Office of the District of Columbia Auditor

Testimony

of

The Hon. Kathy Patterson
District of Columbia Auditor

On

Budget Formulation, Execution, and Agency Overspending

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Committee of the Whole

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Mr. Chairman and members of the Council, thank you for the opportunity to appear before you on the topics of budget formulation and execution and agency overspending. I find that I have more questions than answers today, but I hope my perspective will be useful.

The series of roundtables a year ago offered hope of better communication and cooperation on spending between both the Office of the City Administrator and Office of the Chief Financial Officer and the Council. In response to queries from Councilmember Frumin, City Administrator Donahue promised to share templates used to track spending patterns by the Department of Human Services. Council offices received an email from the OCFO in January following the roundtables and offering to arrange meetings for individual Councilmembers with "the pertinent cluster Associate Chief Financial Officer to discuss what information might be useful to you in your oversight and what tools we have to assist you in that effort."

I hope to learn today that the Council had far more visibility into budget execution than was the case a year ago. Since the roundtables last year has collaboration improved? Were there substantially more meetings and other communications between CFO and Council on the execution of the FY26 budget than occurred in the execution of the FY25 budget? Have the Financial Review Process reports circulated regularly? Did the spending throughout the recently ended fiscal year track more closely with the Council-approved budget than has been the case in recent years?

Reprogrammings

I remain concerned that there is not an affirmative answer to that last question. From what I have seen in the last few weeks following the year-end, large reprogrammings of FY26 funds have been arriving fast and furious.

A few examples:

- Reprogramming 26-0175 introduced October 19 transfers $4.2 million from the Office of the Chief Technology Officer to the Office of the Chief Financial Officer – a complicated transfer of budget authority from special purpose revenue funds within the OCTO budget to special purpose revenue funds within the OCFO budget, but primarily for personal services costs. I recommend asking for more detail on the CFO's need for additional budget authority to cover salaries and fringe benefits and why these were apparently underestimated in original budget calculations.
- Reprogramming 26-0162 introduced October 16 transferred just under $2 million from the Department of Buildings and the Department of For-Hire Vehicles to the D.C. Housing Authority Subsidy for rental assistance vouchers to low-income D.C. residents and families for the last month of the fiscal year. The majority of funds are from the Department of Buildings personal services accounts based on the agency's failure to hire

into vacant positions including housing code inspectors, building code inspectors, and plan reviewers. These DOB roles are some for which the community has expressed a dire need, and it would seem a priority to fill these positions as part of budget execution during the fiscal year.

- Two reprogrammings – 26-0155 on October 5 and 26-0169 on October 16 – moved some $8.4 million from multiple agencies to the Fire and Emergency Medical Services Department to overtime. Of this, $4.68 million from a series of public safety agencies is "needed to address higher than anticipated FY 2026 expenditures on overtime costs for the required daily staffing factor to provide emergency medical services and fire suppression by FEMS," and the remaining $3.8 million will "cover operational overtime costs that were not able to be covered through Medicaid reimbursements due to lower than expected reimbursements." Agencies that had underspent and were part of the reprogramming: Department of Parks and Recreation, Child and Family Services Agency, and Department on Disability Services.
- Reprogramming 26-0171 on October 16 transferred $9,620,621 to the Department of Youth Rehabilitation Services (DYRS) and the WMATA Subsidy Account (KE0) to cover salaries associated with increased residential placement and overtime costs at DYRS and to offset lower-than-anticipated parking meter revenue used to fund a portion of the operating subsidy for WMATA. The bulk of the funds – $7 million – was allocated from salary lapse at D.C. Public Schools—funds that had been budgeted to DCPS through the Uniform Per Student Funding Formula.

Finally, my favorite reprogramming in the October list:

- Reprogramming 26-0172 on October 16 providing $3 million to the Deputy Mayor for Economic Development to "fund expenditures associated with the Fletcher Johnson capital project" and "costs that are not suitable for bond funding." Without the funds "the project will not be able to move forward." This language is used on various documents in the reprogramming material in LIMS and nowhere is there an explanation on what the costs actually are; no explanation of what within the school modernization capital project was considered "not appropriate for bond funding." I hope the Council will ask for a description of those inappropriate costs!

As witnesses noted in the overspending roundtables last year, approved operating budgets and end-of-year actual expenditures will never match perfectly. But careful monitoring and oversight will keep the books balanced during the fiscal year and preclude the number and value of the kinds of reprogrammings we continue to see in the months spent closing out the District's books.

Budget Formulation

On the subject of budget formulation there remain serious issues with the District's Financial Plan and Budget and how funds are allocated and approved in the out-years. This is another issue I have raised in previous budget testimony.

At a recent forum the CFO was asked whether our budget is structurally balanced and he answered in the affirmative. This answer is wrong as we have also testified, previously.

According to the Government Finance Officers Association:

> Most state and local governments are subject to a requirement to pass a balanced budget. However, a budget that may fit the statutory definition of a "balanced budget" may not, in fact, be financially sustainable. For example, a budget that is balanced by such standards could include the use of non-recurring resources, such as asset sales or reserves, to fund ongoing expenditures, and thus not be in structural balance. *A true structurally balanced budget is one that supports financial sustainability for multiple years into the future. A government needs to make sure that it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget*. (Emphasis added)

The District's budget in the out-years has been balanced. But, Mr. Chairman and colleagues, how many conversations has the Council engaged in devoted to discussing what the DCPS budget or the DHS or the MPD budgets will be in FY 2029 and 2030, and how do we get to balance from here? The point of having a multi-year financial plan is to *forecast the need for actions to maintain balance*. The budgets enacted this year and last year relied heavily on one-time funding; three and four years back they relied heavily on federal COVID funds.

Today the multiyear plan serves no useful purpose. It has not been utilized in a manner that helps to prevent the District from using large amounts of one-time resources for recurring expenses – indeed, the current budget uses one-time resources for parts of the Uniform Per Student Funding Formula! Further, the plan does not forecast a remotely reasonable version of the future: for example,

To balance FY 2028, the multiyear plan assumes a Local Fund "cliff" of $552 million (4.5%) from FY 2027 to 2028, specifically including:

- $33 million cut (34%) to the Office of Victim Services and Justice Grants.
- $12 million cut (50%) to the Office of Neighborhood Safety and Engagement.
- $95 million cut (6.6%) to D.C. Public Schools.
- $78 million cut (5.4%) to D.C. Public Charter Schools.

- $2.7 million cut (97%) to the Public Charter School Board.
- $108 million cut (34%) to the Office of the State Superintendent of Education.
- $117 million cut (10.9%) to the Department of Health Care Finance.
- $27 million cut (7.3%) to the Department of Human Services.
- $12 million cut (12.5%) to the Department of Transportation.
- $12.5 million cut (38%) to Department of Energy and Environment.

To be sure, the next budget cycle will need to consider reductions in this magnitude, in the aggregate. But such a steep fiscal cliff shows that structural balance is a goal that remains unachieved. What steps were taken in this cycle and the last cycle to prepare for the actions needed to regain structural balance?

Bring the OCFO home

Mr. Chairman, I would like to conclude my testimony by sharing my own takeaway from the roundtables you held on overspending last October. I believe that the independence of the Chief Financial Officer has outlived its usefulness and the District should bring the budget and finance operations back under the Chief Executive, the Mayor.

Last year you took extensive testimony from the City Administrator and the Chief Financial Officer. They made it clear that there are two fully staffed budget execution operations, one housed at the OCFO and the other housed in the CA's office. The CFO reports quarterly on the status of agency spending in "Financial Review Process (FRP)" reports but fails to exert any visible discipline when agencies seriously overspend their budgets. The OCA also tracks such spending with its own system of templates and reports that did not appear to be readily available to you or anyone else.

The structures include resource officers in most agencies reporting up the chain through agency directors to the Mayor. The CFO has Agency Fiscal Officers assigned to each agency. These individuals draft the quarterly and monthly FRPs that are signed by – but in my experience ignored by – agency directors. The documents are supposed to have, but rarely include, a gap-closing plan when there is overspending.

My point: DC taxpayers today are paying for two robust and wholly distinct and independent budget structures across the DC government – two structures that do not communicate effectively and do not work in tandem and – I would argue – both fail to effectively control spending.

When created by Congress in 1995 to address the District's financial crisis and filled by Anthony A. Williams, the independent CFO served a purpose. Reporting to the control board as well as the Mayor and Council, the independent CFO guided all parties toward balanced budgets. The CFO's independence helped the District's bottom line when that first independent CFO was elected Mayor. That combination – Tony Williams as Mayor, his selection, Natwar Gandhi as CFO, and the Council – demonstrated financial prudence to the point where the control board was sent into dormancy.

Since then, the District has seen successive CFOs increasingly separating themselves from the give and take with elected policymakers to the point where, today, the independence of the OCFO is a hindrance and not a help to effective self-government. And it's an expensive hindrance as the dual systems were described in the roundtables a year ago.

My conclusion from that testimony is that independence has outlived its usefulness and it's time to bring the executive functions of budget and finance back under the elected chief executive, as is commonly the case in cities and states around the country. And not only would it bring significant savings from ending duplication: it would also enhance accountability.

Our recent report on the District's reserves found both of our executive branches responsible for anti-deficiency violations and use of reserves that violated District law. Basically, the Mayor asked to spend inappropriately from reserves and the gatekeeper, the CFO, facilitated the spending without prior Council approval. Who is responsible? Everyone and no one. I also believe a unified executive could encourage if not force the legislature to take on greater independence in budgeting, for example using the authority you already have to draft fiscal impact statements on legislation instead of leaving that to the OCFO.

Revisiting the CFO structure would require a change to the Home Rule Charter, and I hope this body can begin a conversation that includes a new mayor, with a CFO recruited next year who would understand that the first task would be a major reform and reorganization that would relocate and right-size the budget operations of the District government.

Thank you, Mr. Chairman, and I am happy to respond to questions.