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United States General Accounting Office
Washington, D.C. 20548

November 5, 2001

The Honorable Joe Knollenberg
Chairman, Subcommittee on the District of Columbia
Committee on Appropriations
House of Representatives

The Honorable Ernest J. Istook, Jr.
House of Representatives

Subject: District of Columbia Issues: D.C. Workforce Reductions and Related Funding Issues

In a January 3, 2001, letter, the Honorable Ernest J. Istook, then Chairman of the House Appropriations Subcommittee on the District of Columbia, requested that we review the use of the $18 million in funding that was to be transferred from the District of Columbia Financial Responsibility and Management Assistance Authority (Financial Authority) to the District of Columbia government for severance payments made to individuals separated from employment during fiscal year 2000 as part of the Mayor's workforce reduction initiative.

On September 26, 2001, we briefed the staff of the House Subcommittee on the District of Columbia Appropriations on the results of our review. This letter transmits material from that briefing addressing whether the District had the authority to use the $18 million in funding as well as information in response to other questions posed by the Subcommittee. The briefing document is reprinted in enclosure I. We received written comments from the District's Chief Financial Officer (CFO) and oral comments from the Financial Authority on the briefing document. The District's CFO comments are in a letter dated August 29, 2001, that is reprinted in enclosure II.

Results in Brief

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). Therefore, the District did not have the authority to use the $18 million in Section 157 funding for the fiscal year 2000 workforce reduction. The District advised us that it believed it had the Financial Authority's approval to use the Section 157 funding and, consequently, incurred $14.3 million in costs during fiscal year 2000 related to the workforce reduction activities. However, the District provided no documentary evidence that the Financial Authority had certified the District's compliance with the requirements of Section 157 to authorize the use of the funds. The Financial Authority provided written documentation to the District that it did not release or certify the use of the $18 million in funding intended for severance payments.

The Financial Authority disagreed with the District's position that it had received authority to use the $18 million and held to its position that it had not approved the use of the funds by the District and had denied the District's request for reimbursement for severance payments in writing. In addition, the District did not obtain approval of the plan from the Senate Committee on Appropriations as required by Section 157.

The District accounted for its workforce reduction costs during fiscal year 2000 as if it had access to the Section 157 funding. In particular, the District recorded a $14.3 million receivable in fiscal year 2000 in anticipation of receiving the Section 157 funding. The District concluded that, had the Section 157 funding been unavailable, one agency would have ended fiscal year 2000 with an operating deficit and two agencies would have experienced increases in their existing operating deficits. As a result, the District may have potential Anti-Deficiency Act violations. We are recommending that the District conduct the required review of this situation and report as necessary any Anti-Deficiency Act violations.

Background

Section 157 of the District of Columbia's Fiscal Year 2000 Appropriations Act provided for the transfer of up to $18 million from the Financial Authority to the District government to finance severance payments made to individuals separated from employment during fiscal year 2000, subject to the District meeting certain conditions set forth in the act. The funds were to be used only in accordance with a plan agreed to by the City Council and the Mayor and approved by the Committees on Appropriations of the House of Representatives and the Senate. The Financial Authority was to release the funds, on a quarterly basis, to reimburse such expenses, so long as the Financial Authority certified that, based on the approved plan, the severance payment expenses would reduce reoccurring future costs at an annual ratio of at least two to one relative to the funds provided, and that the program was in accordance with best practices of municipal government.

Objectives, Scope, and Methodology

The Subcommittee originally asked us to determine whether the Mayor followed the plan provided to Congress in conducting the workforce reduction and whether the objectives of the plan were achieved. Additionally, the Subcommittee had requested specific information on (1) the number of people involved in the workforce reduction, (2) related expenditures, (3) whether individuals were in positions that were considered "critical" and whether any individuals holding "critical" positions were re-hired, (4) the type of positions held by individuals who took the buy-outs, and (5) whether costs savings were realized as a result of the workforce reduction. This information is in appendix I of the briefing document.

The results of our preliminary work indicated that certain conditions surrounding the District's use of the funding for severance payments made to individuals separated from employment during fiscal year 2000 may not have been met. In June 2001, as agreed with staff of the House Appropriations Subcommittee on the District of Columbia, we expanded our review to include determining the source of funding used by the District to fund the fiscal year 2000 workforce reduction and whether the District had sufficient funding in fiscal year 2000 to implement the workforce reduction.

To review and assess the source and use of the funding for the Mayor's workforce reduction, and to provide information on the Subcommittee's specific questions, we (1) interviewed and obtained information from officials in various District offices and the Financial Authority and (2) reviewed legislation related to the $18 million in funding for the workforce reduction and relevant accounting, budget, and program data; personnel policies and regulations; memorandums; and cost schedules. We did not independently verify or audit the accounting and cost data we obtained from District officials. Our work was conducted from January 2001 through September 2001 in accordance with U.S. generally accepted government auditing standards.

Lack of Approval by the Financial Authority

According to the Financial Authority, it did not approve the District's request for reimbursement for severance payments primarily because the District did not provide the Financial Authority (1) documentation confirming approval of the plan by the Senate Committee on Appropriations as required by Section 157, and (2) adequate analysis or documentation to facilitate the Financial Authority's certifying that the workforce reduction would achieve the cost savings targets as required by Section 157 of the act. The Financial Authority maintained its position as stated in its October 20, 2000, letter to the District. The letter provided supporting detail why the Financial Authority did not approve the District's reimbursement request for severance payments.

Funding the Plan

Although the Mayor's plan was not approved by the Senate Committee on Appropriations and the funds were not released by the Financial Authority in fiscal year 2000, District officials told us that they had implemented the workforce reduction plan under the assumption that the Section 157 funding was available. Further, District officials told us that the District recorded fiscal year 2000 expenditures against the Section 157 budget authority based on the assumption that the plan had been approved and the Financial Authority would authorize reimbursement for expenditures. However, in the absence of the Financial Authority's certification, the funding identified under Section 157 to cover the costs of the Mayor's workforce reduction activities was not available for the District's use.

District's Preliminary Analysis of Fiscal Impact

The District concluded that without the availability of the Section 157 funding, one agency, the Office of Property Management, would have ended fiscal year 2000 with an estimated $246,000 operating deficit rather than the previously reported surplus of $1.3 million. The District also concluded that two other agencies would have reported increased operating deficits. The Fire and Emergency Medical Services net deficit would have increased from $160,000 to $260,000 and the Department of Corrections deficit would have increased from $770,000 to $2,576,000. The District reported that the Office of Property Management falls under the Governmental Direction and Support Appropriation title, which would have ended fiscal year 2000 with revenues in excess of expenditures sufficient to cover the charges related to the workforce reduction. The Fire and Emergency Services and the Department of Corrections fall under the District's Public Safety and Justice appropriation title. The District stated that if the Section 157 funding was not available, the Public Safety and Justice appropriation title would have ended fiscal year 2000 with an operating deficit.

As a result, the District may have potential Anti-Deficiency Act violations. The Anti-Deficiency Act prohibits District government officers and federal officials from making (1) obligations or expenditures in excess of amounts available in an appropriation or fund or advance unless they are otherwise authorized to do so by law and (2) an obligation or expenditure in excess of an apportionment. The Anti-Deficiency Act requires the head of any agency to report immediately to the President and the Congress any violation of the act, including all relevant facts and a statement of actions taken. Office of Management and Budget (OMB) A-34, *Instructions on Budget Execution* provides additional guidance on information that the agency is to include in its report to the President.

Fiscal Year 2001 Transfer from the Financial Authority

During fiscal year 2001, the Financial Authority transferred $18 million to the District's general fund. The Financial Authority stated that the March 2001 transfer was unrelated to the workforce reduction funding because the District had not met the requirements of Section 157. The Financial Authority further stated that the transfer was intended to support the District's operations and daily cash position during fiscal year 2001 as part of the Financial Authority's periodic transfers of interest earnings held by the Financial Authority on behalf of the District in accordance with Section 106(d) of P. L. 104-8. The Financial Authority stated the purpose of the transfer in documentation provided to the District.

Conclusions

The Mayor's workforce reduction plan was not conducted in conformance with the conditions set forth in Section 157. As a result of using the $18 million for its workforce reduction costs as if Section 157 funding had been available, the District obligated and spent funds that were unavailable. As a result of the inappropriate use of funds, one District agency showed a surplus rather than a deficit in its operating budget and two other agencies showed decreased operating deficits. After reversing the prior accounting treatment, the District could have reportable Anti-Deficiency Act violations.

Recommendations

We recommend 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.

Agency Comments and Our Evaluation

We provided a draft of the enclosed briefing document to officials from the Financial Authority and the District's CFO. The Financial Authority provided oral comments on the briefing document and concurred with its contents, and we have incorporated its comments as appropriate. The District's CFO provided written comments on the briefing document. The District's CFO comments are reprinted in enclosure II. The District CFO disagreed with certain information contained in the briefing. Specifically, the District disagreed with our conclusion that it did not have the authority to use the Section 157 funding. However, the District was unable to provide documentary evidence that the Financial Authority made the required certification. We reaffirm our view. The position of the Financial Authority on this matter is clear—it did not authorize the District to use the Section 157 funding, and the Financial Authority continues to maintain its position that the District did not meet the requirements for the Section 157 funding.

The District also commented that the Financial Authority transferred the $18 million to the District after the expenditures for the severance fund had been incurred. While the Financial Authority did ultimately transfer $18 million to the District's general fund, the transfer was not made during fiscal year 2000. In addition, the Financial Authority stated that the transfer was unrelated to the Section 157 funding and was intended to support the District's fiscal year 2001 operations and cash position in accordance with Section 106(d) of P. L. 104-8.

The District also disagreed with several technical matters related to the Financial Authority's reasons for not approving the reimbursement for severance payments. We view these matters as disagreements between the District and the Financial Authority that do not relate to the specific matters discussed in our briefing document.

The District also commented that it believes that no Anti-Deficiency Act violations would have resulted if the Section 157 funding had not been used because the lack of such funding would not have caused an operating deficit for any appropriation title. However, the District's letters to GAO dated August 8, 2001, and July 20, 2001, stated that if the Section 157 funding had not been available, the Public Safety and Justice appropriation title would have ended fiscal year 2000 with an operating deficit, thereby indicating a potential Anti-Deficiency Act violation. Accordingly, reversing the Section 157 funding would increase the potential Anti-Deficiency Act violation.

Subsequent to our briefing to the Subcommittee staff on September 26, 2001, the District provided us additional information regarding the potential Anti-Deficiency Act violations that may have occurred during fiscal year 2000. The District stated that the information was a preliminary assessment of the potential violation and the Districted presented an alternative basis for evaluating whether Anti-Deficiency Act violations may have occurred during fiscal year 2000. This assessment does not provide the sufficient level of detail needed to conclude whether any Anti-Deficiency Act violations occurred, nor is there any evidence that this assessment has been provided to the appropriate reporting officials as required by established guidance. We, therefore, reaffirm our recommendations that the District conduct the required investigation of the situation and report any Anti-Deficiency Act violations as required.

As previously noted, in response to the Subcommittee's original questions relating to whether the objectives of the workforce reduction plan were met, cost savings were achieved, and other specific information, we have provided answers in appendix I of the briefing document.

We are sending copies of this letter to the Ranking Minority Member of the Subcommittee on the District of Columbia. We are also sending the report to the following District officials: the Mayor, the City Administrator, and the Chief Financial Officer. Copies will be made available to others upon request. This letter will also be available on GAO's home page at http://www.gao.gov.

If you have any questions, please contact me at (202) 512-2600, or by e-mail at steinhoffj@gao.gov, or Jeanette M. Franzel, Acting Director, at (202) 512-9471, or by e-mail at franzelj@gao.gov. Key contributors to this letter were Richard T. Cambosos, Louis Fernheimer, Gary L. Kepplinger, Meg Mills, Christina L. Quattrociocchi, and Keith A. Thompson.

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Enclosures

Enclosure I: Briefing for the House Committee on Appropriations, Subcommittee on the District of Columbia, Sept. 26, 2001

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Financial Management and Assurance Team

District of Columbia Government: DC Workforce Reductions and Related Funding Issues

Briefing for the
House Committee on Appropriations
Subcommittee on the District of Columbia

September 26, 2001

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Introduction

The Subcommittee asked us to review the anticipated cost savings resulting from the Mayor's fiscal year 2000 workforce reduction plan, including the use of the $18 million in funding that was to be transferred from the Financial Responsibility and Management Assistance Authority (Financial Authority) to the District of Columbia government for severance payments[1] to individuals separated from employment during fiscal year 2000.

For purposes of this briefing, severance payments include early-out retirements, buy-outs, and reductions in force.

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Background:
Section 157 Requirements

Section 157 of the District of Columbia Fiscal Year 2000 Appropriations Act (Public Law 106-113):

- Transferred from the District of Columbia Financial Responsibility and Management Assistance Authority to the District of Columbia $18 million derived from interest earned on accounts held by the Authority on behalf of the District of Columbia for

    - severance payments to individuals separated from employment during fiscal year 2000 (under such terms and conditions as the Mayor considers appropriate),

    - expanded contracting authority of the Mayor, and

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Background:
Section 157 Requirements

- the implementation of a system of managed competition among public and private providers of goods and services on behalf of the District of Columbia.

- Provided that such funds shall be used only in accordance with a plan agreed to by the City Council and the Mayor and approved by the Committees on Appropriations of the House of Representatives and the Senate.

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Background: Section 157 Requirements

- Provided that the Authority shall release said funds, on a quarterly basis, to reimburse such expenses, so long as the Authority certifies
  - that the expenses reduce re-occurring future costs at an annual ratio of at least 2 to 1 relative to the funds provided and
  - that the program is in accordance with the best practices of municipal government.

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Objectives

The Subcommittee originally asked us to:

- Determine whether the Mayor followed the plan provided to the Congress in conducting the workforce reductions and whether the objectives of the plan were achieved.

- Provide specific information on (1) the number of people involved in the workforce reduction, (2) related expenditures, (3) whether individuals were in positions that were considered “critical” and whether any individuals holding “critical” positions were rehired, (4) the type of positions held by individuals that took buy-outs, and (5) whether cost savings were realized as a result of the workforce reduction.

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Objectives

The results of our preliminary work indicated that certain conditions surrounding the District's use of a portion of the $18 million for severance payments made to individuals separated from employment during fiscal year 2000 may not have been met. Therefore, as agreed with Subcommittee staff, we expanded our review to include the following objectives:

- Determine the source of funding the District used for the fiscal year 2000 workforce reductions.

- Determine whether the District had sufficient funding in fiscal year 2000 to implement the workforce reduction plan.

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Objectives

As agreed with Subcommittee staff, the responses to the Subcommittee's original questions are presented in appendix I. The following sections presents the results of the expanded objectives.

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Scope and Methodology

To meet the original and expanded objectives, we

- Interviewed and obtained information from officials in the following District offices:
    - Chief Financial Officer (CFO),
    - City Administrator,
    - Budget and Planning,
    - Financial Operations and Systems,
    - Personnel, and
    - Inspector General.

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Scope and Methodology

- Obtained information from the Financial Authority.
- Reviewed legislation related to the $18 million funding for the workforce reduction and relevant accounting, budget, and program data; personnel policies and regulations; correspondence and memorandums; cost schedules; and other information.
- We did not independently verify or audit the accounting, budget, and cost data we obtained from District officials.
- We conducted our work from January 2001 through September 2001 in accordance with U.S. generally accepted government auditing standards.

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Results in Brief

- The Financial Authority reported that it provided written documentation to the District that it would not release the $18 million in Section 157 funding because the District did not meet the conditions set forth in Section 157 of the act.

- Therefore, the District did not have authority from the Financial Authority to use the $18 million in Section 157 funding for the workforce reduction that occurred in fiscal year 2000.

- The District stated that it believed that it had the authority to use the Section 157 funding and proceeded to incur $14.3 million in costs related to the workforce reduction activities after continued discussions with and disclosures of information to the Financial Authority.

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Results in Brief

- The Financial Authority told us that it had not provided the District with the authority to use the Section 157 funding.

- The District accounted for its workforce reduction costs during fiscal year 2000 as if it had access to the Section 157 funding. The District conducted a review to determine the impact of reversing its previous accounting treatment that assumed the availability of Section 157 funding for the workforce reductions in its fiscal year 2000 accounting records.

- The District has concluded that without the availability of the Section 157 funding, one agency would have ended fiscal year 2000 with an operating deficit and two agencies would have an increase in their existing operating deficits.

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Results in Brief

- As a result, the District may have potential Anti-Deficiency Act violations. We are recommending that the District investigate this situation and report as necessary any Anti-Deficiency Act violations.

- We provided a draft of this briefing document to officials of the Financial Authority and the District's CFO office. While the Financial Authority generally agreed with the contents of this briefing, the District's CFO office disagreed with certain information contained in the briefing document.

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Results in Brief

- The key point of difference centers on whether the Financial Authority gave the District approval to use the Section 157 funding. The District believed that it had the authority to use the Section 157 funding from the Financial Authority. However, the Financial Authority states that such approval was not provided to the District.

- We disagree with the District's position. We reaffirm our position based on data from the Financial Authority and reiterate our recommendation that the District investigate the potential Anti-Deficiency Act violation and report as necessary.

- Both the Financial Authority's and the District's comments are discussed in the last section of this briefing document.

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Lack of Approved Plan

- According to the Financial Authority's written notification that it provided to the District, it did not approve the District's request for release of $12.4 million[2] for severance expenditures for the following reasons:

  - The District did not provide to the Financial Authority documentation confirming approval of the plan by the Senate Committee on Appropriations as required by Section 157 of the act.

  - The District did not provide adequate analysis or documentation to support the Financial Authority's certifying that the workforce reduction would achieve the cost savings targets as required by Section 157 of the act.

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[2] This number increased to $14.3 million to include $1.9 million for reductions in force.

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Lack of Approved Plan

- The District did not segregate the costs for each employee between lump sum incentive payments and other separation payments, such as payments for annual leave balances. The amounts to be applied against the $18 million on severance payments were limited to separation payments only and were to exclude any accrued leave due the affected employees.

- The District's documentation identified checks to employees in amounts exceeding $25,000. The plan approved by the Mayor limited the retirement incentive program to $25,000. The Financial Authority requested that the District recalculate its reimbursement request in accordance with this limitation.

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Funding the Plan

Although the Mayor's plan was not approved by the Senate Committee on Appropriations and the funds were not released by the Financial Authority in fiscal year 2000, the District implemented the workforce reduction plan under the assumption that the Section 157 funding was available.

- The District recorded the fiscal year 2000 expenditures against the Section 157 budget authority based on the assumption that the plan had been approved and the Financial Authority would authorize reimbursement for the expenditures. The District also recorded a $14.3 million receivable for fiscal year 2000 in anticipation of receiving the Section 157 funding from the Financial Authority.

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Funding the Plan

- In the absence of the Financial Authority's certification, the funding identified under Section 157 to cover the costs of the Mayor's workforce reduction activities was not available for the District's use.

- Although the District had received written notification from the Financial Authority that the funding would not be released, District officials said they believed they had received approval from the Financial Authority to use the Section 157 funding after providing additional information to the Financial Authority. However, the District was not able to provide any support for its discussions with the Financial Authority. According to the Financial Authority, however, it did not give the District approval to use the Section 157 funding.

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Funding the Plan

- The Financial Authority stated that, during fiscal year 2000, the District did not satisfy explicit conditions set forth in Section 157. The Financial Authority further stated that, as a result, the District allowed the Section 157 appropriations to lapse at year-end.

District officials stated that:

- The workforce reduction plan was submitted to the House Committee on Appropriations in fiscal year 2000 in accordance with Section 157. However, the District stated that the plan was not submitted to the Senate Committee on Appropriations until fiscal year 2001 due to an oversight by the District.

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Funding the Plan

- The District stated that it provided documentation to the Financial Authority describing how the 2 to 1 savings requirement was achieved. And, because it did not receive any contrary correspondence from the Financial Authority, the District believed that all the requirements were satisfied for it to receive reimbursement from the Section 157 funding.

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District's Analysis/Fiscal Impact

- The District reported that it incurred workforce reduction costs of $14.3 million during fiscal year 2000, resulting in $26 million in personnel savings during fiscal year 2000. The District reported that the workforce reductions will result in the reduction of future costs at an annual ratio of 2 to 1.

- The District conducted a review to identify the agencies that would have ended fiscal year 2000 with operating deficits assuming that the Section 157 funding was not available:

    - The Office of Property Management would have ended fiscal year 2000 with an estimated $246,000 operating deficit rather than the previously reported surplus of $1.3 million.

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District's Analysis/Fiscal Impact

- Two other agencies would have reported increased operating deficits as follows:
  - Fire and Emergency Medical Services (increase from $160,000 to $260,000)
  - Department of Corrections (increase from $770,000 to $2,576,000).
- The District reported that the Office of Property Management falls under the District's Governmental Direction and Support appropriation title, which would have ended fiscal year 2000 with revenues in excess of expenditures sufficient to cover the charges related to the workforce reduction.

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District's Analysis/Fiscal Impact

- The Fire and Emergency Services and Department of Corrections fall under the District's Public Safety and Justice appropriation title.

- Based on the District's review of this mater, it concluded that, if Section 157 funding was not available, the Public Safety and Justice appropriation title would have ended fiscal year 2000 with an operating deficit. Consequently, the reversal of the charges to Section 157 authority presents the potential for an Anti-Deficiency Act violation.

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Impact of Operating Deficit

- The Anti-Deficiency Act prohibits District government officers and federal officials from making
  - obligations or expenditures in excess of amounts available in an appropriation or fund or advance unless they are otherwise authorized to do so by law and
  - an obligation or expenditure in excess of an apportionment.

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Impact of Operating Deficit

- The Anti-Deficiency Act requires the head of any agency to report immediately to the President and the Congress any violation of the act, including all relevant facts and a statement of actions taken. Office of Management and Budget (OMB) Circular A-34, *Instructions on Budget Execution,* provides additional guidance on information that the agency is to include in its report to the President.

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Fiscal Year 2001 Transfer from the Financial Authority

- The District had not demonstrated that it was authorized to use an $18 million transfer under Section 157 for the workforce reduction in fiscal year 2000. During fiscal year 2001, the Financial Authority transferred $18 million in March 2001 to the District's general fund. The Financial Authority stated, however, that the March 2001 transfer
    - was unrelated to the workforce reduction funding because the District had not met the requirements of Section 157 and
    - was intended to support the District's operations and daily cash position during fiscal year 2001 as part of the Financial Authority's periodic transfers of interest earnings held by the Financial Authority on behalf of the District in accordance with Section 106(d) of P.L. 104-8.

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Conclusions

- The Mayor's workforce reduction plan was not conducted in conformance with Section 157 requirements because the Financial Authority did not certify that the District met the requirements for utilizing the Section 157 funding. The Financial Authority's lack of certification was primarily because:

  - The District did not obtain approval of the plan by the Senate Committee on Appropriations and

  - The District did not provide satisfactory evidence to the Financial Authority that the 2 to 1 target savings were met.

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Conclusions

- As a result of accounting for its workforce reduction costs as if the Section 157 funding had been available, the District obligated and spent funds that were unavailable. Accounting for the use of the Section 157 funding resulted in one agency showing a surplus rather than a deficit in its operating budget and two other agencies showing decreased operating deficits. After reversing the prior accounting treatment, the District could have reportable Anti-Deficiency Act violations.

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Recommendation

- We recommend that the Mayor of the District of Columbia perform the required investigation to determine if the operating deficits resulting from the reversal and the inappropriate use of the Section 157 authority would result in or contribute to any potential Anti-Deficiency Act violations and to perform the necessary reporting to disclose any such violations.

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Agency Comments and Our Evaluation: District of Columbia CFO

- We provided a draft of this briefing document to officials of the Financial Authority and the District's CFO. The District's comments are discussed below, and the Financial Authority's comments are discussed in a later section.

  District comment:

  - The District disagreed with the statement that it did not have the authority to use the Section 157 funding. Further, the District states that the Financial Authority did transfer the $18 million to the District after the expenditures for severance had been incurred.

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Agency Comments and Our Evaluation:
District of Columbia CFO

GAO evaluation:

- There is no documentary evidence that the District received approval from the Senate Committee on Appropriations as required by Section 157.
- The position of the Financial Authority is clear: it did not authorize the District to use the Section 157 funding.
- Therefore, the District's fiscal year 2000 accounting treatment, which assumed the availability of the Section 157 funding and resulted in recording a $14.3 million receivable from the Financial Authority, is inappropriate.

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Agency Comments and Our Evaluation:
District of Columbia CFO

GAO evaluation continued:

- During fiscal year 2001, the Financial Authority did transfer $18 million to the District's general fund. The Financial Authority has stated that the transfer was unrelated to the workforce reduction funding because the District did not meet the requirements of Section 157. The Financial Authority further stated that the transfer was intended to support the District's fiscal year 2001 operations and cash position.

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Agency Comments and Our Evaluation: District of Columbia CFO

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District comment:

- The District also disagreed with several technical matters related to the Financial Authority's reasons for non-approval of the reimbursement for the severance payments.

GAO evaluation:

- The disagreements between the District and the Financial Authority do not relate to the specific matters discussed in this briefing document.

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Agency Comments and Our Evaluation: District of Columbia CFO

District comment:

- The District commented that it believes that no Anti-Deficiency Act violations would have resulted if the Section 157 funding had not been used because the lack of such funding would not have caused an operating deficit for any appropriation title.

GAO evaluation:

- The District's correspondence provided to us on August 8, 2001, stated that two appropriations would be impacted by a reversal of the Section 157 funding. The District stated that one appropriation title was already in a deficit position, thereby indicating a potential Anti-Deficiency Act violation. Accordingly, reversing the Section 157 funding would increase the potential Anti-Deficiency Act violation.

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Agency Comments and Our Evaluation:
District of Columbia CFO

GAO evaluation (continued):

- The District also stated that reversing the Section 157 funding would not result in a deficit in the other appropriation.

- Therefore, we reaffirm our recommendation that the District perform the required analysis to determine if the operating deficits resulting from the reversal and the inappropriate use of Section 157 authority would result in or contribute to any potential Anti-Deficiency Act violations and perform the necessary reporting to disclose any such violations.

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Agency Comments and Our Evaluation: Financial Authority

Financial Authority's comments:

- In providing oral comments on a draft of this briefing document, the Financial Authority stated that it concurred with its contents. In its comments, the Financial Authority reiterated that it gave the District written notification with specific reasons as to why it did not approve the District's request for reimbursement of $12.4 million for severance payments.

GAO evaluation:

- We have incorporated the Financial Authority's comments into the briefing document as appropriate.

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- Did the Mayor follow the plan provided to the Congress in conducting the workforce reductions and were the objectives of the plan achieved?

    - The Mayor did implement a workforce reduction plan. However, due to the lack of approval by the Senate Committee on Appropriations and the non-certification by the Financial Authority, the Mayor's plan was not conducted in conformance with Section 157.

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Appendix I: Answers to the Subcommittee's Original Questions

- How many people were involved in the workforce reduction and what were the related expenditures?

  The District reported the following detail related to the plan:

  - The reduction involved 579 employees. This included: 464 employees who took early-out retirements and 115 employees who were involved in the reduction in force (RIF).
  - The reduction included expenditures of $14.3 million. ($12.4 million for early-out retirements and $1.9 million for RIFs).

  See table 1 for specific details provided by the District.

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Appendix I: Answers to the Subcommittee's Original Questions

Table 1: Summary of the District's Fiscal Year 2000 Early Out Retirements, Reductions in Force, and Related Expenditures

Agency	Total number of retirees	Total Number of reductions in force (RIFs)	Grand total number of retirees and RIFs	Total expenditures paid for retirees	Total expenditures paid for RIFs	Grand total expenditure amounts paid
Office of Property Management	44	30	74	$1,053,674	$511,440	$1,565,114
Office of the Chief Financial Officer	39		39	$1,240,800		$1,240,800
Office of Personnel	18		18	$535,871		$535,871
Office on Aging	3		3	$71,520		$71,520
Office of the Corporation Counsel	16		16	$446,729		$446,729
D.C. Public Library	1		1	$29,760		$29,760
Department of Employment Services	38		38	$1,078,176		$1,078,176
Deparment of Consumer/Regulatory Affairs	16		16	$424,861		$424,861
Department of Housing and Community Development	11		11	$366,369		$366,369
Metropolitan Police Department	27		27	$597,187		$597,187
Fire and Emergency Medical Services Department	5		5	$100,334		$100,334
Department of Corrections	13	85	98	$354,640	$1,450,616	$1,805,256
D.C. Public Schools	1		1	$34,011		$34,011
Department of Parks and Recreation	14		14	$358,916		$358,916
Department of Health	51		51	$1,286,418		$1,286,418
Department of Human Services	65		65	$1,745,954		$1,745,954
Department of Public Works	71		71	$1,813,287		$1,813,287
Department of Motor Vehicles	11		11	$273,299		$273,299
Office of Contracting and Procurement	14		14	$422,049		$422,049
Office of the Chief Technology Officer	6		6	$156,444		$156,444
Totals	**464**	**115**	**579**	**$12,390,299**	**$1,962,056**	**$14,352,355**

Source: Unaudited data from the District of Columbia government.

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- How many people in the workforce reduction were paid buy-outs and were holding positions that were considered "critical?"

  - As shown in table 1, the District reported that 464 employees were paid buy-outs through the retirement incentive program.

  - The District reported that, for the retirement incentive program, specific criteria was used for determining whether an employee was holding a position that was considered "critical." If an employee was holding a position that was deemed "critical," they were not allowed to take the early-out retirement.

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Appendix I: Answers to the Subcommittee's Original Questions

- District officials stated that a "critical" position was defined as one that met any of the following criteria:
  - the only position of its kind,
  - a sole-supervisory position,
  - a court-ordered position, or
  - essential to carrying out the mission or functions of an agency.
- We did not independently verify the District's application of the "criteria" for the 464 employees that took the early-out retirement.

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- Were any of the personnel cut as a result of the workforce reduction that were holding positions that were considered "critical" rehired through city contracts or other means?
  - The District reported that none of the 464 employees who took the buy-outs met the District's criteria as "critical" and, therefore, no employees holding "critical" positions were rehired.
  - District officials reported that three senior managers with expertise in snow removal were brought back on an "hours worked" contract to assist with the fiscal year 2000-2001 snow removal season, but stated that they did not meet the definition of "critical."

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- The District reported that the Council of the District of Columbia adopted emergency legislation that allowed the District to contract for employees who had taken the early out incentive for the snow season. This was a one-time effort for one snow removal season.

- The District reported that it incurred $32,812 in costs for the three senior managers who worked a total of 1,057 hours.

- District officials viewed this as a more cost-effective approach than retaining these employees on the District payroll on a year-round basis.

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- What were the types of positions for individuals that received buy-outs?
  - The types of positions involving employees that took the early outs were numerous and varied.
  - For example, the District reported more than 200 different position types. Of the 200 different position types, we identified the positions that occurred most frequently. Examples of these include the following:
    - Program Analyst/Specialist/Assistant
    - Manpower Development Specialist
    - Supervisory Social Service Representative

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- Sanitation/Foreman/Crew Chief
- Contract Representative/Specialist
- Personnel Management Specialist
- Supervisory Police Officer/Assistant
- Secretary/Typing
- Clerical Assistant/Clerk
- Staff Assistant
- Tree Trimmer

- Have the anticipated cost savings been realized as a result of the workforce reduction?

  - District officials reported that $26.3 million in personnel savings were achieved, resulting in a reduction of the District's fiscal year 2001 baseline budget. As shown in table 2, almost half of the reported savings was attributed to cutting funded positions that were vacant.

  - The savings involved utilization of approximately 518 full-time equivalents (FTEs) including: early-out retirements, reductions in force, transfers among agencies' budgets, and elimination of funded vacancies. However, we did not verify these reported savings. See table 3 for details.

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Appendix I: Answers to the Subcommittee's Original Questions

Table 2: Summary of the District's Fiscal Year 2000 Personnel Savings by Agency and Type

Agency	Retirees	Reduction in force	Transfers [a]	Elimination of funded vacancies	Other [b]	Total savings
Office of the Mayor					$114,000	$114,000
Office of City Administrator				$139,320		$139,320
Office of Property Management	$311,029	$325,057		$120,004	-$17,445 [c]	$738,645
Office of Chief Financial Officer	$1,000,000					$1,000,000
Office of the Secretary					$71,590	$71,590
Office of Personnel	$252,967		$143,357	$246,409		$642,733
Emergency Management Agency		$86,608		$28,798		$115,406
Office of Corporation Counsel				$712,592		$712,592
Department of Employment Services			$213,391	$330,625		$544,016
Department of Consumer/Regulatory Affairs	$192,301	$52,495	$164,556	$780,172		$1,189,524
Business Services/Economic Development			$745,000	$411,591		$1,156,591
Metropolitan Police Department	$1,151,374	$350,721		$308,796	$180,599	$1,991,490
Fire/Emergency Medical Services Department	$201,414		$47,429	$913,461		$1,162,304
Department of Corrections	$719,867			$1,924,545	$812,023	$3,456,435
Department of Human Services	$716,713			$562,181	$743,113	$2,022,007
Department of Health	$264,498			$1,292,901		$1,557,399
Department of Parks and Recreation	$501,539		$266,038	$979,503		$1,747,080
Department of Public Works	$151,705	$236,138	$2,750,450	$1,205,333		$4,343,626
Department of Motor Vehicles	$177,662		$268,957	$30,869		$477,488
Office of Contracting and Procurement	$692,287			$2,173,874		$2,866,161
Office of the Chief Technology Officer				$280,543	$861	$281,404
Totals	**$6,333,356**	**$1,051,019**	**$4,599,178**	**$12,441,517**	**$1,904,741**	**$26,329,811**

[a]Savings from positions that were transferred from local funds to non-local funds.

[b]Savings from hiring personnel at lower salaries and reduced overtime in agency budgets.

[c]Savings were reduced at agency summary level; however, the District was not able to provide allocation by type of savings.

Source: Unaudited data from the District of Columbia government.

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Appendix I: Answers to the Subcommittee's Original Questions

Table 3: Summary of the District's Fiscal Year 2000 Full-Time Equivalent (FTE) Positions Reduced That Were Counted Toward the Personnel Savings

Agency	Retirees	Reductions in force	Transfers[a]	Elimination of funded vacancies	Total FTEs
Office of City Administrator				2	2
Office of Property Management	6	9		2	17
Office of Chief Financial Officer	15				15
Office of Personnel	4		2	7.5	13.5
Emergency Management Agency		2		1	3
Office of Corporation Counsel				21	21
Department of Employment Services			4	8	12
Department of Consumer/Regulatory Affairs	5	1	2	13	21
Business Services/Economic Development				7	7
Metropolitan Police Department	27	8		9	44
Fire/Emergency Medical Services Department	5		0.5	23	28.5
Department of Corrections	13			43	56
Department of Human Services	13			15	28
Department of Health	5			29	34
Department of Parks and Recreation	11		4	27	42
Department of Public Works	3	7	69	23	102
Department of Motor Vehicles	4		9	1	14
Office of Contracting and Procurement	12			41	53
Office of the Chief Technology Officer				5	5
Totals	**123**	**27**	**90.5**	**277.5**	**518**

[a]Positions transferred from local funded FTEs to non-local funded FTEs.

Source: Unaudited data from the District of Columbia government.

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Appendix I: Answers to the Subcommittee's Original Questions

- The District's Office of Inspector General (OIG) has informed us that it is currently performing a verification of the District CFO's certification of the District's total fiscal year 2001 management reform savings, which includes personnel and non-personnel savings.

- The OIG's audit includes a review of the $26.3 million personnel savings that the District reported as a result of the Mayor's workforce reduction.

- The OIG plans to complete its review during the early part of fiscal year 2002.

(194017)

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Enclosure II: Comments from the District of Columbia

Note: GAO comments supplementing those in the text appear at the end of this enclosure.

Government of The District Of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

August 29, 2001

Jeanette M. Franzel
Acting Director, Financial Management and Assurance
U.S. General Accounting Office
441 G Street, N.W., Room 5394
Washington, D.C. 20548

Dear Ms. Franzel:

I transmit this letter as the District of Columbia's official comments to the General Accounting Office's (GAO) draft report dated August 16, 2001 on the "District of Columbia Workforce Reductions and Related Funding Issues" (Draft Report).

Incorporated by reference are the District's official statement to GAO dated July 20, 2001 and responses to GAO questions dated August 8, 2001 and attached hereto as Appendix A and B respectively. The District is attaching its prior responses because of the ambiguous language and negative tone used in the Draft Report to reflect the District's actions.

Comments

See comment 1.
Now p. 11 of briefing document.

1. Page 11 of the Draft Report, Results in Brief, states the following:

The Financial Authority reported that it has not released the $18 million in funding because the District did not meet the conditions set forth in Section 157 of the Act. Therefore, the District did not have the authority to use the Section 157 funding. (Emphasis added).

Response:

This statement concludes that the District did not have the authority to use Section 157 funding because the Financial Authority did not transfer the $18 million to the District. This conclusion is not correct. The Financial Authority did transfer the $18 million to the District after the expenditures for severance had been incurred.

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See comment 1.
Now p. 11 of briefing document.

2. Page 12 of the Draft Report states the following:

During fiscal year 2000, however, the District assumed that it had the authority to use the Section 157 funding....

Response:

This statement does not accurately reflect the basis on which the District used the Section 157 funding. Specifically, the District proceeded to incur $14.3 million in costs related to the workforce reduction activities only after continued discussions and disclosures of information requested by the Financial Authority. Therefore, the District believed it had the authority to use the Section 157 funding after the disclosure of evidence to the Financial Authority that the conditions of Section 157 (relating to the Financial Authority's certification requirement) had been met.

See comment 1.
Now pgs. 15-16 of briefing document.

3. Page 14 of the Draft Report states the following:

According to the Financial Authority, it did not approve the District's request for release of $12.4 million for severance expenditures for the following reasons ....

Response:

This statement and the points enumerated on Pages 14 and 15 refer to the Financial Authority's October 20, 2000 letter to the District rejecting the request for reimbursement of severance expenditures from the Section 157 funding. However, the Draft Report does not state anywhere that the District satisfied the Financial Authority's requests for additional information after October 20, 2000. (Please refer to our complete response in Appendix A, p.2).

See comment 1.
Now p. 16 of briefing document.

4. Page 15 of the Draft Report states the following:

The District did not segregate the costs for each employee between lump sum incentive payments and other separation payments, such as payments for annual leave balances. The amounts to be applied against the $18 million on severance payments were limited to separation payments only and were to exclude any accrued leave due the affect employees.

The District's documentation identified checks to employees in amounts exceeding $25,000. The plan approved by the Mayor limited the retirement incentive program to $25,000.

Response:

The District made severance payments to retiring employees in accordance with Section 157 of the D.C. Appropriations Act, 2000 (Act) and legislation for the Early-Out / Easy-Out Retirement Incentive Program of FY 2000 passed by the Council of the District of Columbia. Section 157 of the Act provided funds for "severance payments to individuals separated from employment during fiscal year 2000 (under such terms and conditions as the Mayor considers appropriate)". The language of Section 157 did not limit "severance payments" to an incentive bonus up to $25,000, exclusive of annual leave. Indeed, Section 157 did not place any cap on the amount that could be paid to an employee so long as the other requirements under Section 157 could be achieved.

Section 157 provided that severance payments could be made under such terms and conditions as the Mayor considers appropriate. This language allowed the Mayor and Council to pass local legislation to implement the retirement program. Council legislation stated that the retirement program shall offer a retirement incentive of not more than 50 percent of an employee's annual rate of basic pay, not to exceed $25,000. Similar to Section 157 of the Act, this legislation did not limit total payments (incentive bonus and accrued leave) from the $18 million fund to a lump sum incentive bonus of $25,000. Instead, Council legislation limited the incentive bonus to 50 percent of an employee's salary, not to exceed $25,000.

To reiterate, the District did not pay any employee an "incentive bonus" in excess of $25,000. Since the Section 157 funding was provided for "severance payments" and such payments include any accrued leave payments owed to an employee, the District used Section 157 to fund both the incentive bonus and accrued leave payments. This resulted in some "severance payments" to employees exceeding $25,000 but not exceeding 50 percent of the employee's salary.

See comment 1.
Now p. 29 of briefing document.

5. Page 27 of the Draft Report recommends the following:

We recommend that the District perform the required investigation to determine if the operating deficits resulting from the reversal and the inappropriate use of the Section 157 authority would represent Anti-Deficiency Act violations and to perform the necessary reporting to disclose any such violations.

Response:

This recommendation was the subject of the District's August 8, 2001 response to GAO, herein incorporated by reference (Appendix B). Specifically, GAO staff requested the District to prepare a hypothetical scenario to determine which agencies, if any, would have ended fiscal year 2000 with an operating deficit if Section 157 funding was not used. The District accepted GAO's recommendation, conducted the required investigation and submitted the results of this scenario in its August 8th response.

The recommendation of this Draft Report now requests the District to report any Anti-Deficiency Act violations resulting from the "reversal and the inappropriate use of the Section 157 authority." The District maintains that the Section 157 funding was used appropriately in FY 2000 and such expenditures have not been reversed. More importantly, no Anti-Deficiency Act violations would result if the Section 157 funding had not been used

because the lack of such funding would not have caused an operating deficit for any appropriation title.

Conclusion

Jeanette Franzel, U. S. General Accounting Office
August 29, 2001
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It is my hope that the above comments and all attachments hereto will be incorporated into the final version of the Draft Report. If you need any further clarification, please do not hesitate to contact me. Thank you for the opportunity to review and comment on the Draft Report.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer

Attachments

cc: The Honorable Anthony A. Williams, Mayor
John A. Koskinen, City Administrator/ Deputy Mayor
Gordon McDonald, Acting Deputy CFO for Budget and Planning
Anthony Pompa, Deputy CFO for Financial Operations and Systems

GAO Comment

1. See Agency Comments and Our Evaluation section of the report.