Statement of

The Hon. Kathy Patterson
District of Columbia Auditor

Prepared for the

Council of the District of Columbia
Committee of the Whole

Public Hearing on the
FY 2021 Budget for the Office of the D.C. Auditor
May 29, 2020

Virtual via Zoom
The John A. Wilson Building
1350 Pennsylvania Ave., N.W.
Washington, DC 20004
Good morning, Chairman Mendelson and members of the Committee of the Whole. I am Kathy Patterson, the District of Columbia Auditor. I greatly appreciate the opportunity to discuss the budget for the Office of the D.C. Auditor (ODCA) for Fiscal Year 2021 and to share thoughts more generally on the FY 2020 supplemental budget and budget planning during the ongoing COVID-19 health emergency.

My staff and I continue to telework and are available via email or telephone to respond to any questions. I will begin with a discussion of our current year budget and what I am recommending for FY 2021.

**ODCA FY 2020 Budget**

Mr. Chairman, in a letter earlier this month I described actions that ODCA had taken to limit expenditures in the wake of the COVID-19 health emergency and its negative impact on the District and the government’s revenues. In late March we instituted a hiring freeze and stopped posting and interviewing for two analyst/auditor positions. We have two members of our staff who will be leaving for other positions and we will not seek to hire behind them in the near term. I had been in negotiations for two additional contract audits and postponed those discussions. I also restricted ODCA staff travel for the remainder of the year, though I should acknowledge that since I took this action several of the professional conferences have been reorganized as “virtual” meetings and I will be attending two such events remotely over the summer, including only a registration fee and no travel costs.

ODCA expenditures for the remainder of the fiscal year do include our ongoing efforts to upgrade our information technology including making certain that hardware and software remain supported. We are currently working with the Office of the Chief Technology Officer (OCTO) to replace servers and increase the OCTO role in maintenance. These are costs that are essential to ODCA core functions and represent a continuing response to what had been deferred maintenance prior to my arrival at ODCA.

With these spending reductions, as I noted in my letter, the Council can assume $285,000 in savings in ODCA operating funds for a reduction from $5.55 million included in the Congressional submission to $5.3 million in the upcoming supplemental budget. This constitutes an overall 5.2% spending reduction for the year.

**ODCA FY 2021 Budget**

Mr. Chairman, the FY 2021 budget request I forwarded to you and you shared with the Executive earlier this year was for $5.65 million which is the amount included in the Mayor’s budget now before you. This includes $4.2 million in personal services and $1.45 million in non-personal services.
If the Committee of the Whole determines that further reductions in spending are necessary beyond the personnel actions recommended by the Mayor I am prepared to discuss whether and how the ODCA budget could be reduced in FY 2021. I do request that you make no change to our FTE count, which would permit me to carry unfilled vacancies through the fiscal year in anticipation of hiring to a full complement of auditors and analysts in FY 2022.

I request that the nonpersonal services allocation be increased by $300,000 to $1.75 million with the additional funding added to Comptroller Source Group 41 for contractual services and a corresponding reduction made in the personal services line. This will cover our basic costs while providing resources to undertake additional contract studies including at least one significant new audit mandated by the Fair Elections Amendment Act of 2018. That statute requires that ODCA provide a report by December 31, 2021, that includes:

- An evaluation of the Fair Elections Program’s performance in meeting the requirements of the Fair Elections Amendment Act of 2018.
- A financial audit of the Fair Elections Program’s spending during the 2020 election cycle.
- Recommendations for improving the Fair Elections Program.

Following a discussion with Councilmember Charles Allen, who chairs the committee with oversight for the Board of Elections and the Office of Campaign Finance, we anticipate contracting with an elections policy think tank or consulting firm to do a broader review than what the law strictly requires. We would cover the required areas but also use subject matter expertise to address whether the availability of public funding met such policy goals as broader representation among candidates and among voters.

Beyond this specific requirement, having additional funds for contract audits throughout FY 2021 would give us the ability to be nimble and address any priority issues that occur and that we had not anticipated as we prepare our budget and our FY 2021 workplan.

I would also anticipate that at some point during FY 2021 we will request that the Council reprogram back to ODCA the $200,000 that was reprogrammed into the Council’s IT (Information Technology) fund and designated for our replacement audit software program. We delayed that purchase and major upgrade until some of the software options were improved by the software vendors based on the experience of other states and cities.

**Status of ODCA Operations**

The ODCA staff began full-time telework on Friday, March 13, 2020, and we have continued teleworking operations since then with all-staff and project team meetings conducted on virtual platforms. I am pleased to report that though these are challenging times, the staff at the Office of the D.C. Auditor has not missed a beat in terms of productivity. Since mid-March we have published four reports:

On April 24, Are ANCs Given Great Weight?, a report that assesses whether District agencies with a major impact on our neighborhoods follow the requirements in the D.C. Code regarding the views of Advisory Neighborhood Commissioners.

On May 8, COVID-19 Federal Funding Streams Available to the District of Columbia, a major undertaking to catalog the funds made available through four bills approved by the U.S. Congress providing mitigation and recovery aid to governments and private sector entities.

On May 26, OST Provides Programs for D.C. Youths But Grant Oversight Needs Improvement, a Council-mandated review of the operations of the Office of Out of School Time Grants and Youth Outcomes within the office of the Deputy Mayor for Education.

I am discussing with my leadership team and staff how we would best serve policymakers and the public by continuing to track the federal funds available to the District for the health emergency and we likely will produce one or more reports on District use of federal funds next year.

We are fortunate that the nature of auditing—document review, interviews, analysis, discussion, writing and editing—means our work can largely be conducted with staff working from home. And I am issuing a temporary set of policies that includes full-time teleworking as an employee option until January 1, 2021. For those who wish to work from our office we will have in place a series of policies and practices to ensure health and safety including wearing masks, limited numbers using shared space like our kitchen and restrooms, availability of no-touch thermometers and disinfecting surfaces following use. One member of the ODCA staff has tested positive for COVID-19 and appears to be recovering.

New Lease in 2021

Our current lease is up in mid-2021 and we are in the process of reviewing options for alternative space, including a tour of five sites earlier this week. We are working with the Department of General Services (DGS) and understand from DGS officials that our new lease cost will be within District government guidelines and our budget would not need to include an increase for that cost. I understand, further, that build-out will be paid for through the lease itself. We anticipate that moving costs will be borne by our agency budget and are waiting for an estimate from DGS for that cost, but I believe our budget as proposed will accommodate that cost. One priority we have shared with DGS for our new space: it must be within walking distance from the John A. Wilson Building to accommodate our working relationship with the D.C. Council.

Based on what we currently know about COVID-19, we have also asked that DGS prioritize finding office space that will be among early adopters of best practices to mitigate airborne transmission. While there has been good emphasis on social distancing and individual measures
that can be taken to prevent the spread of COVID-19 we also want to ensure that our new lease secures the safest working environment possible for our team.

**Upcoming Projects**

Two of the major projects we will be releasing this summer are audit reports produced by contractors, one by the Council for Court Excellence (CCE) on substance abuse services and individuals in the criminal justice system. The second is the comprehensive education data audit required by the legislation, *The District of Columbia Education Research Practice Partnership Establishment and Audit Act of 2018*. The CCE report is in draft form now and undergoing review by the Bowser Administration. Research and drafting on the education data audit are nearing completion and we hope to be able to circulate that draft for administration review later this summer. Other projects underway that we anticipate completing this fiscal year include:

- Audit of the operations of the Real Property Tax Appeal Commission.
- Audit of lead-based paint testing and remediation in the District’s public housing.
- Contract evaluation of the school modernization program’s procurement policies and processes.
- Annual report of Advisory Neighborhood Commissions.
- Audit of the DCPS Title I contract for providing equitable services in private schools.
- Audit of settlements and judgments paid out by District agencies and practices in reducing risks.
- Review of earlier ODCA recommendations pertaining to government-wide challenges in management of data.

**District Spending Decisions**

The proposed budget pending before the Council represents, in my view, a calculated risk for the District of Columbia. The Mayor and her team have taken the view that Washington, D.C., will recovery relatively quickly from the economic impacts of the current health emergency, as the District did in recovering from the financial crisis of 2008-2009. It is a perfectly rational and legitimate calculation and one that I certainly hope holds true. In the 4-year financial plan presented by the Mayor and Chief Financial Officer (CFO) Jeffrey DeWitt, there is the underlying assumption that the District will return to its prior revenue level by the end of Fiscal Year 2021. The proposed budget is balanced through use of carryover revenues from the strong year of revenue growth in FY 2019, use of $149 million in the carryover fund balance plus the first-ever use of the District’s Fiscal Stabilization Reserve Account. CFO DeWitt said in his FY 2021 Budget transmittal letter, “By using the $213 million in the Fiscal Stabilization Reserve Fund in FY 2021, the proposed budget can be balanced without severe reductions in services and staffing.”

Basing actions now on the District’s relatively quick recovery in 2008-2009 may be overly optimistic especially given the severity of what has taken place over the last three months. In the earlier crisis the District’s total local revenue dropped from $5.76 billion in FY 2008 to $5.25
billion in FY 2010, adjusted for inflation, and back up to $5.45 billion in FY 2011. District revenues had reached $5.95 billion in FY 2012, surpassing the previous peak. Total revenue fell by 8.9% between FY 2008 and FY 2010 before rebounding. Only North Dakota, Minnesota, and Illinois had stronger, faster recoveries according to the Pew Charitable Trusts, while most states saw a far more gradual improvement in revenues—some taking a decade to fully recover.

The District was helped significantly by the American Recovery and Reinvestment Act of 2009. That federal assistance was both direct with funds made available to the District government and indirect by the additional funds allocated to and spent by federal agencies based in the region.

The District’s Fiscal Stabilization Reserve Account was created in 2010 when the Council amended the Code to add two additional reserve funds as financial protection alongside the federal reserve requirements. Councilmember Vincent Gray explained in January of this year that he proposed the two additional reserves when he was Council Chairman as a best practice in government finance to enable the District to build up its fund balance until reaching 60 days of cash-on-hand. The District reached that mark at the end of Fiscal Year 2019 with totals in the four reserve funds. By law the Fiscal Stabilization funds can be drawn on “to provide for nonrecurring or unforeseen needs that arise during the fiscal year, including expenses associated with unforeseen weather or other natural disasters...or new public safety or health needs or requirements.”

The CFO’s FY 2021 budget transmittal letter notes that the 4-year financial plan “shows the Fiscal Stabilization Reserve Fund being replenished in FY 2023 and FY 2024 when revenues recover.” The proposed budget uses the entire stabilization fund and estimates an economy strong enough to replenish the fund in two to three years. That forecast is apparently based on the assumption that we will not see a second or third wave of the coronavirus—that the District remains vigilant and sees a continuing decline in cases until there is a vaccine that is readily available and precludes further spread of COVID-19. I will repeat that I certainly hope this is the case. But another point of view holds that the District might be wiser to spend less today, hold more in reserve, and take those actions that would put us in a better financial state if there were to be a second or third wave of cases with further or repeated shut-down of economic activity and a far longer period before an economic recovery.

That is the cup-half-empty view of budgeting. The FY 2021 proposed budget’s cup-half-full approach is seen in the personnel proposals. Rather than the kind of downsizing that the District was forced into in the 1990s the package simply limits raises, keeping the workforce largely intact. The optimistic approach is also seen in delaying what had been in motion to pay off ballpark bonds earlier than required.

I want to underscore a point made by the CFO when the budget was presented. The District has had a very strong economy in recent years and has prudently built up its reserves. Those earlier actions enable the Mayor to propose a balanced budget with far fewer difficult actions than many of us might have expected. And he was correct in noting that the proposed budget does not empty all of the District’s reserves. But the issue is where to draw that line between saving
for a rainy day versus acknowledging that it’s raining now. My fear that I share you and other Councilmembers charged with making difficult budget decisions is that there could be a much worse downpour than we have yet seen. Holding more back in reserve than the Mayor has proposed would seem prudent to me. Options to do so were described in my April 27, 2020, letter to the Council that also recounted the difficult decisions the Council made in the 1990s to bring the District government back to solvency and set the stage for the economic growth the followed over the last two decades.

Thank you and please let me know if you have any questions.