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District of Columbia Auditor

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**Auditor's Review of Fiscal Oversight of the
2008 Summer Youth Employment Program**

September 30, 2009

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to section 455 of Pub. L. No. 93-198,¹ the District of Columbia Auditor (Auditor) conducted an audit of the Department of Employment Services (DOES) 2008 Summer Youth Employment Program (SYEP).

CONCLUSION

The Auditor found that the Mayor's original proposed budget for the 2008 SYEP was \$14.5 million. The Auditor found however, that DOES, the Executive Office of the Mayor (EOM), and the Office of the Chief Financial Officer (OCFO) failed to provide effective and efficient management and financial oversight of the 2008 SYEP. As a result, the Auditor found that the SYEP FY 2008 original local budget for the 2008 SYEP, through additional reprogrammings and supplements, increased by 74.5% to approximately \$55 million. The Auditor found that the following key decisions and/or factors contributed to the 2008 SYEP program exceeding its \$14.5 million original approved budget by approximately \$41 million:

- Decisions by the EOM to "blanket pay" all participants, paying the maximum amount to each participant in accordance with their age group, effective June 21, 2008 through the end of the 2008 SYEP.
- Decisions by the EOM to expand the 2008 SYEP with inadequate budget authority based on improper assumptions made by the Executive Office of the Mayor regarding the costs of the expanded SYEP.

¹ See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198, 87 Stat. 803); D.C. Code §1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe." See also, section 455 (c) of the District of Columbia Home Rule Act, as amended, approved December 24, 1973, (87 Stat. 803, D.C. Code § 1-204.55 (c) (2001) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, reports, findings and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

The Auditor also found that decisions by the Executive Office of the Mayor to increase the contracting budget from \$3 million to \$10 million to accommodate the open enrollment policy also further increased the program's cost. The Auditor further found that the DOES Finance Officer failed to adhere to OCFO policies and procedures requiring prior review and approval for overtime payments totaling \$112,297 and award of 905 hours in compensatory time.

The lack of efficient and effective financial and management oversight by DOES, EOM, and the OCFO caused the 2008 SYEP program to fall short of achieving its program objectives and ensuring District assets were properly managed and safeguarded from fraud, waste, and abuse.

MAJOR FINDINGS

1. The SYEP FY 2008 Original Local Budget Increased by 74.5%, or \$41 Million.
2. DOES Violated D.C. Law by Reallocating \$3.28 Million From DOES' Transitional Employment Program Supplement Without Council Approval.
3. Poor Planning, Failure to Perform Adequate Risk Assessments, and the Lack of Sufficient Management and Financial Oversight Of The 2008 SYEP Resulted in a \$41 Million Budget Increase.
4. Funds Received for the 2008 SYEP From the Contingency Cash Reserve Fund Totaled Approximately \$19.6 Million.
5. The Executive Office of the Mayor Made Improper Assumptions Regarding Availability of DOES O-Type Funds to Repay the Contingency Cash Reserve Fund in Full.
6. The DOES Finance Officer Failed to Adhere to OCFO Policies and Procedures Requiring Prior Review and Approval for Overtime Payments Totaling \$112,297 and Award of 905 Hours in Compensatory Time.

RECOMMENDATIONS

1. DOES adhere to D.C. Code 47-363(a) and request Council's approval when reallocating appropriated funds between programs.
2. DOES and the Office of Budget and Planning adhere to the terms of reprogramming requests approved by the Council.
3. DOES adhere to OCFO policies and procedures that require prior submission, review, and approval for all overtime payments and award of compensatory time.

PURPOSE

Pursuant to section 455 of Pub. L. No. 93-198,¹ the District of Columbia Auditor (Auditor) conducted an audit of the Department of Employment Services (DOES) 2008 Summer Youth Employment Program (SYEP).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine:

1. DOES' FY 2008 SYEP original appropriated budget and the revised budget resulting through budget supplements and reprogrammings;
2. The total funds expended for the FY 2008 SYEP from the Contingency Cash Reserve Fund (Fund), the timeline and methodology of repayment to the Fund for FY 2009, and the total repayments to the Fund; and
3. The total FY 2008 SYEP disbursements including overtime payments and whether there were sufficient internal controls to safeguard the SYEP's assets against waste, fraud, abuse, and program cost overruns.

The scope of the audit was October 1, 2007 through September 30, 2008. In specific cases, the review was extended to March 30, 2009.

¹ See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198, 87 Stat. 803); D.C. Code §1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe." See also, section 455 (c) of the District of Columbia Home Rule Act, as amended, approved December 24, 1973, (87 Stat. 803, D.C. Code § 1-204.55 (c) (2001) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, reports, findings and all other papers, things, or property belonging to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

In conducting the audit, the Auditor examined the FY 2008 SYEP original and revised budgets, supplements, reprogrammings, and vendor payment data. Additionally, the Auditor conducted interviews with current and former key DOES and OCFO employees, and senior officials in the Executive Office of the Mayor (EOM) and the Office of the City Administrator (OCA).

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The Auditor believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND

DOES' mission statement states that: "the mission of the department of employment services (DOES) is to plan, develop, and deliver employment-related services to the residents of the Washington metropolitan area so that they can achieve workplace security and economic stability."

Each summer, DOES administers the SYEP to provide employment and training to thousands of District youth. Some of the primary objectives of the 2008 SYEP were to prepare youth for entry into the labor force, improve citizenship skills, help youth learn the value of earning money through gainful employment, and give youth the opportunity to develop useful work habits and marketable skills.² The 2008 SYEP began on Monday, June 16, 2008 and officially ended Friday, August 22, 2008.

Registration for the 2008 SYEP began in December 2007 and was scheduled to end April 26, 2008. However, the SYEP enrollment deadline of April 26, 2008, was eliminated by the Mayor's Open Enrollment Policy. According to an official in the Office of the City

²The Department of Employment Services official web site, <http://does.dc.gov>.

Administrator, the Mayor verbally established an Open Enrollment Policy whereby applicants could enroll at any time during the summer until August 22, 2008 and were guaranteed a work site referral. Also according to officials in the Office of the City Administrator, this policy has, as of the date of this report, not been formalized in a written document.

The Mayor's initial local funds budget approved for the FY 2008 SYEP, based on 10,500 participants and 6 weeks in duration, was \$14.5 million. However, the FY 2008 SYEP budget increased to approximately \$55 million. The EOM's Open Enrollment Policy; decisions to "blanket pay" all youth listed for the maximum allowable hours whether or not the youth actually worked; a minimum wage increase from \$5.85 to \$6.55; an extension of the SYEP's duration from 6 to 10 weeks; contract costs increases of \$7 million; poor planning; and inadequate internal controls were the key factors that resulted in the budget increase of approximately \$41 million.

FINDINGS

THE SYEP FY 2008 ORIGINAL LOCAL BUDGET INCREASED BY 74.5%, or \$41 MILLION

The Mayor's original proposed local fund budget for the 2008 SYEP was \$14.5 million. According to DOES officials, the \$14.5 million budget approved for FY 2008 SYEP was based on the following factors: an estimated 10,500 participants; a 6 week summer program; \$3 million for contracts; and an hourly minimum wage of \$5.85. DOES, through the FY 2008 Supplemental Appropriations Temporary Act of 2008, secured a \$7 million supplement budget revision to \$21.5 million because the participant numbers were increased from 10,500 to 15,000 and the program was extended from 6 weeks to 10 weeks. However, through additional reprogrammings and supplements the 2008 SYEP budget eventually increased to approximately \$55 million. This increase was due primarily to participant increases from 15,000 to approximately 21,000, an increase in the minimum wage from \$5.85 per hour to \$6.55, and a decision by the Mayor to "blanket pay" all participants for the duration of the program. Table I presents a summary of the supplements and reprogrammings for the 2008 SYEP.

Table I
Fiscal Year 2008 SYEP Budget Reprogrammings and Supplements

REQUESTED DATE	SOURCE OF REPROGRAMMING OR SUPPLEMENT	REASON FOR THE REPROGRAMMING OR SUPPLEMENT	AMOUNT
12/18/07	FY 2008 Supplemental Appropriations Temporary Act of 2007	To support registration of 15,000 participants in the 2008 SYEP for a duration of 10	\$7,000,000
7/1/08	Debt Services from Repayments of Loans and Interest	To support a dramatic increase in number of registered participants increase in program	\$10,800,000
7/30/08	Contingency Reserve Fund	To support a dramatic increase in number of registered participants increase in program	\$20,100,000
See Footnote 3.	DOES' Transitional Employment Program Supplement ³	To support increase in number of SYEP participants	\$3,280,000
Total FY 2008 Supplements/ Reprogramming			\$41,180,000
Mayor's FY 2008 Original Approved Budget			\$14,500,000
Total Revised Funding for the FY 2008 SYEP			<u>\$55,680,000</u>

Source: Office of the Budget Planning & DOES

³ According to the DOES CFO, the \$3.28 million came from the "Fiscal Year 2008 Supplemental Appropriations Temporary Act of 2008" which authorized \$7,000,000 for the expanded enrollment of ex-offenders in the Transitional Employment Program (TEP). However, once the supplement was approved, DOES requested that the Office of Budget and Planning (OBP) allocate \$3.28 million of the \$ 7 million TEP supplement to the 2008 SYEP to offset \$3.28 million of the SYEP's FY 08 approved budget that was previously reprogrammed to TEP by DOES. DOES could not provide supporting documentation and the Auditor could not verify the \$3.28 million reprogrammed from SYEP to TEP.

DOES Violated D.C. Law by Reallocating \$3.28 Million From DOES' Transitional Employment Program Supplement Without Council Approval

D. C. Official Code, 2001 Ed. Section 47-363(a) states:

“The Mayor shall submit to the Council for approval any reprogramming request(s) which individually or on a cumulative basis would result in a change to the original appropriated or estimated non-appropriated authority of any responsibility center of more than \$400,000 or 10% (whichever is less) of the original appropriated or estimated non-appropriated authority in any fiscal year; provided, however, that Council approval shall not be required for any reprogramming for up to \$25,000. Council approval is required for any subsequent reprogrammings which individually or considered on a cumulative basis would result in additional changes of more than \$400,000 or 10% (whichever is less) of the original appropriated or estimated non-appropriated authority of any responsibility center.”

The District of Columbia Council, through the “Fiscal Year 2008 Supplemental Appropriations Temporary Act of 2008,” authorized \$14 million in supplements for DOES. The Act appropriated \$7 million for the 2008 SYEP and an additional \$7 million for the expanded enrollment of ex-offenders in the DOES Transitional Employment Program (TEP).

The Auditor found that once the supplement was approved, DOES and the Office of Budget and Planning (OBP) reallocated and loaded \$3.28 million of the \$ 7 million TEP supplement into the FY 2008 SYEP budget. According to the DOES CFO and Budget Analyst, DOES requested that the OBP allocate \$3.28 million of the \$ 7 million TEP supplement for the 2008 SYEP to offset \$3.28 million of the SYEP's FY 08 approved budget that was previously reprogrammed to TEP by DOES. However, DOES could not provide documentation that \$3.28 million of FY 2008 SYEP budget authority had in fact been reprogrammed to TEP. Further, the Auditor could not verify through other sources of information that \$3.28 million was, in fact, reprogrammed from the 2008 SYEP budget to the TEP budget. Unless an approved reprogramming request can be produced to support DOES's assertion, there appears to have been a conscious violation of the stated purposes of the approved reprogramming request and an intentional misdirection of funds away from the Transitional Employment Program to the 2008 SYEP.

RECOMMENDATIONS

1. DOES adhere to D.C. Code 47-363(a) and request Council's approval when reallocating appropriated funds between programs.
2. DOES and the Office of Budget and Planning adhere to the terms of reprogramming requests approved by the Council.

POOR PLANNING, FAILURE TO PERFORM ADEQUATE RISK ASSESSMENTS, AND THE LACK OF SUFFICIENT MANAGEMENT AND FINANCIAL OVERSIGHT OF THE 2008 SYEP RESULTED IN A \$41 MILLION BUDGET INCREASE

Government Accountability Office (GAO) standards for internal control state, in relevant part, that:

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations.⁴ Furthermore, control activities, such as policies, procedures, techniques, and mechanisms, are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.⁵

Additionally, GAO standards for internal control state that: "Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. Risk assessment generally includes estimating the risk's significance, assessing the likelihood of its occurrence, deciding how to manage the risk, and what actions management should take."⁶

⁴ See Standards for Internal Control in Federal Government, GAO/AIMD-00-21.3.1 (11/99) p. 4.

⁵ See Standards for Internal Control in Federal Government, GAO/AIMD-00-21.3.1 (11/99) p. 11.

⁶ See Standards for Internal Control in Federal Government, GAO/AIMD-00-21.3.1 (11/99) p. 10-11.

Factors That Contributed to 2008 SYEP Budget Increases And Cost Overruns

The Auditor found that the following key decisions and/or factors contributed to the 2008 SYEP program exceeding its \$14.5 original approved budget by approximately \$41 million.

1. Decisions by the EOM to “blanket pay” all participants, paying the maximum amount to each participant in accordance with their age group, effective June 21, 2008 through the end of the 2008 SYEP. Therefore, all SYEP participants received the maximum payroll amount whether or not the SYEP participant had been assigned to a work site or had actually worked. Although officials in DOES, the EOM, and the OCA continued their efforts to collect and verify time sheets, the “blanket pay” policy eliminated the need for time sheets and the data they contained was ultimately ignored.
2. Decisions by the EOM to expand the 2008 SYEP with inadequate budget authority based on improper assumptions made by the Executive Office of the Mayor regarding the costs of the expanded SYEP. According to an assessment conducted by the OCA, the EOM failed to perform adequate risk analysis to assess the impact of the policy decision to have an open enrollment policy with no enrollment cap for the 2008 SYEP. Officials in the Office of the City Administrator stated that they and officials in the Executive Office of the Mayor failed to conduct the most basic tasks such as:
 - analyzing the additional costs and fiscal impact of the policy decision to expand the 2008 SYEP from six to 10 weeks;
 - analyzing the additional costs and fiscal impact of not maintaining an enrollment cap for the 2008 SYEP;
 - correctly calculating the attrition rate for enrollees, stating, “we overestimated the number of youth that might register, but eventually choose not to participate in the program.” The Auditor found that the blanket pay policy ensured the absence of a zero attrition rate; and

- analyzing the additional costs that would be incurred when the minimum wage hourly rate paid to youth was increased from \$5.85 to \$6.55 after the budget had been established based on the \$5.85 per hour rate.

The Auditor also found that decisions by the Executive Office of the Mayor to increase the contracting budget from \$3 million to \$10 million to accommodate the open enrollment policy also further increased the program's cost.

FY 2007 SYEP Operated on a Deficit Budget

An examination of the 2007 and 2008 SYEP budgets further illustrates the improper assumptions made and inadequate or non-existent analyses performed by the Executive Office of the Mayor. The Auditor's analysis found that the initial approved budget for the 2007 SYEP was \$12.2 million. However, expenditures for the 2007 SYEP exceeded the \$12.2 million budget by \$12.6 million, or a total FY 2007 SYEP cost of \$24.8 million. This represented a 100.33% increase. The \$12.6 million budget increase was funded through reprogrammings. Details of the 2007 SYEP reprogrammings are presented in Table II.

Table II
Fiscal Year 2007 SYEP Reprogrammings

REQUESTED DATE	SOURCE OF REPROGRAMMING	REASON FOR THE REPROGRAMMING	AMOUNT
3/7/07	DOES' Apprenticeship (grants & Gratuities)	To provide sufficient budget authority for projected overtime obligation	\$50,000
4/24/07	DOES' Transitional Employment Activity and from object 0408 in Youth Program	To provide sufficient budget authority in SYP participant wages	\$1,200,000
6/29/07	DOES' Transitional Employment Activity	To provide sufficient budget authority in SYP participant wages	\$750,000
07/26/07	Metropolitan Police Department	To provide sufficient funding for additional 4,300 SYEP participants	\$5,897,000
7/26/07	Office of Finance and Treasury (OFT) Master Lease/Purchase Program	To provide sufficient budget authority in SYP for an additional three weeks	\$4,700,000
Total FY 2007 Reprogrammings			\$12,597,000
Mayor's FY 2007 Original Budget			\$12,200,000
Total Revised Funding for the FY 2007 SYEP			<u>\$24,797,000</u>

In fiscal year 2008, the initial budget for the 2008 SYEP was \$14.5 million. However, the Auditor found that the Executive Office of the Mayor and the Office of Budget and Planning failed to address the FY 2007 \$12.6 million budget shortfall when developing the initial and revised FY 2008 SYEP budgets. As shown in Table III, the Council of the District of Columbia added \$7 million to the budget in December 2007, resulting in a total 2008 SYEP revised budget of \$21.5 million. In the spring of 2008, the Executive Office of the Mayor chose to offer unlimited enrollment in the 2008 SYEP despite the fact that the revised \$21.5 million budget was \$2.9 million less than the \$24.4 million actual cost of the 2007 SYEP.

The assumption that the fiscal year 2008 SYEP budget could host more youth for less money was inherently and fatally flawed thus resulting in a subsequent budget shortfall of \$34.2 million in July 2008.

FUNDS RECEIVED FOR THE 2008 SYEP FROM THE CONTINGENCY CASH RESERVE FUND TOTALED APPROXIMETALLY \$19.6 MILLION

Section 450A(b)(4)(A) of the Home Rule Act and D. C. Official Code, 2001 Ed. Section 1-204.50a. Supp. 2008 sets forth the criteria for permissible uses of the fund, such as “non recurring or unforeseen needs that arise during the fiscal year.” The law requires that if the District government borrows from the reserve fund for *cash flow management* purposes, then it should fully replenish the fund for the amounts borrowed in specific timeline.

On July 30, 2008, the Mayor requested \$20.1 million from the Contingency Cash Reserve Fund (FUND) for the FY 2008 SYEP to fund participants’ payroll expenses. (See Appendix I) The District’s CFO approved and directed that \$20.1 million from the Contingency fund be provided to DOES on an “as needed” basis. The auditor verified through EIS and SOAR, that OBP loaded \$19.6 million to DOES’ 2008 SYEP budget. Table III summarizes the Funds loaded to DOES’ budget for the 2008 SYEP.

Table III
Fiscal Year 2008 SYEP Contingency Cash Reserve Fund Loaded Into DOES Budget

EFFECTIVE DATE DOC	AGY	Doc. No.	Amount
09/09/2008	BC0	BJPAYPD6	\$2,500,000
08/27/2008	BC0	BJMOYOUR	\$6,000,000
08/13/2008	BC0	BJCFFYOU	\$8,100,000
08/06/2008	BC0	BJCF0CCR	\$3,000,000
Total Contingency Cash Reserve fund Loaded			<u>\$19,600,000</u>

SOURCE: SOAR/EIS

\$18.8 Million Was Expended For the 2008 SYEP From the Contingency Cash Reserve Fund

Although \$19.6 million were transferred from the Contingency Fund to DOES, the Auditor found that DOES expended only \$18.8 million for the 2008 SYEP. OBP returned the remaining \$823,872 to the Contingency Fund. The Auditor verified the return of \$823,872 through SOAR and EIS.

The Executive Office of the Mayor Made Improper Assumptions Regarding Availability of DOES O-Type Funds to Repay the Contingency Cash Reserve Fund in Full

According to the Mayor's July 30, 2008 contingency fund request letter, "the DOES' O-Type accounts are sufficient to repay contingency cash reserve fund. The Mayor's request letter stated, in part, "that existing, certified fund balances of certain O-Type accounts belonging to DOES are sufficient to repay the Contingency Reserve in full. However, under current law these accounts are available only to recover limited administrative costs of DOES, and may not be used to pay wages earned through the SYEP."⁷

The Auditor found that the EOM improperly assumed that existing, certified fund balances of certain O-Type accounts belonging to DOES were sufficient to repay the Contingency Cash Reserve Fund. According to DOES's Agency Fiscal Officer, the O-type funds were not available to replenish/repay the Contingency Fund as stipulated in the Mayor's July 30, 2008 letter. As a result, the CFO was required to replenish \$19.6 million to the Contingency Fund from the FY 2008 general fund operating surplus.

District Government Replenished the Contingency Cash Reserve Fund During FY 2009

D. C. Official Code, 2001 Ed. Section 1-204.50a., states, in part, "if the District government *BORROWS* from reserve fund for *cash flow management* purposes, then it should fully replenish the fund for the amounts borrowed in specific timeline." [Auditor's Emphasis]

⁷ See letter from the Mayor to Dr. Gandhi, District CFO, dated July 30, 2008. See letter in entirety at Appendix I.

The Auditor found that no efforts had been made to repay the borrowed funds until the Auditor's inquiry. The Auditor reviewed a memo from the Office of Finance and Treasury (OFT), dated March 5, 2009, directing M&T Bank to receive and invest the wire transferred money for contingency cash reserve fund repayment.⁸ The Auditor confirmed through SOAR and an Office of Treasury and Finance (OTF) memo that the District replenished the Contingency Cash Reserve Fund for the \$19.6 million borrowed for the 2008 SYEP on March 5, 2009 (see appendix II).

DOES EXPENDED APPROXIMATELY \$49.04 MILLION FOR THE 2008 SYEP

During FY 2008, DOES expended approximately \$49 million in salaries, supplies, rent, vendor payments, and summer youth wages and benefits for the 2008 SYEP. Table V summarizes 2008 SYEP expenditures.

Table V
FY 2008 SYEP EXPENDITURES

Description	Amount
Salaries	\$1,355,900
Supplies, Rent, etc	\$151,320
Other Services & Equipments	\$989,535
Summer Wages & Benefits	\$33,287,595
Vendor Contracts	\$12,267,301
Intra-District with other DC agencies	\$991,494
Total	<u>\$49,043,145</u>

Source: DOES & EIS

DOES Finance Officer Failed to Adhere to OCFO Policies and Procedures Requiring Prior Review and Approval For Overtime Payments Totaling \$112,297 and Award of 905 Hours in Compensatory Time

Internal OCFO policies and procedures for paid DOES overtime and the award of compensatory time states, in part, that: "the program submits request for paid overtime and

⁸ See letter from OFT to M&T Bank dated March 5, 2009.

compensatory time to the OCFO and the OCFO financial manager reviews the request for proper program manager signatures which verify the dates and hours listed are accurate. Additionally, the financial manager checks budget authority for availability for overtime payments.”

The Auditor found that DOES did not adhere to either of these procedures prior to payment of \$112, 297 in overtime payments and the award of 905 hours in compensatory time. The Auditor found that the DOES program manager not only failed to complete the request forms prior to payment but also failed to obtain prior review and approval of the OCFO financial manager, as required. The DOES agency fiscal officer stated that, “my policy is to have the DOES Director submit overtime and compensatory time request forms, prior to approval of all overtime. This procedure however was not followed for the 2008 SYEP due to the large volume of DOES employees that required overtime because of the large number of SYEP participants.”

Additionally, the Auditor reviewed 296 overtime request forms that were completed and submitted to the DOES fiscal officer after overtime payments had been made and compensatory time was awarded. The Auditor found that 180, or 61%, of these forms did not contain the DOES Deputy Director’s approval signature, as required.

DOES’ failure to adhere to internal OCFO policies and procedures regarding the prior review and approval of all overtime payments and award of compensatory time for accuracy and budget availability exposed District assets to fraud, waste, and abuse.

RECOMMENDATION

DOES adhere to OCFO policies and procedures that require prior submission, review, and approval for all overtime payments and award of compensatory time.

DOES Failed to Develop Internal Policies and Procedures For Overtime Payments and Compensatory Time

GAO standards for internal control states: “Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity’s planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.”⁹

The DOES human resource manager could not provide the Auditor with written DOES policies and procedures for payment of overtime or award of compensatory time, instead directing the Auditor to the Department of Human Resources, District Personnel Manual (DPM) regarding overtime and compensatory policies and procedures. Although the DPM allows for Agency Director’s to have discretion in the payment of overtime and award of compensatory time, DOES should develop its own internal written policies and procedures. The absence of clear overtime policies and procedures could result in overtime fraud, waste, and abuse of District assets.

RECOMMENDATION

DOES develop written internal policies and procedures regarding payment for overtime and award of compensatory time in alignment with the DPM.

CONCLUSION

The Auditor found that the Mayor’s original proposed budget for the 2008 SYEP was \$14.5 million. The Auditor found however, that DOES, the Executive Office of the Mayor (EOM), and the Office of the Chief Financial Officer (OCFO) failed to provide effective and

⁹ See Standards for Internal Control in Federal Government, GAO/AIMD-00-21.3.1 (11/99) p. 11.

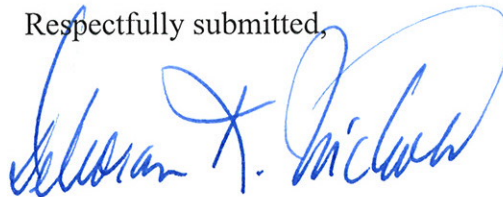
efficient management and financial oversight of the 2008 SYEP. As a result, The Auditor found that the SYEP FY 2008 original local budget for the 2008 SYEP, through additional reprogrammings and supplements, increased by 74.5%, to approximately \$55 million. The Auditor found that the following key decisions and/or factors contributed to the 2008 SYEP program exceeding its \$14.5 original approved budget by approximately \$41 million:

- Decisions by the EOM to “blanket pay” all participants, paying the maximum amount to each participant in accordance with their age group, effective June 21, 2008 through the end of the 2008 SYEP.
- Decisions by the EOM to expand the 2008 SYEP with inadequate budget authority based on improper assumptions made by the Executive Office of the Mayor regarding the costs of the expanded SYEP.

The Auditor also found that decisions by the Executive Office of the Mayor to increase the contracting budget from \$3 million to \$10 million to accommodate the open enrollment policy also further increased the program’s cost. The Auditor further found that the DOES Finance Officer failed to adhere to OCFO policies and procedures requiring prior review and approval for overtime payments totaling \$112,297 and award of 905 hours in compensatory time.

The lack of efficient and effective financial and management oversight by DOES, EOM, and the OCFO caused the 2008 SYEP program to fall short of achieving its program objectives and ensuring District assets were properly managed and safeguarded from fraud, waste, and abuse.

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor

AGENCY COMMENTS

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On August 24, 2009, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the Acting Director of the Department of Employment Services (DOES), and the Chief Financial Officer of the District of Columbia (CFO).

Written comments were received from the CFO on September 14, 2009. The CFO concurred with all recommendations cited in the draft report. No comments were received from the Acting Director of DOES. Where appropriate, changes were made to the final report based upon the comments received. All written comments are appended, in their entirety, to the final report.

**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

September 14, 2009

SEP 14 2009

Ms. Deborah K. Nichols
Office of the District of Columbia Auditor
717 14th Street, NW Suite 900
Washington D.C. 20005

Re: Draft Audit Report Entitled: "Auditor's Review of Fiscal Oversight of the 2008 Summer Youth Employment Program"

Dear Ms. Nichols:

This responds to your August 24, 2009, letter transmitting for comment your draft audit report entitled "Auditor's Review of Fiscal Oversight of the 2008 Summer Youth Employment Program" (SYEP). The following is the response of the Office of the Chief Financial Officer (OCFO) to the findings and recommendations in the draft report that pertain to this Office. It is my understanding that the Department of Employment Services (DOES) will provide a separate response to your report.

- I. **Finding:** DOES Violated DC Law by Reallocating \$3.28 million from DOES' Transitional Employment Program (TEP) Supplement Without Council Approval.

Management Response: The OCFO disagrees with the auditor's finding. DOES had Council approval for the reallocation. Funds were redirected from training programs to the SYEP based on temporary legislation passed by the Council. The "Access to Youth Employment Programs Amendment Temporary Act of 2007, L17-0075" gave the Mayor authority to fund the in-school and out-of-school year-round employment program by using \$3.5 million of funds allocated to DOES for training. In-school and out-of-school year-round students are participants of the Summer Youth Program. Vendors of these programs also provide services during SYEP. The FY 2008 budget was allocated pursuant to legislative authority. The temporary legislation was passed subsequent to the original and supplemental appropriation.

Recommendations:

1. DOES adhere to D.C. Code 47-363(a) and request Council's approval when reallocating appropriated funds between programs
2. DOES and the Office of Budget and Planning will continue to adhere to the legislative mandates, rules and requirements set forth in legislation passed by the Council

Management Response: DOES and the Office of Budget and Planning will continue to adhere to the terms of reprogramming requests approved by the Council.

II. Finding: FY 2007 SYEP Operated on a Deficit Budget

Management Response: The OCFO disagrees with the auditor's finding. The initial approved budget for the 2007 SYEP was \$12.2 million. Total FY 2007 SYEP costs were \$24.8 million. The audit report reflects that five reprogrammings totaling \$12.6 million were requested in FY 2007 to provide sufficient funding for SYEP. The first two reprogrammings were submitted prior to the start of the program. One reprogramming was to cover the cost projected for overtime and the other reprogramming was for participant wages. The remaining three reprogrammings totaling \$11.3 million were submitted to ensure that the agency had sufficient funds for participant wages in upcoming payrolls. The OCFO's key role in a program's budget formulation is to ensure funds are available to meet policymaker priorities, and that appropriate laws are followed if those priorities change.

The audit report states that "the EOM and OBP failed to address the FY 2007 \$12.6 million budget shortfall when developing the initial and revised FY 2008 budgets." The audit report fails to take into account the time frames for budget development. The increases for the FY 2007 summer program were not known in October-November 2006, when the FY 2008 budget request was being developed nor in May 2007, when Council voted on the FY 2008 budget. The initial budget for the FY 2008 SYEP (approved May 2007) was \$14.5 million. The Council added \$7 million to the budget in December 2007 resulting in a total 2008 SYEP revised budget of \$21.5 million, just \$3.3 million short of the final revised budget for the FY 2007 SYEP. Subsequently, Mayor Fenty's eventual FY 2008 program objectives extended the scope of the program from a six-week program for 10,500 participants to a 10-week program for 21,000 participants.

III. Finding: The Executive Office of the Mayor Made Improper Assumptions Regarding availability of DOES O-Type Funds to Repay the Contingency Cash Reserve Fund in Full.

Management Response: The OCFO agrees with this finding as a statement of fact, but it had no bearing on the OCFO's analysis of the request to use the contingency cash reserve. The Mayor's letter requesting use of Contingency Reserve Fund stated that DOES' O-type fund balances were sufficient to repay the Reserve Fund. OCFO staff advised the Mayor's officials that use of O-type funds for this type of repayment could be done only if legislation were submitted to change the restrictions on the O-type funds and to provide additional budget authority. Such legislation was not submitted to make O-type resources available so the CFO used General Fund resources to repay the Contingency Reserve Fund.

Legislation could have been introduced to alter the restrictions on DOES' O-type resources to make them available to repay the Contingency Reserve fund.

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IV. **Finding:** District Government Replenished the Contingency Cash Reserve Fund During FY 2009.

Management Response: The OCFO agrees with this finding in part. This finding is erroneously based on a determination that funds were borrowed for “cash flow management purposes” and were repaid outside of the legally required timeframe and payment was initiated only upon the auditor’s inquiry. The OCFO disagrees with that determination. The auditor’s conclusion is based on an inaccurate representation of the law, its use and the circumstances of repayment. Funds were allocated from and repaid to the Contingency Reserve Fund in accordance with the law.

There are different provisions for drawing on the Contingency Cash Reserve:

- ♦ an allocation for a contingent event; and
- ♦ an allocation for cash flow purposes.

Funds were allocated from the Contingency Reserve fund for the SYEP under the provision for a contingent event. Under this provision, the law requires 50 percent to be repaid in the following year, and the remaining 50 percent balance be repaid the year after. Applying the law to the SYEP allocation, 50 percent was due by September 30, 2009, and the remaining 50 percent by September 30, 2010. But in fact, 100 percent was repaid with unreserved undesignated fund balance as of the end of FY 2008. From an accounting standpoint, this replenishment occurred as of the end of FY 2008. The actual cash replenishment occurred approximately one month after the FY 2008 year-end close, in early March 2009 (with cash that represented unreserved undesignated fund balance as of the end of FY 2008), well in advance of the required time frame for replenishment. This cash replenishment was planned, in accordance with the action taken during the FY 2008 year-end close to provide for such replenishment. Given these facts, the audit report’s conclusion that “no efforts had been made to repay the borrowed funds until the Auditor’s inquiry” is incorrect.

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V. **Finding:** DOES Finance Officer Failed to Adhere to OCFO Policies and Procedures Requiring Prior Review and Approval for Overtime Payments Totaling \$112,297 and Award of 905 Hours in Compensatory Time.

Recommendation: DOES adhere to OCFO policy and procedures that require prior submission, review, and approval for all overtime payments and award of compensatory time.

Management Response: The OCFO agrees with this finding. The DOES OCFO overtime policy requires prior department approval and budget availability before overtime is authorized and worked. However, during the FY 2008 Summer Youth Program, daily status update meetings were held at the end of the day during registration and at pay centers to discuss business practices, staffing requirements, IT, and overtime. As a result of the status meetings overtime was authorized but the forms were not sent to the finance office or Director as required in the policy. Overtime was monitored and funds were increased based on the status meetings. DOES OCFO will adhere to the policy and procedures that requires submission, review, and approval for all overtime payments and award of compensatory time.

VI. **Finding:** DOES Failed to Develop Internal Policies and Procedures for Overtime Payments and Compensatory Time:

Recommendation: DOES develop written internal policies and procedures regarding payment for overtime and award of compensatory time in alignment with the DPM.

Management Response: The OCFO concurs with this recommendation. The OCFO is currently developing a Policy and Procedures manual for all financial operations and tasks.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

cc. Lucille Dickinson, Chief of Staff, OCFO
Lasana, Mack, Deputy Chief Financial Officer, OFT, OCFO
Gordon McDonald, Deputy Chief Financial Officer, OBP, OCFO
Cyril Byron, Associate Chief Financial Officer, EDRC, OCFO
Robert Andary, Executive Director, OIO, OCFO

APPENDIX I



ADRIAN M. FENTY
MAYOR

July 30, 2008

Dr. Natwar M. Gandhi
Chief Financial Officer
1350 Pennsylvania Avenue, NW, Suite 203
Washington, DC 20004

Dear Dr. Gandhi:

I write to request the use of the District's Contingency Cash Reserve Fund in accordance with section 450A of the District of Columbia Home Rule Act. An amount up to \$20,100,000 is needed for the Department of Employment Services to fund participant payroll expenses through the end of the Summer Youth Employment Program. Due to several factors including the tremendous increase in program registration, SYEP payroll expenses are much higher than was foreseen during the budget development process or even prior to the start of this year's program. The amount of Contingency funds needed may be reduced significantly to the extent that participant attrition can be verified in the three remaining pay periods.

The existing, certified fund balances of certain O-type accounts belonging to DOES are sufficient to repay the Contingency Reserve in full. However, under current law these accounts are available only to cover limited administrative costs of DOES, and may not be used to pay wages earned through the Summer Youth program. No legislative amendment can be enacted until the Council reconvenes. In the meantime, this allocation from the Contingency Reserve is necessary to ensure that all youth who have worked receive pay on time.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Adrian M. Fenty".

Adrian M. Fenty

APPENDIX II

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



Office of Finance and Treasury

MEMORANDUM

TO: Dariette Ballard & Thom Herring
M & T Bank

FROM: John Henry
Office of Finance and Treasury

[Handwritten signature] 3/5/09

DATE: March 5, 2009

SUBJECT: Wire for purchase in the Contingency Emergency Reserve (79818)

Please receive and invest in the M&T Government MMF in the amount of \$19,850,000.00. These funds are for the Contingency Emergency Reserve account (79818).

\$17,100,000.00 – DOES Reimbursement

\$ 2,500,000.00 – DOES Reimbursement

\$ 250,000.00 – Emergency Response Reimbursement

Funds are being transferred from our Custodial account at Bank of America. Thanks.

If there are any questions or concerns please contact me at (202) 727-3382.

24161185

M & T BANK (SERVICE BUREAU)
TRANSACTIONS FROM 03/05/09 TO 03/05/09 - ALL PORTFOLIO 03/05/09 14:28
79818 CONT/RESERVE 11-D.C. GOVT. PRIN. CASH INCOME CASH PG 1
03/04 BALANCES CARRIED FORWARD 0.00 0.00
03/05 CASH RECEIPT
WIRE RECEIVED 19,850,000.00
FROM BANK OF AMERICA FOR MTB INVESTMENT

03/05 ENDING BALANCE - PRINCIPAL PORTFOLIO 0.00
03/05 ENDING BALANCE - INCOME PORTFOLIO 0.00
03/05 ENDING BALANCE - INVESTED INCOME PORTFOLIO 0.00