

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**VERIFICATION OF THE DISTRICT OF COLUMBIA
FISCAL YEAR 2001 SAVINGS INITIATIVE**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



July 1, 2002

Natwar M. Gandhi
Chief Financial Officer
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Room 209
Washington, D.C. 20004

Dear Dr. Gandhi

Enclosed is our final report summarizing the results of the Office of the Inspector General's audit on the Verification of the District of Columbia Fiscal Year 2001 Savings Initiative (OIG No. 01-1-02MA).

As a result of our audit, we directed two recommendations to the Office of the Chief Financial Officer (OCFO) that represent necessary actions to address outstanding issues reported. In response to the audit, the CFO provided a confirmation of savings totaling \$39.6 million and certified that these savings have been permanently eliminated from the respective agency baseline budgets for FY 2002. However, the OCFO did not provide a management representation letter, as requested, which would provide assurances that the savings would be carried beyond FY 2002 and that any additional funding requests are for new initiatives only. Additionally, we requested that the OCFO make a determination whether an Anti-Deficiency Act Violation has occurred relative to the use of reserve funds prior to the completion of certification that the required amount of savings were achieved. The OCFO did not provide a response regarding this issue. As such, we consider these two issues to be unresolved.

Generally, audit recommendations should be resolved within 6 months of the date of the final report. Accordingly, we will continue to work with the OCFO to reach final agreement on these two recommendations. We request that the OCFO readdress the recommendations and provide the OIG a response within 60 days of the date of this report. The OCFO's comments to our draft report are incorporated where appropriate. The full text of the OCFO response is included as Exhibit C.

Natwar M. Gandhi, CFO
Final Report OIG No. 01-1-021MA
July 1, 2002
Page 2 of 3

We appreciate the cooperation and courtesies extended to our staff during the audit. Should you have any questions about this report, please call me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles C. Maddox, Esq.", written in black ink.

Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See attached Distribution List

DISTRIBUTION:

The Honorable Anthony A. Williams, Mayor, District of Columbia (1 copy)
Mr. John A. Koskinen, City Administrator, District of Columbia (1 copy)
Mr. Kelvin J. Robinson, Chief of Staff, Office of the Mayor (1 copy)
Mr. Tony Bullock, Director, Office of Communications (1 copy)
The Honorable Linda W. Cropp, Chairman, Council of the District of Columbia (1 copy)
Ms. Phyllis Jones, Secretary to the Council (13 copies)
The Honorable Vincent B. Orange, Sr., Chairperson, Committee on Government Operations,
Council of the District of Columbia (1 copy)
Dr. Natwar M. Gandhi, Chief Financial Officer (4 copies)
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)
Mr. Jeffrey C. Steinhoff, Managing Director, GAO (1 copy)
Ms. Jeanette M. Franzel, Acting Director, IRS Financial Management GAO (1 copy)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives (1 copy)
Mr. Jon Bouker, Office of the Honorable Eleanor Holmes Norton (1 copy)
The Honorable Joe Knollenberg, Chairman, House Subcommittee on D.C. Appropriations
(1 copy)
Mr. Jeff Onizuk, Legislative Director, House Subcommittee on D.C. Appropriations (1 copy)
Ms. Carol Murphy, Staff Assistant, House Subcommittee on D.C. Appropriations (1 copy)
The Honorable Chaka Fattah, House Committee on D. C. Appropriations (1 copy)
Mr. Tom Forhan, Minority Staff Director, Office of the Honorable Chaka Fattah (1 copy)
The Honorable Connie Morella, Chairman, House Subcommittee on D.C. Government
Reform (1 copy)
Mr. Russell Smith, Staff Director, House Subcommittee on D.C. Government Reform (1 copy)
Ms. Theresa Pritch, Professional Staff Member, Senate Subcommittee on D.C. Government
Reform (1 copy)
The Honorable Richard Durbin, Chairman, Senate Subcommittee on D.C. Government
Oversight (1 copy)
Ms. Marianne Upton, Staff Director, Senate Subcommittee on D.C. Government Oversight
(1 copy)
The Honorable Mary Landrieu, Chairman, Senate Subcommittee on D.C. Appropriations
(1 copy)
Ms. Kate Eltrich, Staff Director, Senate Subcommittee on D.C. Appropriations (1 copy)
Mr. Stan Skocki, Legislative Assistant, Senate Subcommittee on D.C. Appropriations (1 copy)
Mr. Charles Kieffer, Clerk, Senate Subcommittee on D.C. Appropriations (1 copy)
Ms. Milou Carolan, Director, District of Columbia Office of Personal (1 copy)

**VERIFICATION OF THE DISTRICT OF COLUMBIA
FISCAL YEAR 2001 SAVINGS INITIATIVE**

TABLE OF CONTENTS

EXECUTIVE DIGEST 1

INTRODUCTION

 BACKGROUND 4

 OBJECTIVES, SCOPE, AND METHODOLOGY 5

 PAST FINDINGS AND RECOMMENDATIONS 7

 DISTRICT PERSONAL SAVINGS..... 8

VERIFICATION RESULTS

 ISSUE 1: OIG VERIFICATION 9

 ISSUE 2: USE OF RESERVE FUNDS..... 11

 ISSUE 3: MONITORING THE SAVINGS PLAN..... 13

EXHIBITS

 EXHIBIT A: SUMMARY OF FY 2001 PERSONAL AND NONPERSONAL
 LOCAL BUDGET AND EXPENDITURE DATA

 EXHIBIT B: MANAGEMENT ALERT REPORT (MAR 01-A-17)

 EXHIBIT C: MANAGEMENT RESPONSE

EXECUTIVE DIGEST

OVERVIEW

This report serves as our verification of the Office of the Chief Financial Officer's (OCFO) certification process for the \$47 million savings initiative for the District of Columbia (D.C.) fiscal year (FY) 2001 budget.

On August 23, 2001, we issued a Management Alert Report (MAR 01-A-17), which raised questions that were identified during our fieldwork. Specifically, the MAR was used as a means to solicit responses on eight issues surrounding the FY 2001 savings initiatives, the Chief Financial Officer (CFO) certification, and potential agency shortfalls that required clarification. A copy of the MAR and the CFO's comments in response to it are included as Exhibit B.

CONCLUSIONS

The OCFO's interpretation of achieving the requisite savings only required that: (1) agency baseline budgets must be reduced at the beginning of FY 2001 to reflect the savings initiative, and (2) requests to increase future agency budgets are to be limited to new initiatives **only** in order to ensure that savings were permanent.

We were able to verify that the District's FY 2001 budget was reduced to reflect the \$47 million in savings initiatives and that, in total, the District did not overspend its local budget. While agency budgets were reduced to reflect the \$37 million in management reform savings and \$10 million in operational improvement savings, the District received supplemental appropriations from Congress and reprogrammed local funds among agencies and object classes in order to achieve reported savings and meet other budget pressures. We could not, however, obtain data from District officials that would assure us that the additional funds were not used to offset reported personal and nonpersonal reductions.

Even with these additional funds, which totaled over \$114 Million for the 8 agencies we reviewed, we identified that 1 agency overspent its local budget by approximately \$120,000. Additionally, four agencies overspent their personal services local budget, and two other agencies overspent their nonpersonal services local budget. (See Exhibit A for details.) Our review also found that for personal and nonpersonal services, the cumulative amounts for agency expenditures for all income sources (federal, local, and inter-District) did not exceed appropriated budget amounts for FY 2001.

Our review identified areas of non-compliance related to the achievement of the FY 2001 savings initiative. Specifically, the District obligated funds from its Reserve Fund before the completion of certification that all of the savings had been achieved as stipulated by federal law. In addition, District program managers did not have controls in place to monitor the savings at the agency levels to ensure that savings were achieved as outlined in the savings initiative.

EXECUTIVE DIGEST

It is the position of officials from the OCFO that savings had been achieved by the reduction of agency budgets regardless of any supplemental appropriations and reprogrammings. Further, officials from the OCFO believed that they achieved the savings because the District operated within the reduced budget for FY 2001 (combined funding sources and agencies). The OCFO officials further stated that additional funds were used for new initiatives and that all identified savings initiatives were permanent. We could not obtain documentation to verify this assertion.

REQUESTED ACTIONS

1. We request that the Chief Financial Officer provide the Office of the Inspector General a management representation letter from agency CFOs, for agencies with identified savings, which confirms that savings reported in the Mayor's FY 2001 savings initiative were permanently eliminated from their respective baseline budgets for FY 2002 and beyond and that any additional funding requests are for new initiatives only.
2. We request that the Office of the Chief Financial Officer make a determination whether an Anti-Deficiency Act Violation has occurred relative to the use of reserve funds prior to the completion of certification that the required amount of savings were achieved. We suggest that you seek an opinion from the Corporation Counsel. If a violation of federal laws governing spending with the District's Appropriation Act has occurred, the Mayor must submit to the President and Congress the report required by 31 U.S.C. § 1351 (1994) in accordance with guidance contained in OMB Circular A-34 (revised October 19, 1999).

MANAGEMENT RESPONSE

In response to a draft of this report, the CFO provided a confirmation of savings totaling \$39.6 million and certified that these savings have been permanently eliminated from the respective agencies baseline budgets for FY 2002. However, the OCFO did not provide a management representation letter, as requested, which would provide assurances that the savings would be carried beyond FY 2002 and that any additional funding requests would be for new initiatives only. Additionally, we requested that the OCFO make a determination whether an Anti-Deficiency Act Violation has occurred relative to the use of reserve funds prior to the completion of certification that the required amount of savings were achieved. The OCFO did not provide a response regarding this issue. The OCFO's response is included as Exhibit C. Due to the length and size of attachments included to their narrative, they have been omitted and will be included as part of our permanent audit work paper files.

OIG COMMENTS

Since the OCFO did not provide a management representation letter, as requested, which would provide assurances that reported savings totaling \$47 million would be achieved for FY's 2002 and beyond, and that any additional funding requests are for new initiatives only,

EXECUTIVE DIGEST

we consider this item to be unresolved. Additionally, we requested that the OCFO make a determination whether an Anti-Deficiency Act Violation has occurred relative to the use of reserve funds prior to the completion of certification that the required amount of savings were achieved. The OCFO did not address this issue in its response. As such, this issue also remains unresolved.

We request the OCFO readdress these two issues and provide the OIG a response within 60 days of the date of this report.

INTRODUCTION

BACKGROUND

The D.C. Appropriations Act, 2000, Pub. L. No. 106-113, § 148(a), 113 Stat. 1501, 1523-24 (1999) established a \$150,000,000 budget reserve fund. The use of these funds is to be determined in accordance with criteria established by the Chief Financial Officer and approved by the Mayor, Council and – during a control year – the Authority.

H.R. 4577, enacted December 21, 2000, “Consolidated Appropriations Act, 2001,” provides that the District may fund the programs identified under the heading “Reserve” in H.R. 4942, subject to the certification by the Chief Financial Officer, the Mayor, and the Council have identified and implemented such spending reductions as may be necessary to ensure that the District will not have a budget deficit for fiscal year 2001.

Section 404 of the Consolidated Appropriations Act, 2001, Pub. L. No. 106-554, 114 Stat. 2763A-188, effective December 21, 2000, authorized the District of Columbia to use \$75 million of unspent budget reserve funds from fiscal year 2000 for the purposes proposed by the District, subject to the conditions stated in Title 47 of the Budget Support Act for fiscal year 2001.

Additionally, Sections 4702(2) and (3) of the FY 2001 Budget Support Act, D.C. Law 13-172 (Budget Support Act), provides that the Chief Financial Officer (CFO) must certify that \$37 million in management reform savings and \$10 million in operational improvement savings can be achieved to allow for program allocation of \$75 million in freed-up appropriations.

The methodology to achieve the District of Columbia FY 2001 Savings Initiatives was outlined by the Mayor in a press release on September 21, 2000. Specifically, it was reported that the savings initiative followed a three-pronged approach: (1) workforce management; (2) operational improvements; and (3) revenue enhancements. The workforce management component comprised \$38.7 million of the proposed \$47 million in anticipated savings. Based on the completed savings initiative, the Mayor reported, “We have reduced the size of the D.C. Government workforce by over 1,000 positions, including the elimination of approximately 50 current positions, to achieve savings of over \$47 million in local funds.”

On December 7, 2000, the City Administrator (CA), the CFO, and the Inspector General (IG) provided testimony to the D.C. Council on their respective roles regarding the savings initiative. Essentially, this testimony outlined how this process would work.

- The CA testified that as part of the consensus budget process, it was agreed that the District would achieve the required savings in order for them to be able to spend the \$75 million in available reserve funds for a range of City Council and Mayoral priorities. The CA further testified that the savings were to come from \$37 million in reduced personnel service costs achieved by rightsizing the D.C. workforce and \$10 million in operational improvements that make our agencies more efficient. The CA

INTRODUCTION

stated that cuts would not affect service delivery or cause reductions of frontline workers, such as firefighters, police officers, and social workers. The CA added that the District was experiencing spending pressures and unanticipated costs of approximately \$200 million that, if continued and not addressed, could create a deficit.

- The CFO testified that the certification was a three-step process. First, the CA, Deputy Mayors, and agency directors would agree on savings targets by agency. Second, the Office of the Chief Financial Officer (OCFO) would review the proposed savings for statutory requirements and mandates that could preclude proposed savings from being achieved. Third, the CFO would require the CA to attest to the savings.
- The CFO further testified that the Office of Budget and Planning (OBP) would review the savings allocations provided by the CA to ensure that the full-time equivalent (FTE) positions were reduced and the savings were accurate and reasonable. The OBP would then load the allocated reductions in the District's System of Accounting and Reporting (SOAR) by agency, responsibility center, and object class. Both dollars and FTE positions would be reduced in agency budgets. To ensure that personal service reductions in agencies were permanent, OBP would closely monitor agency budgets and would not approve any reprogrammings to replace the reduced budget authority. For nonpersonal services, agencies would be informed that no funds would be reprogrammed into object classes from which savings had been made without a corresponding reduction in the FY 2002 budget of the object class from which the reprogramming had been made. Object classes from which savings had been made would be monitored so that any reprogramming made for operational purposes would be in accordance with policies established to carry out the savings initiative. This would ensure that savings would be carried forward from FY 2001 in FY 2002.
- The IG testified that we would conduct our audit in two distinct phases: Phase I would be an initial (and larger) effort to test and verify savings methodologies; Phase II would be a follow-on effort after the close of the FY to verify the CFO's final certification process.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary audit objective was to verify the CFO's certification of the achievement of the \$47 million in savings. We also reviewed the adequacy of management controls over the monitoring of and adherence to the savings plan. Finally, as part of the overall savings initiative under the "workforce management" component, we attempted to determine whether District agencies permanently reduced 1,000 FTE positions from their respective FY 2001 budget baselines.

The review generally covered the period October 1, 2000, to February 1, 2002. In order to address and accomplish our audit objectives, we met with personnel from the OCFO, the Office of the City Administrator, and the Budget Director for the Council of the District of Columbia. We also coordinated our review with the General Accounting Office (GAO) and

INTRODUCTION

we discussed the FY 2001 savings initiative with officials from the District of Columbia Office of Personal (DCOP).

We selected as our audit universe the following 8 District agencies, whose combined savings totaled \$30.5 million:

- Office of Contracting and Procurement (OCP);
- Department of Public Works (DPW);
- Department of Health (DOH);
- Department of Corrections (DOC),
- Fire and Emergency Medical Services Department (FEMS);
- Metropolitan Police Department (MPD);
- Office of Property Management (OPM); and
- Department of Human Services (DHS).

We met with personnel (primarily agency CFOs and agency budget staff) at each of the eight agencies to: (1) determine what policies and procedures were implemented to monitor the savings plan; and (2) review data to ensure that savings were achieved and that the related FTEs and other costs were permanently eliminated.

Data reviewed included personnel action forms and other supporting documents to ensure that specific positions were eliminated as outlined in the savings initiative. We also obtained budget and actual expenditure data from OBP to verify that (1) original budgets were properly reduced to reflect proposed savings and (2) FY 2001 expenditures were equal to or less than corresponding budget amounts.

Our review began shortly after the issuance of the FY 2001 savings initiative in September 2000. We initially verified, at a macro-level, that the baseline budgets (which reflected the FY 2001 savings initiative) were loaded in the SOAR, and then we began our review of the use of reserve funds and execution of the savings initiative.

We suspended, for the most part, our audit work in February of 2001, until the completion of the certification by the CFO in September 2001. After the certification was completed, we attempted to obtain data from agency heads to support reported savings. We sent letters to selected agencies on November 1, 2001, requesting personnel forms to support the eliminated positions reported in the savings initiative.

On August 23, 2001, we issued a Management Alert Report (MAR 01-A-17), which surfaced questions that were identified during our fieldwork. Specifically, the MAR was used as a means to solicit responses on eight specific issues surrounding the FY 2001 savings initiatives, the Chief Financial Officer's (CFO) certification, and potential agency shortfalls that required clarification.

INTRODUCTION

In response to the MAR, the CFO stated that the outcome of the Comprehensive Annual Financial Report (CAFR) process could either reduce or increase savings. As such, we coordinated our audit results with any CAFR results that involved a change in management reform and operational improvement savings.

PAST FINDINGS AND RECOMMENDATIONS

During the course of our review, the GAO performed an audit that reviewed the District of Columbia workforce reduction plan and associated costs. As this review focused primarily on Section 157 funding used to pay bonuses and related expenditures for identified eliminated positions, it was similar to our audit in that a portion of the positions eliminated were also reported as those counted toward the achievement of the Mayor's Savings Initiative. District of Columbia Appropriations Act, 2000, Pub. L. No. 106-113, §157(a), 113 Stat. 1501, 1527 (1999). Additionally, our audit had similar objectives, as they related to the overlapping eliminated positions.

In January 2001, the House Appropriations Subcommittee on the District of Columbia asked the General Accounting Office (GAO) to determine whether the Mayor of the District of Columbia followed the plan provided to Congress in conducting the workforce reduction and whether the objectives of the plan were achieved. Additionally, the Subcommittee requested specific information on: (1) the number of people involved in the workforce reduction; (2) whether individuals were in positions that were considered "critical"; (3) whether individuals holding "critical" positions were re-hired; and (4) whether cost savings were realized as a result of the workforce reduction.

The GAO issued its report on November 5, 2001, (GAO-02-128R D.C. Workforce Reductions and Related Funding Issues). The GAO reported that 579 FTEs comprised the District's FY 2000 early-out retirements and reductions in force (RIF) that were the basis of the use of Section 157 funding. The GAO reported, "The District did not meet the conditions set forth in Section 157 of the District of Columbia Fiscal Year 2000 Appropriations Act (Public Law 106-113)." *Id.* Therefore, the District did not have the authority to use the \$18 million in Section 157 funding for the FY 2000 workforce reduction. The District purported that it believed that it had the D.C. Financial Responsibility and Management Assistance Authority's (Authority) approval to use the Section 157 funding and, consequently, incurred \$14.3 million in costs during FY 2000 related to the workforce reduction activities. Based on the GAO finding of this inappropriate use of funds, one District agency showed a surplus rather than a deficit in its operating budget, and two other agencies showed lower operating deficits than they otherwise would have shown.

The GAO audit also reported that the District claimed it had saved money by trimming the equivalent of 518 full-time jobs, but more than half of the positions, 277, were funded vacancies, and 90 others were transferred to other parts of the government. None of the positions eliminated were to be deemed "critical" or "front-line workers." Although the District reported

INTRODUCTION

that it had saved \$26 million with the cuts, all but \$9 million stemmed from transfers and vacant slots. Meanwhile, the District included \$14 million of Section 157 funds in its budget. The GAO estimated that by the fall of 2000, as many as two-thirds of the workers who took early retirement had to be replaced because they were deemed essential, e.g., snowplow drivers.

The GAO recommended that the Mayor of the District of Columbia perform the required investigation to determine if the operating deficits resulting from reversing its inappropriate use of the Section 157 authority would result in or contribute to any potential Anti-Deficiency Act violations and report as necessary to disclose any such violations. The investigation performed by the OCFO found that the District did not violate the Anti-Deficiency Act.

DISTRICT PERSONAL SERVICE SAVINGS

Our review showed that savings for personal services for the FY 2001 savings initiative were comprised of 518 FTEs (which accounted for \$26.3 million) rather than 1,000 FTEs as reported by the Mayor's office. As noted above, these positions were included in the FTEs identified in the GAO report. The table below identifies the number of positions in each category reported as eliminated by the District.¹

Category	Positions Eliminated in Which Section 157 Funding was Used	FTEs Reduced Toward the Achievement of the Savings Initiative
Retirees	464	123
RIFs	115	27
Transfers	0	90.5
Elimination of Funded Vacancies	0	277.5
Totals	579	518

¹ The information in the table is unaudited and was provided by District officials.

VERIFICATION RESULTS

ISSUE 1: OIG VERIFICATION

SYNOPSIS

We verified that the District's FY 2001 local budget was reduced to reflect the \$47 million in savings initiatives and that, in total, the District did not overspend its local budget. While agency budgets were reduced by \$47 million to reflect the \$37 million in management reform savings and \$10 million in operational improvement savings, the District received supplemental appropriations from Congress and reprogrammed local funds between agencies and object classes in order to achieve reported savings and meet other budget pressures.

DISCUSSION

In order to alleviate FY 2001 spending pressures at various agencies, supplemental funding from Congress was received pursuant to the Supplemental Appropriations Act, 2001, Pub. L. No. 107-20, ch. 3, 115 Stat. 155, 170-73 (2001). Additionally, transfers were made between District agency budgets. Section 111(b) of the D.C. Appropriations Act, 2001 (Pub. L. No. 106-522, § 111(b) 114 Stat. 2440, 2459 (2000)) authorized the District of Columbia to transfer up to 2 percent (\$65 million) of local funds *across* appropriation titles.

The FY 2001 savings attributed to the eight agencies reviewed totaled approximately \$30.5 million. Supplemental funding for these agencies totaled more than \$114 million, i.e., 300 percent. As discussed in Issue 3, although the FY 2001 budget was reduced to reflect the \$47 million in savings, it can be debated that because the original amount of \$47 million was eventually cut from agency budgets, the additional funds received through reprogrammings and supplemental appropriations were in excess of the savings. Further, we could not obtain data from District officials that would assure us that the additional funds were not used to offset reported personal and nonpersonal reductions. This is of particular concern since we identified that 1 agency overspent its local budget by approximately \$120,000. Additionally, four agencies overspent their personal services local budget, and two other agencies overspent their nonpersonal services local budget. Exhibit A summarizes the results of the FY 2001 local budgets and final expenditures for the eight agencies reviewed.

Our review also found that for personal and nonpersonal services, the cumulative amounts for agency expenditures for all income sources (federal, local, and inter-District) did not exceed appropriated budget amounts for FY 2001.

VERIFICATION RESULTS

REQUESTED ACTION

We request that the Chief Financial Officer provide the Office of the Inspector General a management representation letter from agency CFOs, for agencies with identified budget cuts, which confirms that savings reported in the Mayor's FY 2001 savings initiative were permanently eliminated from their respective baseline budget for FY 2002 and beyond and that any additional funding requests were for new initiatives only.

MANAGEMENT RESPONSE

In response to a draft of this report, the CFO provided a confirmation of savings totaling \$39.6 million and certified that these savings have been permanently eliminated from the respective agencies baseline budgets for FY 2002.

OIG COMMENTS

The OCFO did not provide a management representation letter, as requested, which would provide assurances that the savings would be carried beyond FY 2002 and that any additional funding requests would be for new initiatives only. Since the OCFO did not provide a management representation letter as requested, we consider this item to be unresolved.

We request the OCFO readdress this issue and provide the OIG a response within 60 days of the date of this report.

VERIFICATION RESULTS

ISSUE 2: USE OF RESERVE FUNDS

SYNOPSIS

The District of Columbia used reserve funds, totaling \$75 million, prior to obtaining the required certifications related to the FY 2001 savings initiative. The Budget Support Act required the full certification of the \$47 million as a prerequisite for use of the Reserve Fund. The OBP began loading obligations in SOAR in February of 2001. The first certification by the CFO occurred on November 16, 2000. However, remaining savings were not certified until September 28, 2001. As a result, OBP did not comply with conditions of the Budget Support Act when it obligated the \$75 million taken from reserve funds.

DISCUSSION

The D.C. Appropriations Act, 2000, Pub. L. No. 106-113, § 148(a), 113 Stat. 1501, 1523-24 (1999) established a \$150,000,000 budget reserve fund. The use of these funds is to be determined in accordance with criteria established by the Chief Financial Officer and approved by the Mayor, Council and – during a control year – the Authority.

Section 404 of the Consolidated Appropriations Act, 2001, Pub. L. No. 106-554, 114 Stat. 2763A-188, effective December 21, 2000, authorized the District of Columbia to use \$75 million of unspent budget reserve funds from fiscal year 2000 for the purposes proposed by the District, subject to the conditions stated in Title 47 of the Budget Support Act for fiscal year 2001. Specifically, Paragraph 2 of Title 47 requires the Chief Financial Officer to certify that the \$37 million in Management Savings will be achieved before the programs under this paragraph could be funded. Paragraph 3 then requires the Chief Financial Officer to certify that the \$10 million in Operational Improvement Savings will be achieved before the programs under such paragraph could be funded. This condition was enacted to ensure that the unspent reserve funds would be available to cover any shortfall in the savings goal.

In addition to the conditions included in Title 47 of the Budget Support Act, Pub. L. No. 106-554 conditioned the use of the unspent reserve funds of fiscal year 2000 as follows:

upon certification by the District of Columbia Financial Responsibility and Management Assistance Authority to the Committees on Appropriations of the Senate and House of Representatives that the Chief Financial Officer of the District of Columbia, the Mayor of the District of Columbia, and the Council of the District of Columbia have identified and implemented such spending reductions as may be necessary to ensure that the District of Columbia will not have a budget deficit for fiscal year 2001.

VERIFICATION RESULTS

Id. In accordance with the Budget Support Act and the Consolidated Appropriations Act for fiscal year 2001, the CFO certified that \$47 million in savings would be achieved in fiscal year 2001. The required certification by the CFO was performed in two steps. On November 16, 2000, the CFO certified that \$39.4 million of the \$47 million in savings had been achieved. The remaining \$7.6 million in savings was not certified until September 28, 2001.

In discussions with CFO officials regarding this matter, the officials stated that it was their position that all programs listed under Paragraph 2 of Title 47 could be funded and at least \$2.4 million of programs under Paragraph 3 could be funded as of November 2000. However, our review of documents disclosed that the loading of the reserve funds in SOAR began on February 8, 2001. Based on the information provided to the OIG, it was not clear whether the loading in SOAR exceeded the \$39.4 million in savings that had been certified in November 2000.

This issue is similar to the finding reported by the GAO in its report, D.C. Workforce Reductions and Related Funding Issues, issued on November 5, 2001 (GAO-02-128R). GAO reported that the District did not complete the necessary certifications prior to the use of the aforementioned reserve funds and therefore did not have the authority to use those funds at the time they were loaded into SOAR.

REQUESTED ACTION

We request that the Office of the Chief Financial Officer make a determination whether an Anti-Deficiency Act Violation has occurred relative to the use of the reserve fund. We suggest that you seek an opinion from the Corporation Counsel. If a violation of federal law governing spending pursuant to the District's Appropriation Act has occurred, the Mayor must submit to the President and the Congress the report required by 31 U.S.C. § 1351 (1994) in accordance with guidance contained in OMB Circular A-34 (revised October 19, 1999).

MANAGEMENT RESPONSE

The CFO did not provide a response regarding this issue.

OIG COMMENTS

Since the OCFO did not address this issue in its response, this issue remains unresolved. We request the OCFO readdress this issue and provide the OIG a response within 60 days of the date of this report.

VERIFICATION RESULTS

ISSUE 3: MONITORING THE SAVINGS PLAN

SYNOPSIS

Our review found that the savings identified in the District of Columbia FY 2001 Savings Initiative, specifically related to costs for personal services may not have been achieved as outlined in the original plan. In our attempts to verify the elimination of specified FTEs, we were informed that in many cases the District substituted other funded FTEs or nonpersonal services for specified positions that had been slated for elimination. While we do not question the use of substitutions per se, the absence of an audit trail identifying the substitutions makes it difficult to confirm that: (1) the District reduced its workforce as outlined in the Savings Initiative, or (2) cost savings made in FY 2001 were permanent.

DISCUSSION

As previously stated, one of our audit objectives was to review the adequacy of management controls over the monitoring and tracking of the savings and to determine whether District agencies permanently reduced 1,000 FTE positions from their respective FY 2001 budget baselines.

We met with personnel (primarily agency CFOs and agency budget staff) at each of the eight agencies to: (1) determine what policies and procedures were implemented to monitor the savings plan; and (2) review data to ensure that savings were achieved and that the related FTEs and other costs were permanently eliminated. Additionally, we coordinated with personnel from the OCFO, the Office of the City Administrator, and the Budget Director for the Council of the District of Columbia. We also coordinated our review with the General Accounting Office (GAO). Additionally, we discussed the FY 2001 savings initiative with persons from the District of Columbia Office of Personal (DCOP).

Data reviewed included personnel action forms and other supporting documents to ensure that specific positions were eliminated as outlined in the savings initiative. We also obtained budget and actual expenditure data from OBP to verify that original budgets were properly reduced to reflect identified savings and that FY 2001 expenditures were equal to or less than corresponding revised budget amounts.

VERIFICATION RESULTS

Monitoring Plan Execution

We asked agency officials whether written procedures or policies had been established to ensure that savings had been achieved. We were told that expenditures and agency fund balances were reviewed during the regular monthly financial review process. In addition, agency officials reviewed various SOAR reports, and approved expenditure documents (P.O.'s, contracts, and personnel actions) prior to processing to ensure that funds were available and to identify any potential budget shortfalls or anti-deficiency violations.

Officials from the Office of the City Administrator stated that no written instructions were prepared for the savings initiative but the process of communicating directions to agencies included verbal instructions, memoranda that were issued during the course of the exercise, discussions at cabinet meetings as part of the overall budget exercise, and face-to-face meetings with agency directors about the need to assess the savings.

We were also told that the OCFO monitors spending primarily through a financial review process. That process involves the submission of a monthly financial status update from each District agency. An analysis of those reports by staff of OBP, and reconciliation of any differences from forecasted spending is performed. Ultimately, a monthly financial status report is compiled to provide a citywide "snapshot" of the District's progress in executing the annual financial plan and budget. As necessary, follow-up meetings between OBP staff and agency personal are conducted to explore more fully any expenditure control issues. Agency directors and financial managers may be required by the CFO to submit specific action plans, including milestone achievement dates, to eliminate potential overspending.

We could not find evidence of any specific reviews of expenditures to assure ourselves that savings related to the Mayor's savings initiative at the eight agencies were achieved. We confirmed that agency budgets were reduced at the beginning of FY 2001 to reflect cuts to meet savings objectives. However, agency representatives stated that if savings as originally presented were not achieved in the specific expense category, a pre-encumbrance payable for the deficit would be established, resulting in an under-spending in another category to off-set the deficit.

Following the Plan

The methodology to achieve the FY 2001 savings initiatives was outlined by the Mayor in a press release on September 21, 2000. Specifically, it was reported that the savings initiative followed a three-pronged approach: (1) workforce management; (2) operational improvements; and (3) revenue enhancements. The workforce management component comprised \$38.7 million of the proposed \$47 million in anticipated savings. In determining which positions would be eliminated, agency and mayoral staff primarily targeted overhead positions and "back-office" functions. The District was careful to ensure that front-line service providers were not cut whenever possible. To achieve the required savings in

VERIFICATION RESULTS

personal services, the FY 2001 Savings Initiative required each agency director to submit a list of suggested positions for elimination. Mayoral and OBP staff reviewed the suggested eliminations and, in some cases, proposed additional ones. As a result, a final list of eliminations was produced through a collaborative effort.

Criticism of the savings initiative has been made by various stakeholders, including the City Council. For instance, reducing the workforce, as well as other operational and budgetary matters at the Department of Corrections (DOC) was the focus of an oversight hearing by the District of Columbia Council Committee on the Judiciary. The chairperson questioned the Director because DOC had not reduced the workforce in accordance with the scheduled layoffs. Specifically, DOC failed to carry out planned layoffs of about 400 employees who worked at the now closed Lorton Correctional Complex. It was reported that staff were showing up for work at the D.C. Jail and halfway houses and “doubled” up on jobs in some cases.

The GAO also reported that the District was unable to provide satisfactory evidence that the 2 to 1 target savings were met and concluded that the Mayor’s plan was not conducted in conformance with Section 157.

The District also reported that none of the employees who took buy-outs (identified in the GAO report) met the District’s criteria as “critical” and, therefore, no employees holding “critical” positions were rehired.² However, District officials also reported that three senior managers with “expertise in snow removal” were brought back on an “hours worked” contract to assist with the FY 2000-2001 snow removal season but stated that they did not meet the definition of “critical.”

² District officials define a “critical” position as one that met any of the following criteria: (1) the only position of its kind, (2) a sole-supervisory position, (3) a court-ordered position, or (4) essential to carrying out the mission or functions of an agency.

**SUMMARY OF FY 2001
PERSONAL AND NONPERSONAL
LOCAL BUDGET AND EXPENDITURE DATA**

Personal Services

Agency	(1) FY 2001 Proposed Budget	(2) FY 2001 Savings Initiative	(3) Revised FY 2001 Budget	(4) FY 2001 Transfer/ Supplemental Funds	(5) Final FY 2001 Budget	(6) Final FY 2001 Expenditures	(7) Difference
Contracting & Procurement	\$12,160,000	(\$2,866,161)	\$9,293,839	\$826,662	\$10,120,501	\$10,196,353	(\$75,852)
Department of Public Works	48,463,604	(4,343,626)	44,119,978	3,689,960	47,809,938	47,082,929	727,009
Department of Health	24,691,449	(1,557,399)	23,134,050	2,955,237	26,089,287	23,445,373	2,643,914
Department of Corrections	43,445,775	(3,456,433)	39,989,342	2,627,461	42,616,803	44,239,015	(1,622,212)
Fire and EMS	102,615,603	(1,162,305)	101,453,298	14,363,473	115,816,771	116,481,301	(664,530)
Metropolitan Police Department	247,381,927	(1,991,491)	245,390,436	25,689,402	271,079,838	270,538,032	541,806
Office of Property Management	3,193,377	(738,645)	2,454,732	1,264,706	3,719,438	3,681,020	38,418
Department of Human Services	396,636,682	(7,348,874)	389,287,808	43,945,042	433,232,850	434,939,368	(1,706,518)
Personal Services Totals	\$878,588,417	(\$23,464,934)	\$855,123,483	\$95,361,943	\$950,485,426	\$950,603,391	(\$117,965)

Nonpersonal Services

	FY 2001 Proposed Budget	FY 2001 Savings Initiative	Revised FY 2001 Budget	FY 2001 Transfer/ Supplemental Funds	Final FY 2001 Budget	Final FY 2001 Expenditures	Difference
Contracting & Procurement	\$3,177,000	(\$185,054)	\$2,991,946	\$0	\$2,991,946	\$2,521,100	\$470,846
Department of Public Works	50,509,643	(659,171)	49,850,472	(632,153)	49,218,319	49,862,282	(643,963)
Department of Health	17,198,367	(997,893)	16,200,474	276,637	16,477,111	16,494,710	(17,599)
Department of Corrections	38,726,112	(17,618)	38,708,494	(1,000,000)	37,708,494	36,205,055	1,503,439
Fire and EMS	13,971,397	(346,333)	13,625,064	95,579	13,720,643	6,746,683	6,973,960
Metropolitan Police Department	37,122,073	(39,371)	37,082,702	5,334,465	42,417,167	39,282,009	3,135,158
Office of Property Management	3,426,129	(1,276,514)	2,149,615	5,302,571	8,981,828	8,833,426	148,402
Department of Human Services	164,130,721	(3,521,954)	160,608,767	9,377,099	171,515,508	159,945,265	11,570,243
Nonpersonal Services Totals	\$328,261,442	(\$7,043,908)	\$321,217,534	\$18,754,198	\$343,031,016	\$319,890,530	\$23,140,486

Grand Totals	\$1,206,849,859	(\$30,508,842)	\$1,176,341,017	\$114,116,141	\$1,293,516,442	\$1,270,493,921	\$23,022,521
---------------------	------------------------	-----------------------	------------------------	----------------------	------------------------	------------------------	---------------------

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Charles C. Maddox, Esq.
Inspector General



August 23, 2001

Dr. Natwar M. Gandhi
Chief Financial Officer
441 Fourth Street, N.W., Suite 1150
Washington, D.C. 20001

Dear Dr. Gandhi

The Office of the Inspector General (OIG) is currently conducting a verification audit of the Office of the Chief Financial Officer's (OCFO) certification process over the \$47 Million Savings Initiative for the Fiscal Year (FY) 2001 budget. The audit is being conducted under project number OIG-01-1-2MA.

We are providing this Management Alert Report (MAR 01-A-17) to bring to your immediate attention the concerns and issues that we have identified to date. Additionally, we are issuing this MAR as a means to solicit responses on eight specific issues that require clarification.

BACKGROUND

Title XLVII, Sections 4702(2) and (3) of the FY 2001 Budget Support Act, D.C. Law 13-172, (Budget Support Act) provides that the CFO must certify that \$37 Million in Management Reform Savings and \$10 million in Operational Improvement Savings can be achieved to allow for program allocation of \$75 million in freed-up appropriations. In joint testimony with the City Administrator and the Chief Financial Officer (CFO) on December 7, 2000, the Inspector General (IG) informed the D.C. Council that the OIG would conduct an audit consisting of two segments: an initial effort to test and verify identified savings and methodologies and a follow-up verification of aggregate savings.

Accordingly, our primary audit objective is to verify the reliability and accuracy of the \$47 million in savings. We are also determining if adequate management controls have been implemented in order to monitor and track the savings. Finally, as part of the overall savings initiative under the "workforce management" component, we are determining if District agencies permanently reduced 1,000 Full-Time Employee (FTE) positions from their respective FY 2001 budget baselines.

METHODOLOGY

We selected as our audit universe 7 District agencies, whose combined savings totaled \$25.5 million: the Department of Public Works (DPW), the Metropolitan Police Department (MPD), the Department of Corrections (DOC), the Department of Health (DOH), the Department of Human Services (DHS), the Office of Contract and Procurement (OCP), and the Office of Property Management (OPM). Since it later came to our attention that the Fire and Emergency Medical Services Department (FEMS) was experiencing a potential budget pressure, we included that agency as part of our audit, which brought the combined savings under review to \$27 million for 8 agencies.

We are conducting the audit in two distinct phases: Phase I is an initial (and larger) effort to test and verify savings methodologies. Phase II will be a follow-on effort soon after the close of the FY to verify the CFO's final certification process. We plan on completing our fieldwork for Phase I at all eight agencies by September 5, 2001. Since we do not anticipate a lengthy process for Phase II fieldwork, we believe that we can fully complete it within a two-week period. Upon the completion of all fieldwork, we will issue a draft report. If final CFO certification can occur by October 15, 2001, our Office expects to issue a draft report by November 15, 2001.

In order to address and accomplish our audit objectives, we have met with personnel (primarily agency CFOs and agency budget staff) at each of the eight agencies. In addition, we have met on several occasions with personnel from OCFO's Office of Budget and Planning (OBP), the Office of the City Administrator, the Budget Director for the Council of the District of Columbia, and the Office of the Trustee for the Department of Corrections (DOC Trustee). As we progress toward the conclusion of this audit, we will continue to meet with these individuals.

We have not had an opportunity to discuss the issues presented in this MAR with the District of Columbia Office of Personnel (DCOP). Initially, OIG staff auditors planned to review, and subsequently incorporate, information from all eight agencies prior to scheduling a one-time meeting with DCOP. We now understand the need to involve DCOP may be more immediate than what was originally planned.¹ Therefore, we will ensure that DCOP officials have an opportunity to respond to the issues in this MAR as we move from audit mid-course to audit closing.

INTERIM STATUS OF ISSUES

Based on our review efforts thus far, we have identified and summarized the following issues that deal with the overall matter of certification. We perceive some of these issues to be potentially problematic based on our analyses even though we recognize that our review is incomplete at this stage, and that our office needs to consider and analyze additional documentation. **Therefore, we request that the OCFO, or other agency CFO offices as**

¹ See Issue 3 regarding Elimination of 1,000 FTEs.

deemed necessary, inform us if we have accurately captured and presented the issues below. We also request answers to the questions that we raise at the end of each issue.

Issue 1: Use of the \$75 Million Reserve Fund. The Budget Support Act provides that \$37 million of the freed-up appropriated funds from the FY 2001 reserve roll-over shall be used toward Management Savings if the CFO finds that Management Savings does not achieve the necessary savings. In addition, the legislation mandates that \$10 million shall be used toward Operational Improvement Savings if the CFO similarly determines that the requisite savings are not being met.

In a November 16, 2000, memorandum to the Deputy Mayor/City Administrator dealing with the CFO's certification of the \$47 Million Savings Initiative, the OCFO certified that \$39.4 million in savings was achieved (see Issue 2 below). The memorandum requested the City Administrator to identify \$7.6 million in additional savings to reach the \$47 million target.² Because the Budget Support Act allocates \$47 million of the reserve fund toward the savings if a shortfall exists, we have tentatively concluded that the balance will be drawn from the reserve fund.

Question A: Will \$7.6 million from the \$75 Million Reserve Fund be used to satisfy the balance in achieving \$47 million in savings?

Question B: Although we recognize that by law some of the \$75 million in reserves can be used to help achieve the \$47 million in savings, why was the City Administrator unable to identify the entire savings from local budgets?

Question C: Does the OCFO envision any additional scenario (e.g., an agency that cannot overcome a budget pressure) that would prompt the District to use additional funds from the \$75 million to achieve the \$47 million in savings?

Issue 2: Final Certification. With some contingencies, related to potential budget pressures at seven agencies (footnoted in the November 16, 2000 memorandum), the CFO certified achieving \$39.4 million in savings. As we have previously mentioned, the balance of \$7.6 million will apparently be obtained through the reserve fund. However, four agencies - DOH, DOC, DPW, and FEMS - have reported budget pressures entering the final quarter of FY 2001.

In order to ensure that total savings have been achieved, the OCFO may determine that some testing is warranted before subsequently issuing a final certification.

Question A: When will the final certification of the \$47 million in savings be completed?

Question B: How will the OCFO ensure that agency budget pressures have been removed, and will the OCFO conduct any testing before the final certification is issued?

² "Your office needs to identify \$7.6 million in additional savings to meet the \$47 million savings target". Memorandum, CFO Certification of the \$47 Million Savings Initiatives, November 16, 2000, Page 4.

Issue 3: Elimination of 1,000 FTEs. The FY 2001 Savings Initiative required the elimination of approximately 1,000 FTEs District-wide, either through retirements, vacancies, transfers, or Reduction In Force. Representatives from OCFO, the City Administrator's Office, and targeted agencies determined the number of positions to eliminate. To partially accomplish their savings, some agencies have not filled these positions. However, as a baseline measure, none of the agencies included in this audit have permanently eliminated all of the FTE positions that they were slated to lose at the start of FY 2001. Unless these positions are permanently eliminated, we believe that agencies will not have complied with the Mayor's goal of streamlining government.

In our estimation, the DCOP could have permanently eliminated the 1,000 FTEs at the start of FY 2001, thereby establishing immediate compliance with the Mayor's goal. In addition, the agencies that have suffered budget pressures throughout FY 2001 might have avoided this outcome had DCOP taken prospective action on October 1, 2000.

Question A: What prevented DCOP from permanently eliminating the 1,000 FTEs at the start of FY 2001?

Question B: What type of immediate action would OCFO or the Office of the City Administrator recommend concerning the permanent elimination of the 1,000 FTEs?

Issue 4: Interim Results at the Department of Health. The information and documentation that we have obtained on DOH was provided to us only very recently.³ After a cursory review of the June 2001 reports submitted to OCFO, we are concerned that a projected budget pressure of \$37 million exists at such a late stage of FY 2001. Additionally, it appears that the budget pressure grew rapidly over the past 3 months, from \$25 million in March, to the present \$37 million total. Of the \$37 million deficit, DOH's GAP Closing Plan⁴ relies on a \$19 million offset from the FY 2001 Supplemental Budget. While this partial relief appears to be viable, the remaining \$18 million budget pressure balance presents a significant obstacle for the District Government in its attempt to meet the \$47 million savings goal.

Question A: What prevented OCFO from taking more aggressive action at DOH regarding the \$37 million budget pressure?

Question B: Has OCFO approved DOH's latest GAP Closing Plan, and has OCFO determined the source of funds to offset the remaining \$18 million deficit?

Issue 5: Interim Results at the Department of Corrections. We have had discussions with DOC management, as well as with the DOC Trustee. To complete our work

³ We obtained DOH's June 2001 budget report on August 10, 2001. Unlike other District agencies identified in this report (DOC, DPW, FEMS, and MPD), where frequent visits have occurred, contact with DOH has been very limited due to the chronology of our fieldwork at agency sites.

⁴ A GAP Closing Plan is an OCFO term that District agencies use to describe their plan to eliminate an agency deficit.

at DOC, we will need to evaluate documents, continue our discussions, and prioritize a meeting with DCOP.

We believe that DOC poses another significant obstacle for the District Government in reaching the \$47 million savings goal. In the latest financial report submitted to OBP that was provided to us, DOC identified a budget pressure of \$7.9 million. To further complicate matters, we do not believe that DOC's existing GAP Closing Plan is viable.

Yet, DOC management had an initial plan at the start of FY 2001 that would have ensured that the agency immediately achieved \$3 million in savings. That is, DOC prepared an administrative order in August 2000 requesting that DCOP eliminate the FTE positions at the start of FY 2001. We have not been able to determine why the administrative order was not enforced. Since that time, however, some actions have occurred that may serve to only worsen the prospects for achieving savings at DOC. Accordingly, our remaining audit efforts at DOC will be focused on determining the following:

- How the 72 FTEs slated for elimination were reduced to 43 FTEs.
- Why DOC backfilled 11 of the 43 FTEs.
- Whether the DOC budget pressure is entirely attributable to the agency's forestalling the action to eliminate 43 FTEs from the local budget.
- Why DOC continues to postpone action regarding the elimination of several hundred FTE positions associated with Trustee expenditures.⁵
- Whether DOC has prepared an amended GAP Closing Plan that satisfies OCFO and the DOC Trustee.

In addition, we will determine why DCOP did not act on DOC's request to eliminate 72 FTEs at the beginning of FY 2001.

Question A: What was OCFO's involvement regarding DOC's August 2000 administrative order?

Question B: What prevented OCFO from taking more aggressive action at DOC regarding the budget pressure, especially when earlier FY 2001 monthly reports identified projected deficits that exceeded \$9 million?

Question C: Has OCFO approved DOC's latest GAP Closing Plan, and does OCFO believe that it is achievable?

Question D: Will DOC and OCFO coordinate the GAP Closing Plan with the DOC Trustee?

⁵ It appears that DOC management continues to fully fund Personnel Services for facilities that have either closed (Maximum Security Facility), or require a significantly reduced workforce (Central Correctional Facility).

Issue 6: Interim Results at the Department of Public Works. Savings of over \$5 million have not been achieved. In addition, DPW has not permanently eliminated the 131 FTEs associated with the savings initiative from its budget. However, a \$5.9 million budget pressure that currently exists is attributable to Non Personnel Services. To overcome this deficit, DPW proposes (in its June monthly report to OCFO) a GAP Closing Plan that utilizes funds saved through a combination of: (a) \$4 million of reprogrammed actions and reimbursements and (b) transferring employees working on the capital maintenance project from the local to the capital budget for an amount yet to be determined. The Gap Closing Plan appears viable so long as DPW arrives at an amount in (b) that closes the gap between the budget pressure of \$5.9 million and the \$4 million identified in (a).

Question: Does OCFO agree with DPW's Gap Closing Plan?

Issue 7: Interim Results at Fire and Emergency Medical Services. FEMS has not achieved savings of \$1.5 million. In addition, while FEMS has not eliminated any of the 28 FTEs, it has implemented controls to avoid the backfilling of positions. We have examined FEMS' GAP Closing Plan and it does not appear to be viable.

Question: Does OCFO agree with FEMS' Gap Closing Plan and, if not, what options will OCFO recommend to FEMS management?

Issue 8: Interim Results at the Metropolitan Police Department. Only 5 of the requisite 43 FTE positions have been eliminated. Therefore, we do not believe that savings of \$2 million have been achieved. However, the budget pressure that MPD experienced earlier in FY 2001 no longer exists.

Question: Does OCFO agree that MPD has not achieved savings at this time?

CLOSING

Because the subject matter presented in this MAR is still under review, our intention is to limit the distribution of this MAR. Therefore, please circulate it only to those personnel who will be directly involved in preparing responses. We also ask that you have written responses to the 16 questions that are contained in this MAR by September 5, 2001. Finally, we believe that it would be beneficial to discuss your written responses to ensure complete resolution of all open issues. Accordingly, a representative from my office will contact your office to arrange a suitable date and time for this briefing.

Upon completion of our fieldwork, we will issue a draft report and make the appropriate recommendations that we believe will address all audit issues in need of resolution.

Dr. Natwar Gandhi, CFO
August 23, 2001
Page 7 of 7

Should you have any questions about this MAR prior to the briefing, please contact me or William J. DiVello, Assistant Inspector General for Audits at (202) 727-2540.

Sincerely

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is fluid and cursive, with the first name being the most prominent.

Charles C. Maddox, Esq.
Inspector General

CM/fb

- cc The Honorable Anthony A. Williams, Mayor, District of Columbia
- John A. Koskinen, Deputy Mayor/City Administrator
- Milou Carolan, Director, District of Columbia Office of Personnel
- The Honorable Linda W. Cropp, Chairman, Council of the District of Columbia
- Kelvin Robinson, Chief of Staff, Executive Office of the Mayor

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



2001 SEP 10 PM 3:01

September 7, 2001

Charles C. Maddox, Esq.
Inspector General
717 14th St. NW
Washington D.C. 20005

Dear Mr. Maddox:

This letter is in response to the issues raised in your letter (dated August 23, 2001) regarding the \$47 million savings initiative for FY 2001.

Many of the issues raised in your letter assume that the existence of spending pressures jeopardizes the achievement of the \$47 million savings initiative. This is an incorrect assumption. Spending pressures are projections of potential overspending if corrective actions are not taken. In each of FY 1998 – FY 2000, the District was challenged with over \$100 million in spending pressures, which were addressed by the end of the fiscal year. We are currently addressing the spending pressures for FY 2001.

Our responses to each of the specific issues raised in your letter are presented below.

Issue 1: Use of the \$75 Million Reserve Fund

A Will \$7.6 million from the \$75 Million Reserve Fund be used to satisfy the balance in achieving \$47 million in savings?

No. Working with the Office of the City Administrator and the Office of Finance and Treasury (OFT), we have identified an additional \$12.6 million in operational improvement savings that will count towards the \$47 million savings initiative.

Repayment of Loans and Interest (DS) will end the fiscal year with an approximately \$19 million surplus. This is primarily the result of improved management and coordination of the District's General Obligation (GO) bond issuance. Historically, the District issued GO bonds annually based on planned expenditures in the Capital Improvements Plan. However, this year, OFT has worked closely with the Office of Budget and Planning (OBP) to determine the size and timing of borrowing based on actual expenditures instead of planned expenditures. Additionally, OFT and OBP issued a reallocation resolution to transfer bond proceeds from specific projects that have not been expended to cover other capital projects

for which funds have not yet been borrowed. This resulted in the decision to forego a capital borrowing in FY 2001.

- B. Although we recognize that by law some of the \$75 million in reserves can be used to help achieve the \$47 million in saving, why was the City Administrator unable to identify the entire savings from local budgets?**

See response for Issue Question A

- C. Does the OCFO envision any additional scenario (e.g., an agency that cannot overcome a budget pressure) that would prompt the District to use additional funds from the \$75 million to achieve the \$47 million in savings?**

Unallocated funds from the \$75 million reserve might be used to offset some of the Department of Health's (DOH) budget pressures. See Issue 4.

Issue 2: Final Certification

- A. When will the final certification of the \$47 million in savings be completed?**

The OCFO will complete the final certification of savings shortly after the books are closed for FY 2001 and the completion of the Comprehensive Annual Financial Report (CAFR) audit. This will occur in February 2002.

- B. How will the OCFO ensure that agency budget pressures have been removed, and will the OCFO conduct any testing before the final certification is issued?**

OBP is monitoring all spending pressures closely and will use all resources available to address any spending pressures that cannot be closed through agency gap closing plans. The final closing process of the CAFR audit will provide the OCFO assurances as to whether or not the savings have been achieved.

Issue 3: Elimination of 1,000 FTEs.

- A. What prevented DCOP from permanently eliminating the 1,000 FTEs at the start of FY 2001?**

The elimination of 1,000 FTEs and the implementation of actions to achieve \$47 million in savings were two separate initiatives in FY 2001. Achieving the \$47 million savings initiative does not depend on the elimination of 1,000 FTEs. The CFO was required to certify \$47 million in savings, but was not required to certify the elimination of the 1,000 FTEs.

B. What type of immediate action would OCFO or the Office of the City Administrator recommend concerning the permanent elimination of the 1,000 FTEs?

The decision to eliminate 1,000 FTE's in FY 2001 was a policy decision made by the Mayor. There is no legal mandate to eliminate the positions and is not part of the CFO's certification requirements. Therefore, the OCFO does not recommend any action regarding this policy since the certification of saving was not dependent upon the permanent elimination of 1,000 FTEs.

Issue 4: Interim Results at the Department of Health

A. What prevented OCFO from taking more aggressive action at DOH regarding the \$37 million budget pressure?

The OCFO identified \$37 million in budget pressures within DOH and developed solutions early in the fiscal year (December 2000). The solutions included using \$19 million in additional revenue via a supplemental budget request and \$11.5 million in funds within the General Fund to pay unbudgeted lawsuits and settlements pursuant to Section 103 of the FY 2001 D.C. Appropriations Act. Section 103 allows the District to use funds anywhere within the General Fund to pay settlements and judgments. The District had planned to invoke Section 103 at the end of the fiscal year when the location of surplus funds within the General Fund would be known. The remaining \$6.5 million pressure would be closed by agency actions and/or the reprogramming of surplus funds.

On July 24, 2001, the President signed the Fiscal Year 2001 Supplemental Appropriations Act, which included \$19 million for DOH. DOH paid the \$11.5 million in lawsuits and settlements using budget authority for its Medicaid program during the fiscal year instead of waiting until the end of the fiscal year. The agency has not been able to identify other actions to close its spending gap. The Office of Budget and Planning (OBP) is in the process of identifying funds to reprogram to DOH to address its spending pressures.

B. Has OCFO approved DOH's latest GAP Closing Plan, and has OCFO determined the source of funds to offset the remaining \$18 million deficit?

The OCFO has -- and continues -- to take an aggressive approach to resolving DOH's budget pressures. OBP is responsible for reviewing agency's gap-closing plans to determine whether the agency has developed and implemented viable actions to eliminate projected spending pressures. With respect to DOH, OBP has reviewed the most recent FRP and concurs with the items included in its gap-closing plan.

After applying the \$11.5 million in Section 103 payments, DOH's remaining gap is \$6.5 million. OBP plans to reprogram funds from the FY 2000 unspent reserve carryover or debt service to close this remaining gap.

Issue 5: Interim Results at the Department of Corrections

A. What was OCFO's involvement regarding DOC's August 2000 administrative order?

The CFO for the Department of Corrections (DOC) signed the personnel actions to eliminate the positions identified in the administrative order.

B. What prevented OCFO from taking more aggressive action at DOC regarding the budget pressure, especially when earlier FY 2001 monthly reports identified projected deficits that exceeded \$9 million?

Early in the fiscal year (December 2000), the OCFO identified \$5.5 million in budget pressures. The District's CFO assigned a new agency CFO in March 2001. The new agency CFO increased the budget pressure projection to \$9 million and implemented gap-closing actions. DOC's July FRP indicates a revised budget pressure of \$8 million and the achievement of \$2.2 million in savings. An additional \$0.7 million in Federal grant funds is expected shortly. The agency CFO and DOC are working with the Corrections Trustee to use surplus funds in the Trustee's budget to close the remaining \$5.1 million gap.

C. Has OCFO approved DOC's latest GAP Closing Plan, and does OCFO believe that it is achievable?

OBP has reviewed the most recent FRP and concurs with the items identified to close the budget gap.

D. Will DOC and OCFO coordinate the GAP Closing Plan with the DOC Trustee?

As indicated above, the DOC and the OCFO are working with the Trustee to utilize the Trustee's budget surplus to offset DOC's remaining spending pressures.

Issue 6: Interim Results at the Department of Public Works

A. Does OCFO agree with DPW's Gap Closing Plan?

The Department of Public Works (DPW) has made substantial progress in eliminating its budget pressures; the OCFO expects DPW to balance its budget by year-end. In its July FRP, DPW reports that it has generated \$3.8 million in savings to offset \$7.7 million in gross budget pressures, leaving a net pressure of \$3.9 million. This remaining \$3.9 million is to be offset by various actions including the cancellation of NPS obligations, the transfer of local expenditures to the capital budget, and the transfer of local expenditures for the Vector Control Program to the DOH.

The OCFO is monitoring closely the progress of agencies' gap-closing plans, including DPW's plan. If necessary, OBP will identify funds to provide to DPW, as it has done for the Fire and Emergency Medical Services (FEMS) (see Issue 7 below).

One of the findings in the OIG's Management Alert Report is that:

“DPW has not permanently eliminated the 131 FTEs associated with the savings initiative from its budget”.

We do not agree with this finding. In achieving targeted savings, the goal was to remove FTEs from the local budget, not to permanently decrease DPW's gross FTE count. To this end, DPW is in the process of transferring FTEs from its local budget to nonlocal budgets to achieve \$887,506 in savings by the end of the fiscal year.

Issue 7: Interim Results at Fire and Emergency Medical Services

A. Does OCFO agree with FEMS' Gap Closing Plan and, if not, what options will OCFO recommend to FEMS management?

FEMS' gap-closing actions to reduce overtime will not likely produce \$0.9 million in savings. OBP is preparing a request to reprogram funds from the debt service account to cover FEMS' slippage in achieving overtime savings.

Issue 8: Interim Results at the Metropolitan Police Department

A. Does OCFO agree that MPD has not achieved savings at this time?

The OCFO does not concur that MPD has not achieved the savings at this time. The OCFO expects the Metropolitan Police Department (MPD) to end the fiscal year with a balanced budget, and thus achieve the anticipated savings. To date, all 43 FTE positions have been eliminated from the FY 2001 Baseline budget, resulting in a total personal services saving of \$1,727,927.66. Of these 43 FTE positions, 28 positions were eliminated as a result of employees taking the early out option, and 15 positions were eliminated as a result of resignations, abolished vacancies and a reduction in force. The elimination of these positions can be confirmed through the Unified Personnel Payroll System (UPPS) by entering the positions number into the Personnel Action Menu and seeing that all relative data elements for the position have been deleted. The Metropolitan Police Department has retained personnel authority to reinstate 3 of the aforementioned 43 positions, in accordance with Amended Administrative Orders FA-01-01 and FA-01-02, dated March 2, 2001. Additionally, the Metropolitan Police Department has realized lapsed salary saving through the vacancy of FY 2001 funded positions for all or part of the fiscal year.

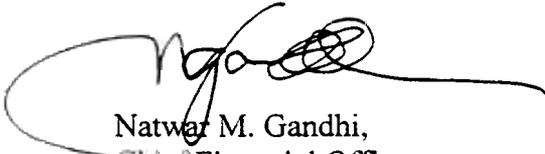
The OCFO remains committed to working with your staff to ensure successful completion of the OCFO certification process of the \$47 million savings initiative for FY 2001.

Charles C. Maddox, Esq.

Page 6

If you have any additional questions or need further clarification, please contact Gordon McDonald, Interim Deputy CFO for Budget and Planning on 727-6343.

Sincerely,



Natwar M. Gandhi,
Chief Financial Officer

cc: The Honorable Anthony A. Williams, Mayor of the District of Columbia
John A. Koskinen, Deputy Mayor/City Administrator
Cheryl Edwards, Acting Chief of Staff
Gordon McDonald, Interim Deputy CFO for Budget and Planning
Dallas Allen, Director of the Capital Improvements Program
Henry Wong, Branch Chief, Financial Reporting
Mohamad Yusuff, Director of IAIS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



2002 JUN 12 PM 2: 52

Charles C. Maddox, Esq.
Office of the Inspector General
717 14th Street, N.W.
Washington, D.C. 20005

**Subject: Response to Draft Report: "Verification of the District of Columbia
Fiscal Year 2001 Savings Initiative" – May 16, 2002**

Dear Mr. Maddox:

Thank you for the opportunity to respond to the Office of Inspector General draft audit report on the "Verification of the District Fiscal Year 2001 Savings Initiative" (OIG No. 01-1-02MA) referenced above. We obtained and reviewed information from the Office of Budget and Planning (OBP) on the saving initiatives by the agencies.

Requested Action 1: Confirmation of Mayor's FY 2001 Savings Initiative

In response to your request for information on savings reported in the Mayor's FY 2001 savings initiative, we confirm that the savings were eliminated from the baseline budgets for FY 2002, and that the request for additional funding was for new initiatives only. We spoke with OBP staff and received a report on the District Agency Savings initiatives. The report received from the OBP identified a total permanent savings in the amount of \$39.6 million.

As a part of this response, we have included for your information and record the following two files:

1. A PDF file of the Access database report that shows the Cafeteria Savings approved by the OCFO.
2. An Excel spreadsheet that includes all the detail transactions that make up the summary information in the Access report. This spreadsheet was generated by EIS from SOAR.

Response to: OIG No. 01-1-02MA

June 10, 2002

Page 2

These reports identify Organization Code 2 (control center), Organization Code 2 (responsibility center), Comptroller Source Group, Comptroller Source Group Title, Comptroller Object, Comptroller Object Title and the transaction amounts where the savings initiatives were made. The PDF file of the Access database report, which includes the Cafeteria Savings, agrees with the Excel spreadsheet that includes all of the detail transactions generated by EIS from SOAR. (See attachment A).

We certify that these savings were permanently eliminated from the agencies' baseline budgets for FY 2002.

Requested Action 2: Anti-Deficiency Certificate

With respect to Action 2, we attach the CFO Anti-Deficiency Act Certification, which was prepared for the FY 2001 Comprehensive Annual Financial Report. (See attachment B).

Should you have questions on these reports, please contact me on 727-6234, or Dallas Allen on 727-1711.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer