GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Charles C. Maddox, Esq.
Inspector General

November 16, 1999

The Honorable Anthony A. Williams
Mayor of the District of Columbia
One Judiciary Square
441 4th Street, N.W., Suite 1100
Washington, D.C. 20001

Dear Mayor Williams:

The purpose of this Management Implication Report (MIR-00-A-01) is to advise you of a cash management problem that we identified within various District agencies. Findings in a recently completed review and observations in an ongoing audit indicate that the problem is systemic to District agencies that are provided Federal grants to carry out various programs.

The Office of the Inspector General (OIG) performed a review of the District's annual reports prepared under the Cash Management Improvement Act (CMIA) for Fiscal Years (FYs) 1995 through 1998. District agencies had not established structures and processes fully to implement the CMIA, nor had agencies made progress in achieving the goal of equitable, timely fund transfers that are required by good cash management practices. As a result, District agencies were using District funds to pay expenses rather than drawing on grant funds that had been allocated for the purpose of operating the programs.

BACKGROUND

The CMIA of 1990, Public Law 101-453, codified at 31 U.S.C. 3335 and 6503, as amended by the CMIA Amendments of 1992, Public Law 102-589, codified at 31 U.S.C. 6503(c) and 6503(d), governs the transfer of funds between the Federal government and the 50 states, the District of Columbia and five territories. The law was developed to address instances in which states requested funds from the Federal Government before they were actually needed for program purposes, or where states used their own funds for Federal program purposes and did not receive timely reimbursements from the Federal government.

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The three key objectives of the CMIA legislation are:

(1) Efficiency – to minimize the time between the transfer of funds to the States and the payout for program purposes;

(2) Effectiveness – to ensure that Federal funds are available when requested; and

(3) Equity – to assess interest liability to the Federal government and /or the States.

The CMIA requires the District (and all states and territories) to develop an annual agreement between the United States Department of the Treasury (Treasury) and the state that defines efficient funding techniques for the draw down of major Federal grants; and to prepare an annual report that summarizes the efficiency of the payment process for each Federal grant. This process may result in a payment of interest whenever Federal payments are made late or the District draws down funds prior to their expenditure for program purposes. In addition, the CMIA requires an annual report to the Treasury by the end of each year that accounts for the interest liabilities of the most recently completed FY.

REVIEW RESULTS

The OIG identified Federal interest liability to the District of $6.55 million based on the time elapsed between the date the funds were expended by the District and the date the District's offsetting grant reimbursements were received in FYs 1995, 1996, 1997 and 1998. During this review, we worked closely with the agencies in determining interest liability. We recalculated the interest liability amounts due for FYs 1995 and 1996 and determined the accuracy of the interest liability amounts reported by the District for FYs 1997 and 1998. Before the OIG review, the District had not claimed any interest liability due from the Treasury. The District's reports that went to the Treasury were either not accepted or stated that there was no interest due.

Based on our review, the Treasury allowed the District to amend previously submitted annual reports and to claim recalculated interest liability amounts totaling about $6.6 million for the four years we reviewed. As a result, Treasury made a determination, on a one time basis, that the District would be paid one-half of the recalculated interest liability claim. This amounted to $3.3 million. Treasury noted that the District (1) had not requested funds as required by regulation, (2) had not maintained adequate records to support its claims, and (3) had not implemented effective monitoring techniques to comply with CMIA requirements.

When notified of the OIG findings, District management took positive action that should correct, and preclude the recurrence of, the reported deficiencies and subsequent loss of revenue.

This Management Implication Report provides agency heads with information about conditions that may or may not have existed in their agencies, but if not properly managed, could occur. It is imperative that agency heads have the information necessary to detect, correct and prevent similar conditions should such conditions exist in their own agencies and will make cash management a priority.

Should you have questions about this Management Implication Report, please call me at 727-2540, or John N. Balakos, Assistant Inspector General for Audits, at 727-8279.

Sincerely,

Charles C. Maddox

Charles C. Maddox, Esq.
Inspector General

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