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Accounting and Information
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B-286133

September 13, 2000

The Honorable Ernest J. Istook, Jr.
Chairman, Subcommittee on the District
of Columbia
Committee on Appropriations
House of Representatives

Subject: District of Columbia: Funding for Certain Union Employee Pay Bonuses

Dear Mr. Chairman:

You asked us to determine the funding source for \$9.9 million in bonuses paid to certain District union employees and provide a chronology of key events related to the bonus payment. You also asked us to determine the District's authority to reprogram funds to the Tobacco Settlement Fund (TSF) from other appropriation accounts. On August 10, 2000, using the slides included in the enclosure to this letter, we briefed the Subcommittee staff on the results of our work.

To provide the information you requested and address your specific questions, we (1) interviewed officials at the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), Office of the Mayor, and Office of the Chief Financial Officer (CFO), (2) reviewed and analyzed documents, including the labor union agreement with the Mayor, funding plans, and fiscal impact statements, and (3) sought and received a written response to a legal question regarding reprogramming of funds. We conducted our work from February 2000 through July 2000 in accordance with generally accepted government auditing standards. We did not independently verify underlying data. We obtained oral comments on a draft of the slides from District officials, who stated that they agreed with the contents.

Results in Brief

The District reported a surplus of about \$445 million for fiscal year 1998, thus triggering the need to reopen negotiations about bonus compensation with certain union employees, based on a 1998 agreement. Negotiations took place and an agreement was reached during November 1999. The bonus payment of \$9.9 million applied to 5,746 District union employees in two compensation plans represented by several union organizations. The

\$9.9 million represents a one-time, lump-sum bonus of about \$1,700 per employee, which the District paid in December 1999.

Several funding plans were advanced before arriving at the final approach. Initially, the bonuses were to be funded from the following sources:

- \$4.2 million from the TSF,
- \$3.5 million from fiscal year 2000 budget, and
- \$2.2 million (interest earned on funds held in escrow accounts) in grants from the Authority.

The District proposed to reimburse the TSF by reprogramming funds from the Department of Public Works and through Short-term Borrowing. The D.C. Council and the Authority approved the proposed reprogramming. However, the District abandoned the proposed reprogramming because it was actually a transfer, and the District subsequently determined that it lacked legislative authority to transfer funds between appropriation accounts. Ultimately, the source of funding for the bonuses was fiscal year 2000 personal services budgets for the applicable agencies.

Regarding the use of funds for reprogramming, appropriation law defines reprogramming as the utilization of the funds within an appropriation account for purposes other than those contemplated at the time of the appropriation. It further defines transfer as the shifting of funds between appropriation accounts. On June 1, 2000, the District CFO notified us that no TSF moneys were used to pay certain union employee bonuses. Subsequently, in a June 27, 2000, letter to us, the District CFO stated that the plan to replenish the TSF from other appropriation accounts would have been a transfer and the District does not have the authority to transfer these funds.

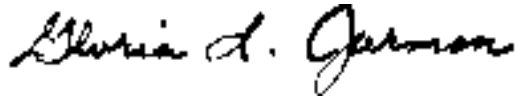
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We are sending copies of this letter to Senator Kay Bailey Hutchinson, Senator Richard Durbin, Senator George Voinovich, and Representative James P. Moran, Representative Thomas M. Davis, III, and Representative Eleanor Holmes Norton in their capacities as Chairmen or Ranking Minority Members of Senate and House Committees and Subcommittees. We are also sending copies of this letter to Honorable Anthony A. Williams, Mayor of the District of Columbia, and the Honorable Alice M. Rivlin, Chairperson of the District of Columbia Financial Responsibility and Management Assistance Authority. Copies will be made available to others upon request.

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We appreciate the opportunity to be of assistance. If you or your staff have any questions regarding the briefing or this letter, or if we can be of further assistance, please contact either me at (202) 512-4476, or Michael Fischetti, Assistant Director, at (202) 512-5125. You may also reach me by e-mail at jarmong.aimd@gao.gov. Key contributors to this assignment were Norma Samuel, Jeffrey Jacobson, and Richard Cambosos.

Sincerely yours,

A handwritten signature in black ink that reads "Gloria L. Jarmon". The signature is written in a cursive style with a large initial "G".

Gloria L. Jarmon
Director, Health, Education and Human Services
Accounting and Financial Management Issues

Enclosure

**Briefing on the District of Columbia's Funding
for Certain Union Employee Pay Bonuses**



District of Columbia Government

Funding for Certain Union Employee Pay Bonuses

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

August 10, 2000



Objectives

- You asked us to
 - Determine the actual sources of funding for the bonuses paid to certain District union employees
 - Determine the District's authority to reprogram funds to the Tobacco Settlement Fund (TSF) from other appropriation accounts
 - Provide a chronology of key events



Scope and Methodology

- Interviewed officials in the District of Columbia Financial Responsibility and Management Assistance Authority (the Authority), Office of the Mayor, and Office of the Chief Financial Officer (CFO)
- Reviewed and analyzed documents, including the labor union agreement with the Mayor, funding plans, and fiscal impact statements
- Sought and received written response to a legal question regarding reprogramming of funds
- Conducted our work from February 2000 through July 2000 in accordance with generally accepted government auditing standards



- Based on 1998 agreement with certain union employees, negotiations for bonus compensation would reopen if
 - the District had a surplus in fiscal year 1998 or
 - additional revenues were certified by the Chief Financial Officer (CFO)
- District reported a surplus of about \$445 million for fiscal year 1998, thus triggering the need to reopen negotiations about bonus compensation



- Negotiations took place and an agreement was reached during November 1999
- Bonus payment applies to 5,746 District union employees in 2 compensation plans represented by several union organizations
- \$9.9 million represents a one-time, lump sum bonus of about \$1,700 per employee
- District paid the bonuses in December 1999



- Several funding plans were advanced before arriving at the final approach

- Initially, the bonuses were to be funded from the following sources:
 - Tobacco Settlement Fund
 - Fiscal year 2000 budget
 - Grant from the Authority



- District proposed to reimburse the TSF by reprogramming funds from the Department of Public Works and Short-term Borrowings
- The proposed reprogramming was actually a transfer, and the District lacked the legal authority to transfer funds between appropriation accounts as proposed
- Actual source of funding for the bonuses was fiscal year 2000 personal services budgets for the applicable agencies



Source of Funds

- Total amount to be funded - \$9.9 million

- District CFO proposed that funding be obtained from a combination of sources
 - TSF - \$4.2 million

 - Fiscal year 2000 budget - \$3.5 million

 - Grant from the Authority - \$2.2 million (interest earned on funds held in escrow accounts)



Source of Funds

- The District proposed to replenish the TSF by reprogramming amounts from other appropriation accounts

- Regarding the reprogramming of \$4.2 million to replenish the TSF, the CFO reported that reimbursements would come from the following
 - \$2.2 million from the Department of Public Works and

 - \$2 million from Short-term Borrowings



Source of Funds

- The District abandoned the proposed funding plan
- According to the District CFO, the actual source of funding for all bonuses was the fiscal year 2000 personal services budgets within the applicable agencies



**Legal Authority to Reprogram or
Transfer Funds**

- On April 13, 2000, we requested that the Mayor provide the legal basis for treating the use of appropriations to replenish the TSF as either
 - a reprogramming and not a transfer or
 - a transfer for which statutory authority has been provided



**Legal Authority to Reprogram or
Transfer Funds**

- Appropriation Law definitions
 - “Reprogramming” is the utilization of the funds within an appropriation account for purposes other than those contemplated at the time of the appropriation
 - “Transfer” is the shifting of funds between appropriation accounts



**Legal Authority to Reprogram or
Transfer Funds**

- On June 1, 2000, the District CFO notified us that no TSF monies were used to pay certain union employee bonuses
- Subsequently, a June 27, 2000, District CFO letter to us stated that the plan to replenish the TSF from other appropriation accounts would have been a transfer and the District does not have the authority to transfer these funds



Chronology of Key Events

- **November 4, 1999:** District and union officials signed memorandum of agreement for bonus compensation based on 1998 agreement
- **December 2, 1999:** District officials sought budget authority for \$10 million from the Authority to be used to fund the one-time, lump sum bonuses
- **December 3, 1999:** The Authority approved the increase in budget authority for \$10 million from the proceeds from one-time transaction involving tobacco settlement funds



- **December 13, 1999:**
 - District officials sought DC Council approval to reprogram funds from other appropriation accounts to the TSF
 - The Authority determined that the District's request to reprogram funds was consistent with the applicable financial plan and budget
- **December 14, 1999:** DC Council adopted the fiscal impact statement provided by the CFO on December 10, 1999, and approved the compensation settlement



Chronology of Key Events

- **December 16, 1999:** Mayor sent notification of a reprogramming of fiscal year 2000 budget authority from the Department of Public Works and Short-Term Borrowings to the TSF -- which the Mayor considered necessary to replenish funds used from the Fund to pay for a one-time, lump sum bonus for certain District union employees -- to the following:
 - the Senate Committee on Appropriations, Subcommittee on the District of Columbia
 - the House Committee on Appropriations, Subcommittee on the District of Columbia



Chronology of Key Events

- **January 24, 2000:** The Authority approved reprogramming of \$4.2 million to replenish the TSF
- **February 8, 2000:** The District CFO notified the Mayor that the reprogramming was complete



- **February 23, 2000:** The District OCFO provided the following to the House Appropriations Subcommittee on the District:
 - documentation for funding of union bonus pay
 - union bonus pay distribution statement
 - tobacco settlement proceeds white paper (discusses options to assist District policymakers in selecting an administrative structure and in developing processes that would lead to successful programs funded by tobacco settlement proceeds)



Chronology of Key Events

- **April 13, 2000:** We requested that the Mayor provide the legal basis for replenishing the TSF from other appropriation accounts

- **June 1, 2000:** The District CFO notified us that no TSF monies were used to pay the bonuses



- **June 27, 2000:** District CFO reported to us that
 - the plan to replenish the TSF from other appropriation accounts would have been a transfer, and the District does not have the authority to transfer these funds
 - agency fiscal year 2000 personal services budgets are the source of funding for the pay bonuses