fitch cautions that the District still faces challenges including a high debt load, funding of health care, and deferred capital and operating needs, in addition to the possibility of an economic downturn, which is beginning to be felt in other parts of the country.

A sound financial management system is critical in helping the District address the continuing pressures that it faces. As we noted in our April 30, 2001 report[6] and our May 16, 2001, testimony,[7] the District continues to face significant challenges in its efforts to put in place a financial management framework that ensures timely and reliable financial data on the cost of the District's operations. Almost 4 years after the District's acquisition of its core financial management system, that system and related elements are in various stages of implementation. The current mix of components involves duplication of effort and, in some cases, requires cumbersome manual processing. As a result, the system does not produce certain types of financial information on a timely and reliable basis, such as the cost of services at the program level. In our report, we made several

[5]Statement of Alice M. Rivlin, Chair, Authority, February 14, 2001.

[6]*District of Columbia: Weaknesses in Financial Management System Implementation* (GAO-01-489, April 30, 2001).

[7]*District of Columbia: Observations on Management Issues* (GAO-01-743T, May 16, 2001).

recommendations related to the District's completion of its financial management system implementation and the District's need to ensure that the system effectively and efficiently meets the District's information requirements. We are pleased that the CFO and other District leaders are already taking action on some of our recommendations and plan to implement the recommendations remaining from our prior reports.

It is also important to note that the District has internal control weaknesses that were identified by its independent auditor during the course of its annual financial statement audits. The weaknesses reported by the District's independent auditor as a result of its 2000 audit include issues related to reconciliation of bank accounts and cash management, accounting for payroll transactions, transaction processing for the Public Benefit Corporation and the University of the District of Columbia, lack of timely entry of transactions into the District's core general ledger System of Accounting and Reporting (SOAR), failure to monitor expenditures against open procurements, accounting and reporting for intra-District transactions, and timely reporting of budgetary revisions. Similar to its response to our report, the District has shown a commitment to addressing these problems and is taking action accordingly.

Congress Has Established Requirements for Financial and Performance Reporting to Aid Its Oversight and Decision-making

At the time of the District's financial crisis, concerns were raised that Congress did not have the oversight mechanisms in place and the information it needed to identify the nature and scope of the District's problems before they became a full-blown crisis and to help the District respond effectively to those problems. Since then, Congress has added new reporting requirements that, if effectively implemented, could provide Congress with critical financial and performance information to help Congress in its oversight and decision-making. We believe that two of the requirements in place may be especially helpful in providing information and perspective that Congress needs to make decisions.

- Since 1997, the CFO has been required to submit a quarterly report to Congress on the District's financial and budgetary status. This quarterly financial report, which must be submitted no later than 15 days after the end of each calendar quarter, is to contain a comparison between the actual and forecasted cash receipts and disbursements for each month of the quarter. Within the report, the CFO is required to explain any differences between the actual and forecasted cash amounts, any changes that would need to be made to the remaining months' cash forecasts, any impact these changes would have on the budget or supplemental budget request, or if these changes would necessitate any reduction in any agency's expenditures. Provided that this financial information is timely, reliable, and objective, this quarterly financial report could be useful to Congress and others in monitoring the District's financial condition.

- Since 1998, the Mayor has been required to develop and submit to Congress a performance accountability plan for each fiscal year, including a statement of measurable, objective performance goals for all of the District's significant activities. After each fiscal year, the Mayor is to develop and submit a performance report that includes (1) the level of performance achieved in relation to each of the goals in the performance plan, (2) the title of the management employee most directly responsible for achieving each goal and the title of the employee's immediate supervisor or superior, and (3) the status of any applicable court orders and the steps taken to comply with such orders. This law's general approach of establishing performance goals and reporting on performance is similar to the requirements for executive branch federal agencies under the Government Performance and Results Act of 1993.

  In reviewing the District's fiscal year 2000 performance report, we found that performance management remains very much a work in progress for the District, and the performance report reflects that fact. The District's goals and measures were in a state of flux during fiscal year 2000, changing as the District introduced new plans, goals, and measures into its performance management process. These changes were part of its ongoing efforts to further develop and improve the performance management process. Nevertheless, these significant and continuing revisions to the District's performance goals limit the usefulness of the performance report for oversight, transparency, accountability, and decision-making. District officials recognize that much work remains in its goal setting, performance measurement, and accountability efforts, and they have important initiatives under way. For example, the Deputy Mayor/City Administrator recently outlined the District's performance-based budgeting initiative that, if effectively implemented, should help improve the transparency and accountability of District agencies by clearly showing the relationship among dollars spent and activities undertaken and services provided.

In addition to these two requirements, there are other permanent and temporary reporting requirements that are intended to provide Congress with specific information regarding the state of the District's finances.[8]

[8]Public Law No. 106-522, 114 Stat. 2440 (November 22, 2000).

(See appendix I for a sample of these reporting requirements, most of which were included in the 2001 D.C. Appropriations Act.)

Options for Additional Mechanisms to Ensure That Congress and the District Have Needed Information

While the reporting requirements enacted since 1995 are to provide Congress with important information and perspective on the financial condition, plans, and program performance of the District—information that was sorely lacking in the past—Congress may wish to consider the need for additional mechanisms to help it and the District ensure that they have the information needed to help the District maintain its financial viability. One option that Congress may wish to consider is requiring the District to notify it if certain predefined "reportable events" occur that require the prompt attention of Congress and the District to ensure that financial viability is maintained. Under the Financial Responsibility Act, an Authority could be reestablished if any number of a specific set of major events occur, such as the District's default on any loans, bonds, notes, or other forms of borrowing or the District's failure to meet its payroll for any pay period. The major events that could lead to the reestablishment of the Authority are clearly to be avoided at nearly all costs. But to do so, Congress and the District need pertinent information in time to act before a crisis occurs that would necessitate the return of the Authority. A reportable event notification system could be designed to provide just such information and include some or all of the following types of information:

- cash flow pressures that show—
  - projected difficulties in meeting any of the District's financial responsibilities, including debt service, payroll, pension payments, payments under interstate agreements, or any other financial obligations of the District;
  - projected difficulties in meeting any of the District's operational, program, and service obligations to its citizens;
  - a need for increased short-term borrowings to cover the District's operations;
- budget gap pressures that could indicate—
  - tight operating margins or potential future operating deficits;
  - that certain major programs or services within the District are experiencing difficulties in meeting their missions within their current structures and levels of resources;
- pressures or questions from the bond rating organizations regarding the District's credit ratings; and
- cash projections that indicate a future need for Treasury borrowings.

A reportable events notification system for the District would be generally consistent with the approaches that have been taken in other local jurisdictions that have had experiences similar to the District's. For example, the Office of the New York State Comptroller has an ongoing program to assess cities and townships that experience trouble generating sufficient revenues on a continuing basis while maintaining adequate service levels. The assessment program uses nine financial indicators, such as the jurisdiction's fund balance, the liquidity of its cash and investments, and its current liabilities as a percent of net operating revenues. These factors are used as ratios to facilitate comparisons with comparable local jurisdictions. The program also uses nonfinancial indicators, such as the locality's reliance on intergovernmental revenues, the jurisdiction's management ability (measured by the timeliness of annual reports and stability of key management positions), and economic activity measures (for example, the per capita income and number of building permits issued). After determining the causes for the local jurisdiction's financial distress, the State Comptroller offers a wide range of services to address the problem.

Similarly, the Ohio Auditor of State uses various financial indicators that could result in a "fiscal watch" of local governments under financial stress. To determine if a local government qualifies for a fiscal watch, the Auditor of State conducts an initial review of the jurisdiction's accounts payable, deficits, cash, and marketable investments. While under a fiscal watch, local governments can receive technical assistance ranging from advice on budget formulation to developing performance audits. A key element of Ohio's fiscal intervention system is providing local officials the opportunity to respond to a fiscal crisis prior to the establishment of an oversight commission.

Another notable example is the ongoing transition to local control from the Miami Financial Emergency Oversight Board to the City of Miami, during which a set of financial integrity principles and policies have been developed and codified into city ordinances. Among the 10 financial integrity principles is a provision for financial oversight and reporting, which includes monthly financial reports issued to city departments, the Mayor, and the city commission on any potentially adverse fiscal trends or conditions including comparing the city's budgeted revenues and expenditures.

The experiences of these governments, our work at the District, and our related work on reportable events notification systems, suggest that such a system would be most useful to Congress and the District if, in crafting the system, the following considerations are kept in mind.

- The District and Congress should seek to reach broad agreement on the reportable events that would warrant notification to Congress. Such an agreement would help to ensure that the notification system serves the common needs of the District and Congress in ensuring that the District maintains its financial viability.
- The reportable events should focus squarely on those current financial pressures that have the potential of developing into a triggering event requiring the re-establishment of the Authority if not promptly and adequately corrected.
- The reportable events should be selected so that, in the event they occur, enough time is available for Congress and the District to take any needed remedial action to address the matter before it leads to a crisis or triggers the return of the Authority.
- The reportable events should be clearly defined and transparent so as to limit the possibility of unproductive debate about whether or not a reportable event has actually occurred.
- The reportable events should be well documented; that is, the notification of a reportable event should include discussion of what happened and why, an assessment of the risk to the District's financial situation, and a discussion of needed actions, if any, to address the reportable event.
- Such a system should include a "vital few" set of reportable events. Reportable events are not intended to be a substitute for more comprehensive periodic reporting of financial and program performance, but rather are to draw attention to specific events needing immediate attention.
- The system should seek, as much as possible, to build on financial information already collected, monitored, and used by the District. This would help to minimize the reporting burden and, more importantly, help to ensure that reportable events are valid and reliable indicators of fiscal performance. In that regard, much of the financial information needed to support a reportable events notification system likely is already processed and monitored by the District's CFO. For example, the CFO produces quarterly *Financial Status Reports,* which provide consolidated summaries of the District's financial status and describe the current status of revenues and expenditures, as well as any developing budget gaps and pressures. The reports also provide updated information about projected revenues and expenditures for the remainder of the fiscal year.

At the request of Congress, we would be pleased to work with the District and Congress to develop a reportable events notification system that meets the common needs of the District and Congress.

Role of the CFO

As I noted at the outset of my statement, in crafting the Financial Responsibility Act, Congress established an independent Office of the Chief Financial Officer within the District government with full authority over all financial offices of the District. Congress recognized that it was critical for timely, reliable, and objective financial information to be available to the District and Congress. Congress also recognized that the CFO's independence and authority is vital to its effectiveness. It is important to note, however, that certain powers and functions granted to the OCFO by the Financial Responsibility Act during a control period will change under current law, as the District moves into a noncontrol period. For example:

- In a control period, all budgeting, accounting, and financial management personnel of the executive branch of the District government (including the independent agencies) are appointed by, serve at the pleasure of, and act under the direction and control of the CFO. This authority will cease during a noncontrol period.
- In a control period, the CFO employs its own legal counsel. The CFO's legal counsel is independent of the District's Office of the Corporation Counsel, which mainly serves the Mayor, and is under the direct administrative control of the Mayor. Current law does not provide the OCFO with authority to employ its own legal counsel during a noncontrol period.
- In a control period, the CFO is appointed and removed with the approval of the Authority. However, in a noncontrol period, the CFO can be removed by the Mayor for cause, with the approval of two-thirds of the Council. The law does not define "cause."
- In a control period, the CFO has the authority to contract for services. This authority will revert to the District's central procurement process during a noncontrol period.
- During a control period, the CFO's budget request is not subject to revision but is subject to comment by the Mayor and Council as part of the District's annual appropriation request. During a noncontrol period, the CFO's budget would be included in the District's regular budget process.

As the District and Congress consider options for ensuring the independence and authority of the CFO, they may wish to consider whether the requirement that the CFO certify the availability of funds for contracts should be amended to expressly include leases and collective bargaining agreements, which can involve significant expenditures but are not currently subject to the CFO's certification. Currently, these items are not expressly included in the CFO's legal responsibility for certification, thereby leaving the certification of funds process subject to disagreement. In addition, Congress and the District may want to consider whether the CFO's budget, once it is appropriated by Congress, should be exempt from being reduced by the Mayor. A similar exemption is currently in place for the City Council.

Earlier this week, the Chair of the District City Council submitted a legislative proposal to the City Council to specifically address issues related to the CFO's independence and the scope of the CFO's duties. While we have not had a chance to analyze the proposal in detail, we support efforts by the District to continue or strengthen the independence and authority of the District's CFO in a post-Authority environment. Our *Executive Guide: Creating Value Through World-class Financial Management,*[9] notes that one of the essential elements of a successful finance organization is clear, strong executive leadership. Once the Authority suspends its activities, it is important to consider whether the CFO will be able to continue to operate and perform its ongoing fiscal and financial activities in an independent manner, without encroachment by others, especially if the District faces difficult choices caused by financial downturn.

Role of the IG

The IG is now appointed to a 6-year term and may be removed by the Mayor only with Authority approval during a control period. In 1995, around the time of the passage of the Financial Responsibility Act, the OIG had seven authorized full-time equivalents (FTE).[10] Since 1995, the OIG has substantially built its operations, staffing, and audit capabilities. Currently, the OIG has authorized staffing of 105 FTEs. The current responsibilities of the IG include the following:

- conducting independent fiscal and management audits of District government operations;

[9]GAO/AIMD-00-134, April 2000.

[10]FTEs are used to measure federal civilian employment. One FTE is equal to 1 work year of 2,080 hours.

- contracting and overseeing the contract with an outside auditor to perform the annual audit of the District's CAFR;
- conducting other special audits, assignments, and investigations;
- annually conducting an operational audit of procurement activities of the District government;
- forwarding to the appropriate authorities evidence of criminal wrongdoing that is discovered during the course of its audits, inspections, or investigations; and
- submitting to the appropriate congressional committees and subcommittees an annual report summarizing its activities from the preceding fiscal year.

Each year, the IG establishes an audit plan, in consultation with the Mayor, City Council, and Authority (during a control period) 30 days prior to the beginning of the fiscal year. The IG's criteria for selecting audit areas to be included in the plan include the following: (1) materiality of the programs, (2) activities and functions considered for audit, (3) vulnerability of operations to fraud, waste, and mismanagement, and (4) whether there is a legislative or regulatory audit requirement.

As with the CFO, the key is to ensure the IG's independence and authority, which are vital to its effectiveness. During a control period, the IG is appointed and removed with the approval of the Authority. During a noncontrol period, the IG can be removed by the Mayor for "cause," although the law does not define "cause." In addition, Congress and the District may want to examine whether the IG has personnel authorities needed to maintain and assure independence. Finally, as with the CFO, Congress and the District may want to consider whether the IG's budget, once it is appropriated by Congress, should be exempt from being reduced by the Mayor.

One of the IG's key responsibilities is identifying and reporting to the Mayor, the District Council, and District department and agency heads any problems in the administration of District programs and operations and the need for corrective action. The IG's role in a post-Authority environment is critical because of its mandate to audit and report on the economy, efficiency, and effectiveness of District programs and operations. As such, Congress, the Mayor, and the District Council should consider how to best use the IG's financial and performance-related audits and reporting in order to provide critical oversight and early warnings of any potential problems.

Audit Committee

Audit committees have long been recognized as a key component of the corporate governance system for private sector companies. Generally, audit committees play an important role in corporate governance by providing an independent view of management's financial reporting and by facilitating communication between management and its internal and external auditors. Typical responsibilities of audit committees include assessing the processes related to the company's risks and control environment, overseeing financial reporting, and evaluating the internal and independent audit processes.

The importance of audit committees has also come to be recognized as increasingly important in the public sector. In 1997, the Government Finance Officers Association (GFOA) recommended that every government establish an audit committee or its equivalent. The GFOA also stated that each audit committee should be formally established by charter and that the members of the audit committee should collectively possess the expertise and experience in accounting, auditing, and financial reporting needed to understand and resolve issues raised by the independent audit of the financial statements. The GFOA stated that the primary responsibility of the audit committee should be to oversee the independent audit of the government financial statements from the selection of the independent auditor to the resolution of audit findings. The GFOA also stated that the audit committee should have access to internal audit reports and plans. Finally, the GFOA recommended that the audit committee present annually to the governing board and management a written report on how it has discharged its duties.

The District's IG has established a CAFR Oversight Committee, which oversees the progress on the annual financial audit. While not an audit committee, the CAFR Oversight Committee provides an excellent opportunity for District financial management staff, OIG staff, and representatives from the Mayor's office, the D.C. Council, and the Authority to be updated on the status of the audit and any issues being encountered by the auditors. Consequently, issues affecting the audit could be addressed in an effective and timely manner so the auditor's progress towards timely completion of the CAFR would not be impeded. This process has been key in assuring that the District was able to compensate for current issues and avoid many of the past problems that resulted in the late issuance of the fiscal year 1999 CAFR. The CAFR Oversight Committee, however, does not have the full scope of roles and responsibilities typical of an audit committee, nor does it follow the organizational requirements of a traditional audit committee. Congress and the District may want to consider forming an audit committee or variation of an audit committee based on the objectives of audit committees described above, and/or strengthening and further defining the current CAFR Oversight Committee already in place.

In summary, the District and its citizens, the Authority, and Congress have jointly achieved an enormous accomplishment in restoring the District to financial viability. At the same time, many of the challenges the District faced in the past continue, requiring difficult decisions now and in the future. The District and Congress must have reliable, accurate, and timely financial, program cost, and performance information if they are to confidently make these hard decisions. Specifically, the District and Congress need current, reliable information about the District's financial condition and developing trends in order to promptly respond to any pressures or warning signs that could indicate that future difficulties lie ahead. District officials and Congress could thereby take an active and prospective role in dealing with issues, rather than finding themselves in a position of reacting to a crisis. Such information and oversight will also be helpful to the District in providing confidence that the District is well managed, providing needed services to its citizens, and maintaining its financial solvency. We have a very constructive relationship with the District and we look forward to continuing to work with Congress, your Subcommittees, and District officials as the District government continues to strive to provide the services that its residents expect and deserve.

Madam Chairwoman and Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other members of the Subcommittees may have.

Contacts and Acknowledgments

For further information, please contact Jeanette Franzel, Acting Director, Financial Management and Assurance, at (202) 512-9406 or J. Christopher Mihm, Director, Strategic Issues, at (202) 512-6806. Major contributors to this testimony included Richard Cambosos, Sharon Caudle, Doug Delacruz, Molly Gleeson, Steven Lozano, Meg Mills, Susan Ragland, and Norma Samuel.

Appendix I: District Reporting Requirements

Since the financial crisis precipitating establishment of the Authority, Congress has enacted a number of reporting requirements for various entities within the District of Columbia government. Some of the reports are required by permanent law while others are temporary. A sample of the permanent reporting requirements is listed in table 1.

Table 1: Reporting Requirements Enacted as Permanent Law and Codified in D.C. Code

Permanent Laws			
Report and statute[a]	**Description**	**Prepared by**	**Prepared for**
Annual Performance Accountability Plan D.C. Code 47-231	A performance accountability plan for all departments, agencies, and programs of the D.C. government for the subsequent fiscal year to be submitted not later than March 1 of each year	Mayor	Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, House Committee on Government Reform and Oversight, and the Comptroller General
Annual Performance Accountability Report DC Code 47-232	A performance accountability report on activities of the D.C. government during the fiscal year ending on the previous September 30, to be submitted not later than March 1 of each year	Mayor	Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, House Committee on Government Reform and Oversight, and the Comptroller General
Financial Accountability Plan and Report D.C. Code 47-233	A 5-year financial plan for the D.C. government that contains a description of the steps the government will take to eliminate any differences between expenditures from and revenues attributable to, each fund of the District of Columbia during the first 5 fiscal years beginning after the submission of the plan, to be submitted not later than March 1 of each year	Chief Financial Officer (CFO)	Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, House Committee on Government Reform and Oversight and the Comptroller General
Quarterly Financial Report D.C. Code 47-234	A report on the financial and budgetary status of the D.C. government for the previous quarter to be submitted not later than 15 days after the end of every calendar quarter.	CFO	Subcommittees on the District of Columbia of the House and Senate Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Reform and Oversight

Permanent Laws			
Report and statute[a]	**Description**	**Prepared by**	**Prepared for**
Emergency Reserve Fund Use P.L. 106-522 Sec. 450A, 114 Stat. 2480	Notification to Congress of the use of the emergency reserve fund to be issued not more than 30 days after the expenditure of funds	Mayor and D.C. Council (and the Authority during a control year)	Senate and House Committees on Appropriations
Quarterly Report on Emergency Reserve Funds P.L. 106-522 Sec. 450A, 114 Stat. 2481	A quarterly report that includes a monthly statement on the balance and activities of the contingency and emergency reserve funds	CFO	Mayor, D.C. Council, the Authority, and Senate and House Committees on Appropriations
Report on Federal, Private, and Other Grants P.L. 106-522 Sec. 126, 114 Stat 2465	Quarterly report providing detailed information on federal, private, and other grants, to be submitted not later than 15 days after the end of the quarter	CFO	D.C. Council and Senate and House Committees on Appropriations
Inspector General Audit P.L. 106-522 Sec. 135, 114 Stat. 2468	Annual audit of the financial statements of the D.C. Highway Trust Fund, to be submitted not later than February 1, 2001, and each February 1 thereafter	Inspector General	Congress
Annual Review P.L. 106-522 Sec. 450B, 114 Stat. 2475	A review of the comprehensive financial management policy to be issued at the end of each fiscal year	CFO	Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Reform

[a]District of Columbia Appropriations Act, 2001, P.L. 106-522, 114 Stat. 2440 (November 22, 2000).

The table below lists a sample of temporary reporting requirements that were included in the 2001 D.C. Appropriations Act.

Table 2: Temporary Reporting Requirements from the 2001 D.C. Appropriations Act.

Temporary Laws			
Report and statute[a]	**Description**	**Prepared by**	**Prepared for**
Quality of Life Indicators P.L. 106-522 Sec. 424, 114 Stat. 2477	Quarterly report on the issues of crime, access to drug abuse treatment, management of parolees, education and special education access, improvement in rat control and abatement, application and management of federal grants, and indicators of child well-being	Mayor	Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Reform
Capital Outlay Borrowings Report P.L. 106-522 Sec. 110, 114 Stat. 2459	An annual plan, by quarter and by project, for capital outlay borrowing	Mayor	DC Council and Congress
Management of Real Property Assets P.L. 106-522 Sec 139, 114 Stat. 2470	A comprehensive plan for management of the District of Columbia's real property assets	Mayor and D.C. Council	Senate and House Committee on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Reform
Reports on Current Leases P.L. 106-522 Sec 138, 114 Stat. 2469	Quarterly reports on location of property involved, the extent to which the property is or is not occupied by the D.C. government, and a plan for occupying and utilizing the property	Mayor and D.C. Council	Senate and House Committees on Appropriations

[a]District of Columbia Appropriations Act, 2001, P.L. 106-522 Stat. 2440 (November 22, 2000).

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