DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-20MA

November 2018

AUDIT OF DISTRICT OF COLUMBIA AGENCIES' FUND REPROGRAMMING PRACTICES

Guiding Principles

Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity * Measurement * Continuous Improvement

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership * Transparency * Empowerment * Courage * Passion * Leadership

Why the OIG Did This Audit

The audit of District of Columbia Agencies' Fund Reprogramming Practices was included in our *Fiscal Year 2017 Audit and Inspection Plan*. The legislation requires that our Office conduct audits and report "variances which are in an amount equal to or greater than $1,000,000 or 1% of the applicable annual budget for the program in which the variance is found (whichever is lesser)."[1]

Government agencies sometimes face unanticipated budget changes that result in over or underspending. Adjustments to spending patterns can resolve such changes. Reprogramming is a type of budget adjustment that moves budget authority from one agency to another, or from one program or spending category to another, within an agency.

The OIG reviewed the District's reprogramming practices to determine whether: (1) District agencies are reprogramming funds with the approval of and notification to the appropriate oversight authority; (2) District agencies' fund expenditures are used for their intended purposes; and (3) the root cause of variances among budgeted amounts, planned amounts, and actual expenditures.

What the OIG Recommends

The OIG made seven recommendations for the District to improve the operational and program information to justify District reprogramming practices and to ensure that the District uses reprogrammed funds in an efficient and effective manner.

Opportunities Exist to Improve the District's Process to Track Fund Reprogramming Activities

What the OIG Found

During our audit, we were able to trace approved budget reprogramming activities to the District's financial records, but the District agencies we sampled did not maintain the operational information[2] needed to determine and validate the root cause of fund reprogramming requests. We expected to see operational and program documentation that explained why agencies did not use funds for the original purpose and that supported an urgent need that could not wait until the next appropriation cycle. Without such evidence, we could not determine whether the District reprogramming activities of $1.3 billion through 1,194 transactions over three fiscal years complied with applicable laws or if poor planning or operational deficiencies caused budget variances. Consequently, the information that our office needs to conduct audits and report variances as required by our enabling legislation was not available.

Our review of the limited information available revealed the District initiated some fund reprogramming to respond to spending pressures and avoid the lapsing of funds – such as salaries from unfilled vacant positions and surpluses from over-budgeting on completed projects – and to restore budget cuts. Without complete evidence and analysis to support reprogramming requests District agencies made, the District risks allocating funds without first addressing the root cause of budget pressures or shortfalls.

Finally, the District did not fully fund cash flow reserves during FYs 2015-2017 before reprogramming $230 million into Pay-as-You-Go (Paygo)[3] and the Housing Production Trust Fund (HPTF) accounts as required by law.[4] The reserve is important to ensure that the District can operate for 60 days without disruptions in the event of a cash flow shortage. In addition, a shortfall in the reserve could put the District's credit rating at risk and impact its ability to borrow at a lower interest rate in the municipal bond market.

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[1] D.C. Code § 1-301.115a (A) (3) (I).

[2] For the purpose of this discussion, operational information is information the agency uses to inform or support decision making at the operational level.

[3] Paygo provides an additional funding source to offset long-term bond borrowing costs for capital projects.

[4] D.C. Code § 47–392.02(j-2) (4) authorizes the District to put funds into Paygo and HPTF accounts provided the reserve accounts are fully funded.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

OIG

Inspector General

November 6, 2018

Rashad Young
City Administrator
District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear City Administrator Young:

Enclosed is our final report, *District of Columbia Agencies' Fund Reprogramming Practices: Opportunities Exist to Improve the District's Process to Track Fund Reprogramming Activities* (OIG No. 17-1-20MA). The audit was included in our *Fiscal Year (FY) 2017 Audit and Inspection Plan*. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS).

We provided the Office of the City Administrator (OCA) our draft report on August 30, 2018, and received its response on October 19, 2018. We appreciate that District agencies began to address some of the findings immediately upon notification during the audit.

OCA concurred with recommendations 1, 2, 3, 4, and 6. OCA's actions taken and/or planned are responsive and meet the intent of these recommendations. Therefore, we consider these recommendations resolved and open pending evidence of stated actions.

OCA disagreed with recommendations 5 and 7. For recommendation 5, OCA stated that OCFO and the agency staff ensure that these funds are used according to the federal grant restrictions and, therefore, a policy is not necessary. We note OCA's position; however, it is important for the District to establish policy to track and report reprogramming of funds involving federal grants to ensure all grants are used efficiently. We request that OCA reconsider its position and provide an updated response within 30 days of receipt of this final report.

For Recommendation 7, OCA acknowledged the need to meet the 60 days cash reserve and stated that it will continue to weigh all of its priorities each year and try to reach the goal of 60 days reserves. OCA's actions taken and/or planned are responsive and meet the intent of the recommendation. Therefore, we consider this recommendation resolved and open pending evidence of stated actions.

We appreciate the cooperation and courtesies extended to our staff during this audit. If you have any questions concerning this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-7721.

Sincerely,

Daniel W. Lucas
Inspector General

OWL/mo

Enclosure

cc: See Distribution List

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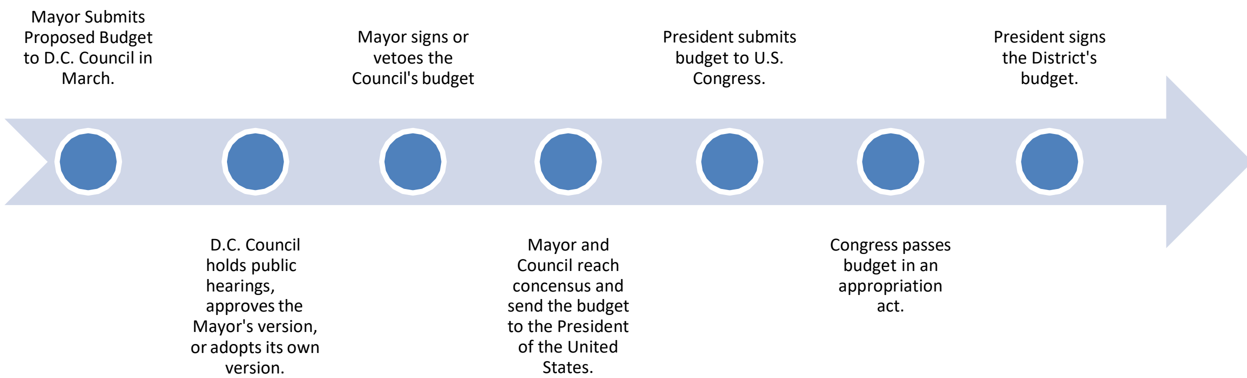
BACKGROUND

The operating[5] and capital budget[6] for the District of Columbia presents the operations, programs, and the District's financial plan for over 100 agencies. An approved budget is for a fiscal year (FY), which begins October 1 and ends September 30 of the following year. For example, FY 2017 begins October 1, 2016, and ends September 30, 2017. Figure 1 below illustrates the budget formulation and approval process.

Figure 1: The District's Budget Process



Source: OIG illustration of the District's budget process.

The Reprogramming Request Process

The District's budget is codified into law through the annual appropriation process, so changes or adjustments require notification and approval. If changing spending priorities occurs, the District can use reprogramming to change budgetary authority. The Office of the Chief Financial Officer (OCFO) describes reprogramming as:

> A movement of budget authority from one agency to another, or within an agency from one program or spending category to another. Reprogramming allows a shift of budget from a low-need area to a high-need area, whether because priorities have changed or because workload or other external factors have led to spending patterns that differ from what was assumed when the budget was developed.[7]

[5] The operating budget funds District daily operations.
[6] The capital budget provides information on the District's infrastructure, fixed assets, and other capital needs.
[7] https://cfo.dc.gov/page/overview-budget-execution-process (last visited June 3, 2018).

The Fiscal Year 2015 and 2016 Budget Request Acts state, "[t]he District of Columbia government is authorized to approve reprogramming and transfer requests of local funds under [these Acts] through November 7 . . ." for the respective fiscal year that ended September 30. A request to reprogram funds typically begins within the agency with approval from the OCFO Agency Fiscal Officer. The agency then submits the request to the Mayor's office for approval. If approved, the request goes to the OCFO Office of Budget and Planning (OBP) for analysis before going to the Deputy Chief Financial Officer for approval. A reprogramming request of $500,000 or more requires D.C. Council approval. Once the D.C. Council approves the reprogramming request, the OCFO updates the System of Accounting and Reporting (SOAR) records and maintains the supporting documents. See Appendix A for more information on the fund reprogramming approval process.

D.C. Code § 47-355.05(e) (1) (A) (Lexis 2015 archive) requires that the CFO submit a quarterly summary to the D.C. Council and Mayor on all reprogrammed funds. According to the quarterly summaries, District agencies reprogrammed 1,194 transactions between FY 2015 and FY 2017.

Audit Objectives

The objectives of this audit were to determine whether: (1) district agencies are reprogramming funds with approving and notification to the appropriate oversight authority; (2) district agencies' fund expenditures are used for their intended purposes; and (3) the root cause of variances among budgeted amounts, planned amounts, and actual expenditures.

FINDINGS

OPPORTUNITIES EXIST TO IMPROVE THE DISTRICT'S PROCESS TO TRACK FUND REPROGRAMMING ACTIVITIES

Except for reprogramming activities involving grant funds, OCFO adequately designed controls to ensure funds were available for reprogramming purposes and these controls effectively track and report summary information about reprogramming. Agency reprogramming requests and approval letters from the Mayor, CFO, and D.C. Council chairperson are publicly available on the OCFO and the Council's websites.

While we traced approved reprogramming budget activities to the District's financial records maintained in SOAR, District agencies could not trace these transactions to their own operational and program activities. Based on discussions with agency staff, we determined that the District did not establish policies and procedures that required the agencies to track and maintain records to support fund reprogramming requests. Clear requirements that specify the documentation District agencies must maintain would enhance and support District efforts to manage and analyze the reprogramming process in a detailed manner. The information that our office needs to conduct audits and report variances required by our enabling legislation was not available for our review.[8] Without detailed documentation for analysis, there is a risk that the District could reprogram funds for unintended purposes given that the District reprogrammed $1.3 billion during the audit period.

According to the U.S. Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*[9] is a process affected by an entity's oversight body, management and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. The objectives of an entity can be grouped into three categories: effectiveness and efficiency of operations; reliability of reporting for internal and external use; and compliance with laws and regulations.

While OCFO reprogramming policies and procedures addressed the District's financial reporting objectives, the policies, however; did not address the efficiency and effectiveness of operations and compliance with laws. Our audit identified the following internal control deficiencies that could hinder the District's ability to achieve its operational and compliance objectives:

- District agencies did not always prepare and include complete, accurate, and adequate operational and program information to justify reprogramming requests;

- District policy is unclear whether reprogramming of grant-related funds requires approval;

[8] The OIG enabling legislation requires that our office conduct audits and report "variances which are in an amount equal to or greater than $1,000,000 or 1% of the applicable annual budget for the program in which the variance is found (whichever is lesser)[.]" D.C. Code § 1-301.115a (a) (3) (I) (Repl. 2016).
[9] U.S. GOV'T ACCOUNTABILITY OFFICE, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT 12-14, GAO-14-704G (Sept. 2014).

- The District did not establish timelines in the reprogramming policies and procedures to manage the effectiveness of the approval process; and

- The District did not fund the reserves before transferring uncommitted or unspent funds into Pay-as-You-Go (Paygo) and the Housing Production Trust Fund (HPTF) accounts as required by law.

District Agencies Did Not Always Maintain Complete, Accurate, and Adequate Operational and Program Information to Justify Reprogramming Requests

D.C. Code § 47-362(a) (Lexis 2015 archive) specifies that reprogramming shall be used "only when an unforeseen situation develops and then only if postponement until the next appropriations cycle would result in a serious hardship in the management of the City." In addition, D.C. Code § 47–363(a) requires that reprogramming request "include an analysis of its effect on the budget and on the purposes for which the funds were originally appropriated."

The four District agencies we sampled could not provide detailed supporting documentation to demonstrate that summary information in the request was accurate, complete, and verifiable. This information is also essential to determine the actual expenditures related to the reprogramming, the effect on the budget, and on meeting the purpose for which the funds were originally appropriated. Such information is necessary for our office to meet our statutory requirement to determine the root cause of variances between budgeted or planned amounts. Without this information, District agencies could not tie each reprogrammed fund to its original and new purpose.

Lack of Root Cause Analysis of Variances between Budgeted and Actual Expenditures

District agencies used a standardized template created by OCFO to transmit summarized information as part of reprogramming requests. The template requires that agencies address:

1. Why are the funds needed?
2. Is this reprogramming to restore a budget cut authorized by the Mayor or the Council?
3. How will the funds be reprogrammed?
4. Why are the funds available?
5. What hardship would the District face if the action is postponed until the subsequent fiscal year?
6. What programs, services, or other purchases will be delayed because of the action, and the impact on the programs or agency?

During our audit, District agencies could not trace the information transmitted back to operational and program information. Specifically, District agencies did not perform root cause analysis and maintain evidence to justify reprogramming funds from an approved budget authority for a new purpose. At a minimum we expected to see operational and program information that provided evidence from each agency explaining why a fund already budgeted and appropriated for a purpose was available to be reprogrammed and why the funds are needed; including the unforeseen and urgent circumstances that could not wait until the next appropriation cycle. Without such evidence, the Audit team could not determine whether the

District's reprogramming of funds complied with laws. Similarly, we could not determine whether poor planning or operational deficiencies caused budget variances.

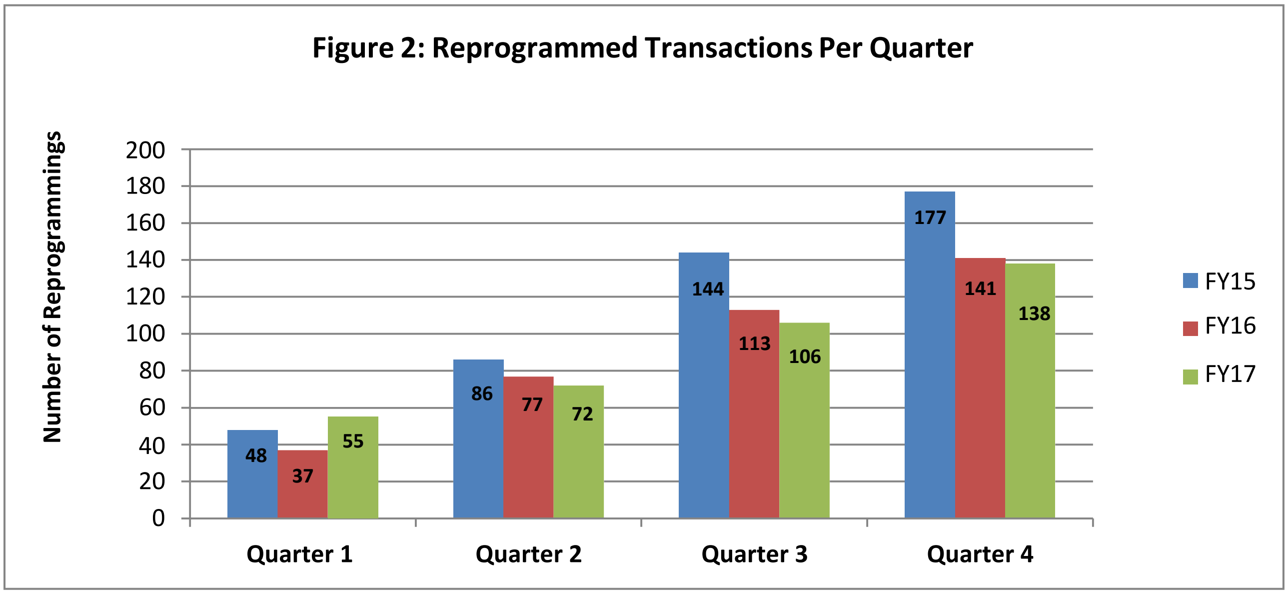
But our review of the limited information available revealed that some of the District's fund reprogramming was initiated to respond to agency spending pressures and to avoid lapsing funds such as salaries from unfilled vacant positions and surpluses from over budgeting on completed projects and to restore budget cuts (rescissions).

Spending Pressures: The District reprogrammed approximately $1.6 million of personal services, local funds budget authority to fund overspending in overtime retroactively. According to the reprogramming request, the agency incurred overspending of $1.9 million in overtime during FY 2015 due to increased maintenance issues in one of its divisions. Agency officials told us that the funds were available because of unfilled staffing positions and that a decision was made to wait until the end of the fiscal year to request the reprogramming as part of the year-end accounting close-out process. Agency officials provided OIG a spreadsheet showing the movement of funds from one account to another but provided no analysis of the root cause or why the agency did not use funds to fill vacant positions or how the overtime spending was authorized without approved budgets in place. Although District officials did not explain why the agency could not hire for vacancies the agency knew existed during the budget planning process, we noted that the Executive approved the request on October 6, 2015; which was later deemed approved[10] by the D.C. Council on November 3, 2015.

Another example occurred on September 14, 2016, when the District submitted a request to reprogram $1,445,738 of local funds to purchase additional equipment. The reprogramming request stated that existing equipment was "old, frequently out of service, and the cost of repair is higher than its value thereby negatively impacting the [District's] ability to perform … maintenance activities in a timely manner." However, officials could not provide the OIG audit team analysis to demonstrate the age of the equipment, out-of-service frequency, cost of repairs, or why such capital needs were not foreseen.

We determined that the request was not due to an unforeseen situation that the District could not postpone until the next appropriations cycle as required by the reprogramming policy. Further, postponement of the request until the next appropriations cycle would not have negatively affected the District's ability to perform the maintenance. The reprogramming was initiated near the end of the fiscal year and the funds were not spent until the next appropriation cycle. This request exemplifies an overall trend that more reprogramming transactions occurred during the last two quarters of the fiscal year, as stated in Figure 2 on the following page.

[10] Deemed approved is automatic approval if the Council has not sent a disapproval notice after a specified number of days (see approval timeline finding) has lapsed since the request was received at the Council.



Source: OIG analysis.

And the District submitted a request on March 29, 2017 to reprogram $5.2 million of local funds. The funds were needed to support a site project, various contracts that had increased above the cost estimates, and personnel[11] service shortfalls in several programs. According to the reprogramming request, the funds were available because "expenditures for nursing facilities are significant[ly] lower than budgeted." However, officials could not provide the OIG audit team evidence to justify why the project was not in the original budget and to justify how cost overruns occurred.

Year-End Spend-Downs: The District reprogrammed $40 million from multiple agencies pursuant to D.C. Code § 47-363(a) at FY end (10/21/2016). District officials did not provide us sufficient supporting documentation to determine why such large amounts of funds were available to be reprogrammed. $5.3 million of the total reprogramming came from an agency, of which $4.4 million was lapsed salary (personnel budget authority). The request did not provide additional information explaining why the agency did not spend the money on salaries or on recruiting additional personnel as originally planned and authorized through the budget appropriation. Without adequate explanation and supporting documentation, the underlying causes of the salary lapses could not be determined.

In another example, on January 23, 2017, the District submitted a request to reprogram $10.45 million of capital fund budget authority from an agency to a swing space capital project. The request stated that the capital budget fund was available because the identified "projects were substantially complete, original budget allocation is greater than needed to fully implement the project, and surplus budget is available to reprogram to higher priority needs." District officials provided budget balances to the OIG audit team, but did not provide closeout reports to verify the projects' status, and an explanation of the unforeseen and urgent circumstance that could not wait until the next appropriation cycle.

[11] Personnel costs, such as salaries and fringe benefits.

Restoration of Budget Rescission (Cut)*:* The District rescinded funds from agencies through reprogramming actions without the agencies' knowledge, which led the affected agencies to request new reprogramming to restore funding for on-going projects. For example, the District reprogrammed $512,887 from the local operating budget to restore a budget cut authorized by the D.C. Council at the end of FY 2016. We determined that during the formulation of the FY 2017 budget, the D.C. Council cut the available project balances while the project was in an active procurement phase. Agency officials stated that they were unaware that the District removed the funding, and the subsequent reprogramming was necessary for the continuation of the project. Establishing communication protocols to verify that agency fund is available before rescinding them from agencies would prevent unnecessary project delays and increased costs to taxpayers.

Use of Funds for Intended Purposes

During our fieldwork, we expected to see detailed supporting documentation and analysis at the agencies initiating reprogramming requests given that only summarized information was included when submitting requests for approval. However, we found that agencies could not provide the documentation and analysis to support the source of funds and the need to reprogram. The audit team could not determine whether the District used funds from the 45 reprogramming transactions we sampled for the intended purposes.

For example, on December 4, 2014, the District submitted a request to reprogram $6.07 million of local fund budget authority from two agencies to support the financing cost of the DC United Soccer Stadium. According to the reprogramming request, the funds were available due to lower than anticipated student enrollment at District of Columbia Public Charter Schools and a revision to spending plans based on an agency's current needs. Although the District approved the reprogramming request under policy, officials did not provide evidence of the anticipated student enrollment number and the actual enrollment in FY 2015. Officials also did not analyze support changes to the agency needs and spending plan.

On June 7, 2017, the District submitted a request to reprogram $2.8 million of capital fund budget authority from an agency to fund portions of the Logan Elementary school modernization project. A District official stated in the reprogramming request the capital budget was available because the District did not need it to meet project expenditures in FY 2017. Although the reprogramming was deemed approved by the D.C. Council, District officials did not provide closeout reports to verify the project's status, and an explanation of the unforeseen and urgent nature of the new need that could not wait until the next appropriation cycle.

These conditions occurred because the District did not establish and standardize procedures for agencies to follow in preparing and maintaining adequate documentation to support reprogramming requests; and agency officials erroneously relied on OBP processes designed to meet only the District's financial reporting objective. There is a risk that District leaders may not fully know the circumstances that caused funds to be available, which is information that may help leaders identify potential fraud or mismanagement.

We recommend the District:

1. Establish and standardize mechanism for agencies to track and maintain operational and program information needed to support fund reprogramming requests.

2. Conduct periodic reviews of reprogramming transactions to ensure statements included in the reprogramming requests are accurate.

3. Require agencies to explain why the reprogramming is unforeseen and why the reprogramming was not included in the budget planning process.

4. Establish a communication protocol to inform agencies of plans to cut funds previously appropriated to the agencies.

The Reprogramming Approval Policy was Inconsistent for Grants

Although the proper authority approved the majority of the reprogramming requests we reviewed, we found that District agencies did not consistently request approval to reprogram grants. The District received grant money from the federal government and private donors during the review period. However, to avoid potential grant lapsing problems, it is important for the District to track and report to the D.C. Council reprogramming involving federal grants in a similar manner as reprogramming of local funds. Of the 45 reprogramming requests reviewed, we found 5 reprogrammed grants that were not properly approved. Three of the five grants were over $500,000, which required both OBP and D.C. Council approval. The remaining grants were under $500,000 and required only OBP approval.

D.C. Code § 47–363(a) (Lexis 2015 archive) states:

> The Mayor shall submit to the Council for approval a reprogramming request that individually or on a cumulative basis would cause a change to the original appropriated authority, along with certification by the Chief Financial Officer of the availability of funds for the reprogramming. The request shall include an analysis of its effect on the budget and on the purposes for which the funds were originally appropriated.

District officials told us that reprogramming activities related to grants are not subject to OBP or D.C. Council approval. The officials, however, could not provide us any written policy or legislation that specifically exempts grants from the reprogramming approval requirement. Notwithstanding District officials' position that grants are not subject to OBP or Council approval, we noted a $94 million grant reprogramming request submitted to and approved by the D.C. Council. OIG believes that it is important for the District to track and report reprogramming funds involving federal grants in order to provide oversight over the timely use of the federal grant funds.

The lack of clarity whether OBP's current reprogramming policies and procedures apply to grant funds contributed to District agencies' inconsistent requests for approval to reprogram grant funds.

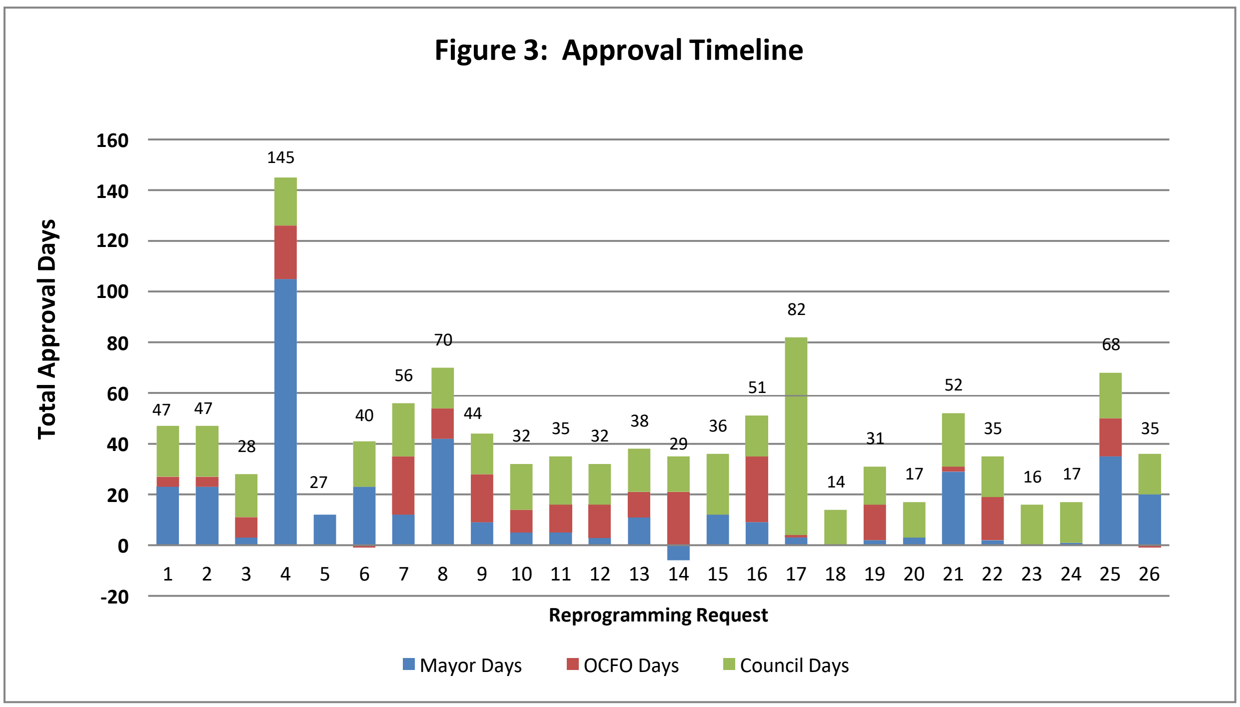
We recommend the District:

5. Establish a grant fund reprogramming policy to clarify requirements for reprogramming grants.

The Reprogramming Request Approval Process Lacked Timelines

The District did not establish timelines in reprogramming policies and procedures to manage the effectiveness of the approval process. The timelines are critical to ensure each party in the approval process is provided adequate time for review. The parties involved in the approval process are the agency director, Mayor, CFO, and the D.C. Council. We noted that the D.C. Council has 14 calendar days to review and approve the reprogramming request; otherwise, it is deemed approved. Should the D.C. Council file a notice of disapproval within the 14-day window, the review period for the D.C. Council is extended to 30 days.

No similar timeline exists for the other parties involved in the approval process. We noted significant inconsistencies in the time each party took when approving the reprogramming request. Standardizing timelines in the policies and procedures would allow the District to measure and assess the effectiveness of the approval process.[12] Figure 3 on the following page depicts the approval timeline.



Source: OIG analysis.[13]

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[12] The timeline for the D.C. Council indicated in the chart includes time lapsed from the date the request was received to the date the request was introduced.

[13] For approved reprogramming request number 14, the date on the Mayor's approval letter was 6 days prior to the agency request.

We recommend the District:

6. Establish a timeline for the parties involved in the approval process.

Reprogramming into Paygo Capital Projects[14] and the Housing Production Trust Fund Occurred Before Funding District Reserves

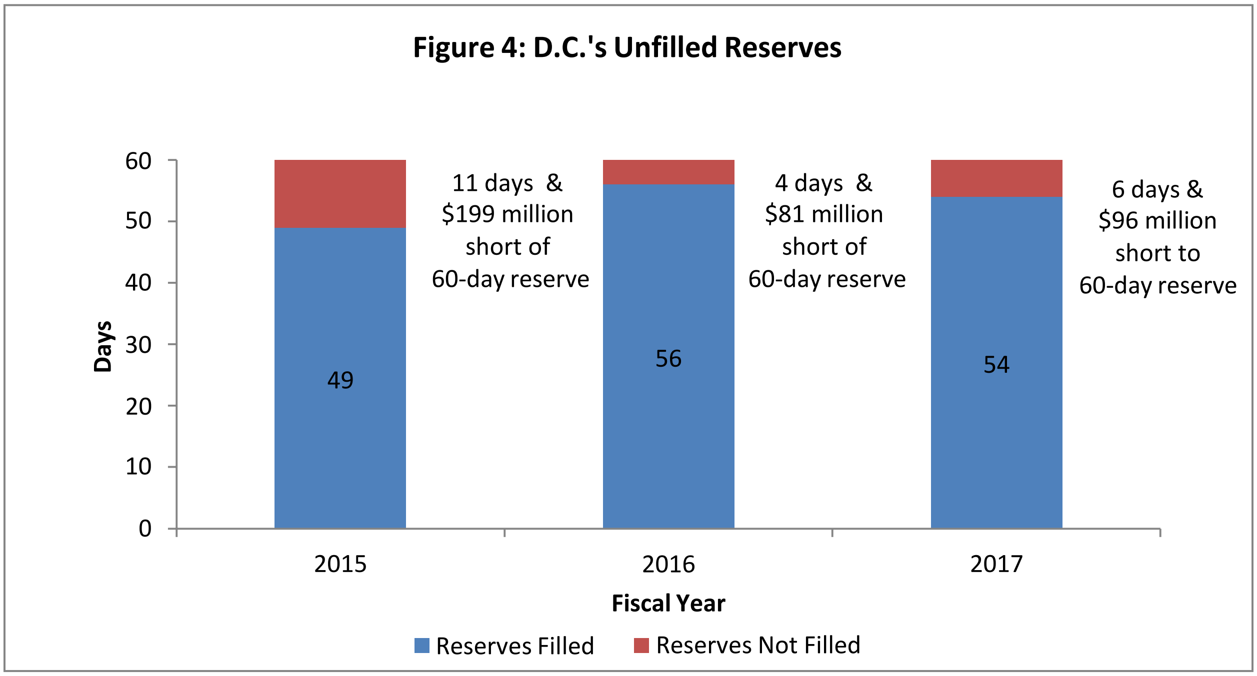
District reprogramming policies and procedures do not address compliance with laws and regulations. Specifically, the District did not fund reserves fully before reprogramming funds into other accounts.

D.C. Code § 47–392.02(j-2) (4) authorizes the District to put funds into Paygo and the HPTF under the following conditions:

> If at the close of a fiscal year, the District has funded the Emergency, Contingency, Fiscal Stabilization, and Cash Flow Reserves, all additional uncommitted amounts in the unrestricted fund balance of the General Fund of the District of Columbia as certified by the Comprehensive Annual Financial Report [CAFR] shall be used for these purposes:
>
> (A) 50% shall be deposited in the Housing Production Trust Fund; and
> (B) 50% shall be reserved for Pay-as-you-go capital projects.

Our analysis of all reprogramming transactions that occurred during FY 2015 through FY 2017 indicated that the District reprogrammed $162 million ($106 million, $47 million, and $9 million, respectively) funds into the Paygo account. The District also reprogrammed $68 million ($40 million and $28 million) to the HPTF account during FYs 2016 and 2017.

As shown in Figure 4 below, our analysis of documentation provided by the OCFO indicated the District did not fund the cash reserves prior to allocating funds to the HPTF and Paygo capital accounts.



Source: OIG analysis.

Fully-funded reserves are important to ensure the District can operate for 60 days without disruptions if cash flow shortage occurs. In addition, a shortfall in the reserves could put the District's credit rating at risk and affect its ability to borrow at a lower interest rate in the bond market to finance large capital projects. Finally, we also found that the District underfunded the fiscal stabilization reserve account by $3.8 million during FY 2017.

We recommend the District:

7. Implement management controls to ensure the District funds reserves before reprogramming funds into Paygo accounts and the Housing Production Trust Fund.

CONCLUSION

Achieving the District's goal of funding in programs and services to benefit its residents and stakeholders depends on the government's ability to direct and use resources efficiently and effectively. Every year the District invests significant resources in formulating and creating a budget and financial plan for running the city's affairs. Although the District has established processes to monitor and report its budget throughout the year, it has not yet established internal controls to prepare and maintain adequate support for budget adjustments, specifically reprogramming budgetary authority. In the spirit of promoting good governance through transparency and accountability, we provided the District seven recommendations to strengthen and improve internal controls over fund reprogramming.

RECOMMENDATIONS

We recommend the District:

1. Establish and standardize a mechanism for agencies to track and maintain operational and program information needed to support fund reprogramming requests.

2. Conduct periodic reviews of reprogramming transactions to ensure statements included in the reprogramming requests are accurate.

3. Require agencies to explain why the reprogramming is unforeseen and why the reprogramming was not included in the budget planning process.

4. Establish a communication protocol to inform agencies of plans to cut funds previously appropriated to the agencies.

5. Establish a grant fund reprogramming policy to clarify requirements for reprogramming grants.

6. Establish a timeline for the parties involved in the approval process.

7. Implement management controls to ensure the District funds reserves before putting funds into Paygo accounts and the Housing Production Trust Fund.

AGENCIES' RESPONSE AND OFFICE OF THE INSPECTOR GENERAL COMMENTS

We provided the Office of the City Administrator (OCA) our draft report on August 30, 2018, and received its response on October 19, 2018. We appreciate that OCA began to address some of the findings immediately upon notification during the audit.

OCA concurred with recommendations 1,2,3,4, and 6. OCA's actions taken and/or planned are responsive and meet the intent of these recommendations. Therefore, we consider these recommendations resolved and open pending evidence of stated actions.

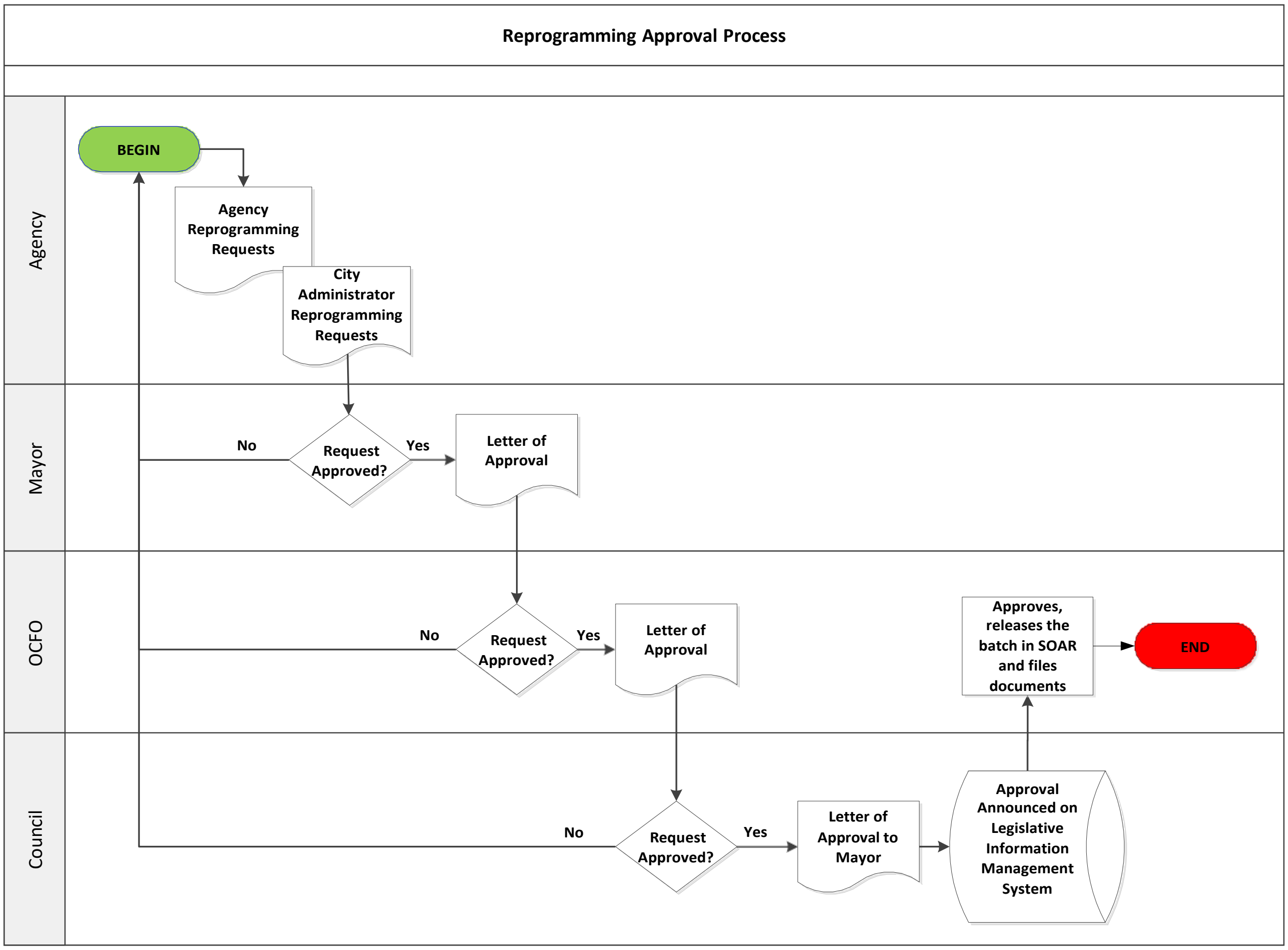
OCA disagreed with recommendation 5. OCA stated that OCFO and the agency staff ensure these funds are used according to the federal grant restrictions and, therefore, a policy is unnecessary. We note OCA's position; however, it is important for the District to establish policy to track and report reprogramming of funds involving federal grants to ensure all grants are used efficiently. We request that OCA reconsider its position and provide an updated response within 30 days of receipt of this final report.

OCA also disagreed with Recommendation 7. OCA acknowledged the need to meet the 60 days cash reserve and stated that it will continue to weigh all of its priorities each year and try to reach the goal of 60 days cash on hand. OCA's actions taken and/or planned are responsive and meet the intent of the recommendation. Therefore, we consider this recommendation resolved and open pending evidence of stated actions.

ACTIONS REQUIRED

We request that OCA reconsider its position and provide an updated response to Recommendation 5 within 30 days of receipt of this final report.

APPENDIX A. FUND REPROGRAMMING APPROVAL PROCESS



Source: OIG analysis.

APPENDIX B. OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our audit work from September 2017 to May 2018 under generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. The evidence obtained provides a reasonable basis for our findings based on our audit objectives.

The audit objectives were to determine whether: (1) District agencies are reprogramming funds with approving and notification to the appropriate oversight authority; (2) District agencies' fund expenditures are used for their intended purposes; and (3) the root cause of variances among budgeted amounts, planned amounts, and actual expenditures.

To accomplish the objectives, we reviewed and assessed compliance with laws. We also interviewed District officials at various agencies to gain an understanding of processes for reprogramming funds. We randomly selected 45 transactions from FYs 2015-2017 from the 4 District agencies with the most instances of fund reprogramming and analyzed documentation to assess compliance with laws and OCFO's internal policies. We compared the reprogramming transactions to the quarterly summary reports to verify whether the District properly recorded the transactions. In addition, we requested documentation to determine if agencies maintained support for why funds were available for reprogramming and why the District did not use funds for their originally budgeted purposes, and analysis of the root causes for budget variances. We did not include District independent agencies in our review because they do not utilize the SOAR and the OCFO does not track and report on their reprogramming activities.[15]

We used the Committee of Sponsoring Organizations of the Treadway Commission *Internal Control-Integrated Framework* to evaluate the adequacy of internal controls over the District's reprogramming practices. Although we did not perform a formal reliability assessment of computer-processed data, we relied on data generated from SOAR and performed audit procedures to verify the accuracy of the information.

[15] District agencies that do not utilize SOAR include the Housing Finance Agency, Not-for-Profit Hospital Corporation (United Medical Center), D.C. Public Charter School Board, D.C. Retirement Board, University of the District of Columbia, and Events DC.

APPENDIX C. ACRONYMS AND ABBREVIATIONS

CAFR	Comprehensive Annual Financial Report
DCFO	Deputy Chief Financial Officer
DCPS	District of Columbia Public Schools
FY	Fiscal Year
HPTF	Housing Production Trust Fund
GAO	Government Accountability Office
MPD	Metropolitan Police Department
OBP	Office of Budget and Planning
OCA	Office of the City Administrator
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
SOAR	System of Accounting and Reporting

APPENDIX D. OCA RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the City Administrator

October 19, 2018

Daniel W. Lucas
Inspector General of the District of Columbia
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Re: Office of the Inspector General's draft audit report entitled "District of Columbia Agencies' Fund Reprogramming Practices: Opportunities Exist to Improve the District's Process to Track Fund Reprogramming Activities"

Dear Mr. Lucas:

Thank you for the opportunity to review and provide comments on the Office of the Inspector General's draft audit report entitled "District of Columbia Agencies' Fund Reprogramming Practices: Opportunities Exist to Improve the District's Process to Track Fund Reprogramming Activities", dated August 30, 2018.

Reprogrammings are an important tool in the budgeting process as they allow agencies to deal with unexpected needs throughout the fiscal year. Numerous factors impact agencies' needs for a reprogramming, including: unforeseen changes in program enrollment, overtime costs driven by unforeseen changes in staffing or events, unanticipated emergencies and new needs that arise during the fiscal year.

District agencies are also faced with a long lead time between the planning of a budget and the actual execution. Driven by prior requirements for Congress to review and approve the District's annual budget and financial plan, agencies are asked to complete a budget proposal 9 to 10 months in advance of the start of their execution of that budget, which lasts for 12 months. This leaves a significant amount of time for unforeseen changes to arise, even with prudent planning.

Yet despite this, budget expenditures by District agencies, for the most part, align very closely to their approved budgets. During the period of time covered by the audit, the amount of total general fund expenditures that were reprogrammed were 4%, 4%, and 3% in FY 15, 16 and 17 respectively.

In the draft audit report, your office made seven recommendations. Our response to each recommendation is included in the chart below.

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	OIG Recommendation	Management Response: Agree/ Disagree	Management Discussion
1.	Establish and standardize a mechanism for agencies to track and maintain operational and program information needed to support fund reprogramming requests.	Agree	The Administration already has in place a standardized mechanism to track information to support reprogramming requests. Agencies submit documentation and responses to question through the reprogramming process to help the District understand why there are unspent funds, and how the funds will be used under the proposed reprogramming. As you noted in your audit report, each reprogramming contains information to answer the following questions: 1. Why are the funds needed? 2. Is this reprogramming to restore a budget cut authorized by the Mayor or the Council? 3. How will the funds be reprogrammed? 4. Why are the funds available? 5. What hardship would the District face if the action is postponed until the subsequent fiscal year? 6. What programs, services, or other purchases will be delayed as a result of the action, and the impact on the programs or agency? If the documentation leads to further questions, the Office of Budget and Performance Management (OBPM) will reach out with phone calls and/or meetings to further understand the change being requested. In addition, all reprogrammings over $500,000 are sent to the Council and have a 14 day passive review period in which time Council members may also ask questions to better understand reprogramming requests. In the report, the OIG noted that it could not obtain documentation to show if underspending was due to operational deficiencies, poor planning or an unforeseen need. As part of the budget formulation process each year, OBPM reviews all year-end underspending and reprogramming activity for each agency from the prior fiscal year. These are used as part of the discussion of the agencies' proposed budgets to look for areas where budgeted funds may be reduced, where additional funds may be budgeted and/or where operational changes are needed in order

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			to prevent the reprogramming from needing to recur again the following year. Indeed, reprogrammings that occur more than one year in a row are a signal that there is a larger issue to examine. Given the OIG concern that the reasons for reprogrammings could be more fully documented, however, we will work to have agencies increase the amount of information that they include in their responses to the questions on the reprogramming form.
2.	Conduct periodic reviews of reprogramming transactions to ensure statements included in the reprogramming requests are accurate.	Agree	While the Office of Budget and Performance Management (OBPM) thoroughly reviews all reprogramming requests, we believe that going back to an agency and reviewing a set of their reprogramming transactions to ensure accuracy can be helpful to further the integrity of the reprogramming process.
3.	Require agencies to explain why the reprogramming is unforeseen and why the reprogramming was not included in the budget planning process.	Agree	Agencies are already asked to explain why the reprogramming is unforeseen through the templated questions included in the reprogramming memo. And in many instances, the answer to that question helps explain why the request was not included as part of the budget planning process. However, explicitly calling out that question could help provide additional useful information that is often conveyed to OBPM though follow-up calls and emails. We will work with OCFO to explicitly include that question in future reprogramming request memos.
4.	Establish a communication protocol to inform agencies of plans to cut funds that were previously appropriated to the agencies.	Agree	During the budget formulation process on the Executive side, and the budget review process on the Council side, funds are sometimes cut and/or reduced while an agency is in the process of expending them, as was noted in the example used in your audit report. While this is an infrequent occurrence, it can make operations for an agency difficult. We will work with OCFO and the Council on a clearer communication protocol so that an agency is not forced to reprogram for a cut because an active procurement was under way.
5.	Establish a grant fund reprogramming policy to clarify requirements for reprogramming grants.	Disagree	The reprogramming rules do not apply to federal grants. Federal grants come with specific restrictions on how the funds may be spent and supersede our reprogramming policy. OCFO and the Agency staff ensure that these funds are used according the federal grant restrictions and therefore a policy is not necessary.

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6.	Establish a timeline for the parties involved in the approval process.	Agree	Timelines are a useful tool to help plan for proper time to review and process a reprogramming. While we adhere to a process to help move reprogrammings through the review and approval process in a timely manner, the process is not always clear to agencies. We will work with OCFO to set out a timeline for each step of the review and processing process to make the timelines clear to all stakeholders. OCFO does already publish timelines for their part of the process and we will work to create a complete timeline with OCFO.
7.	Implement management controls to ensure the District fully funds reserves before putting funds into Paygo accounts and the Housing Production Trust Fund.	Disagree	The District's finances, due to its strong financial management from Mayor Muriel Bowser and Chief Financial Officer Jeff Dewitt, are the envy of the country. FY 2019 represented the District's 23rd consecutive balanced budget, we have nearly $1.2 billion in reserves, which helps provide 54 days of cash on hand, and fully funded pension and retirement systems. Because of this, the District received its first ever Aaa rating from Moody's and ratings upgrades to AA+ from Fitch and Standard and Poor's this past July. Our robust reserves are an important priority for the District and we are proud to have reached 54 days of cash on hand, just shy of the 60 days cash on hand that would completely fill the reserves. But each year we must weigh the priority to fill the reserves further with the needs to create more affordable housing, help agencies fund critical capital infrastructure needs, pay for overtime for our police and firefighters and other pressing needs that impact how much year-end underspending gets added to the reserves each year. We do not want to create arbitrary limits that may impact our ability to respond to other pressing needs around the District. We will continue to weigh all of these priorities each year and look forward to continuing our progress to reach 60 days cash on hand. We would like to note that in the report the OIG references D.C. Code § 47–392.02 (j-2) (4) that states that once the District's reserves are full, all end of year surplus should then start going into pay-go (50 percent) and the Housing Production Trust Fund (50 percent). The report seems to indicate that the District did follow the law by reprogramming funds

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			into these accounts before the reserves were fully full. That is not accurate. A reprogramming during the fiscal year and a deposit of end-of-year surplus under D.C. Code § 47–392.02 (j-2) (4) are two different things, even though the funds may end up in the same accounts. The District is not prohibited from reprogramming into the HPTF or pay-go throughout the year before reserves are full. D.C. Code § 47–392.02 (j-2) (4) simply states that after the reserves have been filled, all end of year surplus – which is determined after all reprogrammings have occurred – is split in half and deposited equally in the HPTF and pay-go accounts.

Thank you again for providing the opportunity to review and comment on the draft report. If you have any questions, please do not hesitate to contact me, or have your staff contact [redacted], OCA General Counsel and Senior Policy Advisor, at [redacted]

Sincerely,

Rashad M. Young
City Administrator

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