OBSERVED WEAKNESSES IN THE DISTRICT'S EARLY OUT/EASY OUT RETIREMENT INCENTIVE PROGRAM

September 29, 1999
The Honorable Linda W. Cropp, Chairman
Council of the District of Columbia
441 4th Street, N.W. Suite 704
Washington, D.C. 20001

Letter Report: Observed Weaknesses in the District’s Early Out/Easy Out Retirement Incentive Program

Dear Chairman Cropp and Members of the Council of the District of Columbia:

This letter report addresses past deficiencies in the District’s easy out retirement incentive program that may emerge in the early out/easy out retirement incentive program authorized by the Service Improvement Act of 1999. In addition to addressing past program deficiencies, I have included recommendations that should strengthen the District’s oversight of this important program.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the examination was to determine whether any deficiencies existed which permitted employees participating in past Easy Out/Early Out Retirement and Voluntary Resignation Incentive Programs to return to District government service despite a 5-year restriction on reemployment, sole source consulting and personal services contracting with the District government. The findings and recommendations contained in this report may assist the District of Columbia government in establishing more effective oversight of retirement incentive programs.

In conducting the examination, the Auditor reviewed reports issued by the Office of the District of Columbia Auditor pertaining to the previous retirement incentive program, and a General Accounting Office (GAO) report pertaining to federal downsizing and employee buyouts entitled, "Federal Downsizing: Controls Needed to Ensure Compliance With Buyout Repayment Provisions." The Auditor reviewed information obtained from the District’s Office of the Chief Financial Officer, Office of Personnel, District of Columbia General Hospital (DCGH), and the University of the District of Columbia (UDC) pertaining to prior early out/easy out retirement incentive programs.
In response to repeated requests for information regarding D.C. Public Schools' early out/easy out retirement incentive program for fiscal year 1995, DCPS officials informed the Auditor that during the many management and personnel changes and relocation to its current offices, records and data related to the previous program were lost, destroyed, or misplaced. Therefore, DCPS officials could not provide any information for the Auditor's examination.

BACKGROUND

The Council of the District of Columbia approved Resolution 11-21 entitled, "Fiscal Year 1995 Spending Reduction Approval Emergency Resolution of 1995," on February 7, 1995. The purpose of the resolution was to approve changes to the career and excepted service compensation system and to authorize the Mayor of the District of Columbia to extend the easy out and early out retirement incentive programs to certain District government employees. Sections 2(b)(5) and (10) of the resolution stated the following:

"The programs shall offer a retirement incentive of 50% of an employee's salary or pay schedule which was in effect on September 1, 1994, not to exceed $24,000, to be paid in 24 equal installments."

"An employee who receives an incentive payment under the program shall not be eligible for reemployment with the District government for five years from the date of retirement, or hired or retained as a sole source consultant or personal services contractor for five years from the date of retirement." (Auditor's Emphasis)

The Council of the District of Columbia's approval of the program was based upon the position that if a District employee accepted an incentive payment under the easy out retirement program, they could not be reemployed with the District or hired as a sole source consultant or personal services contractor for a period of five years. The five-year exclusion period imposed under the fiscal year 1995 program will expire in fiscal year 2000.

During fiscal year 1997, the Auditor issued a report entitled, "District of Columbia General Hospital's Sole Source Contract Award to Medical Services Group, Inc. Violated D.C. Laws and Regulations." In that report, the Auditor identified five medical officers from DCGH's department of obstetrics and gynecology who retired under the District's Easy Out Retirement Incentive Program. These five medical officers applied for and received the $24,000 incentive bonus and then entered into a $2.9 million sole source personal services contract with DCGH on June 29, 1995 in
violation of the restriction against reemployment and contracting. Based upon these findings, the Auditor conducted an expanded review of the retirement incentive program.

Service Improvement Act of 1999 Early Out/Easy Out Proposal

At the Mayor's request, the Council of the District of Columbia enacted legislation entitled, "Service Improvement Act of 1999," which authorized the Mayor, among other things, to implement another early out/easy out retirement incentive program. Titles VII and VIII of the legislation authorizes the Mayor of the District of Columbia to establish "an early out/easy out retirement incentive program ("Early Out Program, Easy Out Program") which shall apply to eligible employees under the personnel authority of the Mayor, and employees of any other personnel authority that is under the pay authority of the Mayor if the personnel authority chooses to participate in the Early Out/Easy Out Program."

The current law authorizes the Mayor to implement a retirement incentive program that may offer participants a retirement incentive of as much as 50 percent of an eligible employee's basic pay, not to exceed $30,000. The retirement incentive, if authorized by the Mayor, would be paid within one year of an employee's retirement. As with the previous retirement incentive program, the current law also provides that individuals who participate "shall not be eligible for reemployment with the District government for 5 years from the date of retirement, or hired or retained as a sole source consultant or personal services contractor for 5 years from the date of retirement." This is the same restriction included in the authorizing legislation for the prior early out/easy out retirement incentive program and the voluntary resignation incentive program. As with the prior authorizing legislation, the current law does not provide a penalty for violation of the 5-year restriction on reemployment, sole source consulting, and personal services contracting with the District government.
FINDINGS

The District Government Was Unable to Monitor and Enforce The 5-year Restriction Against Contracting

The Auditor found internal control deficiencies in the District government’s procurement system that facilitated a significant level of non-compliance with the retirement incentive program’s restriction against contracting with the District government. The internal control deficiencies noted by the Auditor allowed individuals who received bonus incentive payments to be compensated by certain District government agencies as a personal services contractor or sole source consultant without penalty. In summary, the deficiencies included:

• the absence of a monitoring and compliance program within the procurement system designed to identify retirement incentive program participants who received incentive payments but returned as personal services contractors or sole source consultants within the five-year restriction period; and

• absence of a penalty provision in the legislation to hold incentive program participants and agency officials accountable for violating the 5-year restriction against reemployment and contracting.

The District’s failure to establish an effective monitoring and compliance program coupled with the absence of penalty provisions in the enabling legislation created a convenient loophole through which incentive program participants could continue to be compensated by the District government while retaining retirement incentive payments and collecting their retirement pay.

The District’s failure to adequately monitor compliance with contracting restrictions enabled violations to occur. For example, within a sample size of 530\(^1\) easy out retirement incentive program participants, the Auditor identified 28 individuals who appear to have violated the restriction against contracting and thereby unjustly benefitted from the incentive bonus and contract payments.

\(^1\)The 530 represents only a selected sample of individual participants from the entire easy out/early out program pool.
Inconsistency In Easy Out/Early Out Retirement Incentive
Program Rules, Regulations and Guidelines Existed
Among Independent Agencies of the District Government

The Auditor found inconsistencies among the rules established by independent agencies for participation in retirement incentive programs established by those agencies. The primary inconsistency observed by the Auditor was the failure to include a restriction on reemployment and contracting with the District government. For example, the Auditor noted that the Board of Trustees of the University of the District of Columbia (UDC) approved an early out retirement incentive plan for educational service personnel who were not eligible to participate in the early retirement program established by the Mayor for personnel in the District’s career service. Under the UDC program, participating employees were eligible to receive an incentive award and could: (1) defer the retirement incentive award for a three-year period; or (2) receive a lump sum incentive payment. The early retirement program for educational service employees did not contain a restriction against reemployment or contracting with the University or the District government for a 5-year period. Therefore, participants in this program were not precluded from accepting retirement bonus payments and subsequently returning to the University’s payroll or providing services to the University under a personal services or sole-source consulting contract. Further, participants in the University’s program could accept the retirement bonus and obtain a contract or employment with another District agency.

The UDC retirement incentive program differed from the program established by the Mayor in other ways. For example, participating employees could receive an incentive bonus in “an amount equal to one-half (½) of the employee’s annual rate of pay on the date of retirement . . .” Under the early out retirement incentive program established by the Mayor, employees were eligible to receive a maximum of $24,000 regardless of their salary level at the time.

RECOMMENDATION

To the greatest extent possible, policies, procedures and other rules applicable to current and future retirement incentive programs should be consistent, among all agencies, including

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2Employees participating in UDC’s early retirement incentive plan also had the option of directing a portion of their retirement incentive payment directly to their individual retirement account. This option was not available through the Early Out Retirement Incentive Program that was approved by the Council of the District of Columbia.
independent agencies, in order to facilitate consistent, effective management and oversight of the program throughout the District government.

**The Procurement System Was Not Equipped to Identify Early Out Retirement Incentive Program Participants Who Violated the 5-year Restriction on Sole Source Consulting And Personal Service Contracting With the District Government**

The Auditor’s review revealed that the District’s procurement system was not prepared or equipped to police compliance with the 5-year restriction on retirement incentive program participant’s contracting with the District government. Participants were able to easily circumvent the 5-year restriction against sole source and personal services contracting, in part, because there was no link between the District’s payroll and procurement systems.

A common information link (such as a social security number) between procurement and payroll would have provided the District with a partially effective means of identifying certain retirement incentive program participants who circumvented the 5-year restriction on contracting. At the time of the last early out retirement program, the District’s procurement system was not automated. Therefore, even if critical information was collected from contractors, matching this information with payroll data required a manual verification process which would have been time consuming and labor intensive. As a result of these deficiencies, the retirement incentive program was abused by a significant number of individuals. These former employees retired from the government with an incentive bonus and came back to work for the District government non-competitively as personal services contractors or sole source consultants often to perform the same, or a similar, job as that from which they retired. Abuse of the retirement incentive program may persist as long as the District does not establish an effective monitoring and enforcement mechanism which is necessary to ensure compliance with the 5-year restriction on personal services contracting and sole source consulting.

In order to effectively monitor sole source consulting and personal services contracting by participants in an early retirement incentive program, there must be effective coordination between the Office of the Chief Procurement Officer, the Office of the Chief Financial Officer, and the Office of Personnel to establish an adequate monitoring and compliance program. The Auditor notes, however, that even if an adequate monitoring and compliance program can be established, program participants may still circumvent the contracting prohibition by contracting in the name of a
corporation or limited partnership. According to a Corporation Counsel’s opinion dated November 15, 1996, the prohibition would apply to "a corporation or other business entity that is substantially owned or controlled by a former District government employee who accepted an incentive payment to retire under either the early out or easy out program."

RECOMMENDATIONS

1. Through a coordinated effort, officials in the Office of the Chief Procurement Officer, the Office of the Chief Financial Officer, and the Office of Personnel must develop an effective and efficient monitoring and enforcement mechanism to ensure compliance with the 5-year employment and contracting prohibition, if the prohibition is applied to future early retirement incentive programs.

2. The Auditor recommends that the District’s Chief Procurement Officer obtain sufficient information from contractors, including individuals, partnerships, and corporations, that may be used to properly enforce future early retirement program restrictions on sole source consulting and personal services contracting with the District government. The information collected from contractors must be entered into an automated system that interfaces with the CAPPS and the System of Accounting and Reporting (SOAR) in order to monitor compliance with a 5-year restriction on contracting with the District government.

3. The Auditor recommends that the following statement be placed in all District contracts. Receipt of the notice must be acknowledged by the contractor’s signature: "A prior District employee who received a retirement incentive payment may not be reemployed with the District government or retained as a sole source or personal services contractor for five years from the date of retirement. You are required to disclose if anyone connected with the contractor is in this category."

4. Policymakers should determine whether it is beneficial to offer financial incentives to encourage employees to retire early given the likelihood that compliance with restrictions on contracting cannot presently be effectively monitored and enforced.
The Auditor Identified Twenty-eight Participants in a Sample of 530 Individuals Who Appeared to Have Violated the 5-year Restriction On Contracting

The Auditor found 28, or 5.3 percent, of a sample of 530 early retirement incentive program participants, who appeared to have entered into sole source or personal services contracts with the District during the 5-year restriction period. These 28 participants were paid an aggregate total of $566,805 in incentive payments under the easy out retirement incentive program and at least $2.9 million in contract payments.

Each of these former District government employees should have been aware of the 5-year restriction on reemployment, sole source consulting and personal services contracting with the District. Further, all employees participating in the incentive program should have signed the following statement acknowledging their acceptance of the incentive payment in exchange for accepting the restriction on reemployment and contracting with the District government:

"I understand that an employee who receives an incentive payment may not be reemployed by the District government or hired or retained as a sole source consultant or personal services contractor for five years following the effective date of the retirement."

District's Office of Personnel Did Not Have Access to Independent Agencies' Personnel Systems

There were no links between the personnel and payroll systems of executive branch agencies under the authority of the Mayor and independent agencies. As a consequence, employees under the authority of the Mayor who retired under the easy out/early out retirement incentive program could have been reemployed by an independent agency, such as UDC, that maintained and operated a payroll and personnel system independent of the District’s payroll and personnel system. Because there was no coordinated District-wide monitoring for all retirement incentive program participants, whether under the authority of the Mayor or independent agencies, the District lacked an effective and efficient mechanism to ensure citywide compliance with the 5-year restriction on reemployment and contracting with the District government.

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3 According to the fiscal year 1997 CAFR, independent agencies were D.C. Public Schools, D.C. General Hospital, Water and Sewer Authority, UDC and the Washington Convention Center Authority.
Further, the District's Office of Personnel did not have the authority to gain access to independent agencies’ personnel systems. As a result, the District’s personnel office was unable to effectively monitor and enforce compliance with the 5-year restriction on reemployment.

The Past and Current Legislation Governing Easy Out Retirement Incentive Programs Failed to Establish a Penalty for Violating the 5-year Restriction Against Reemployment and Contracting with the District Government

The Auditor reviewed Resolution 11-21 which was approved by the Council of the District of Columbia on February 7, 1995 and the Service Improvement Act of 1999 which was approved by the Council on June 22, 1999 and found that neither contained a penalty for violating the 5-year restriction on reemployment or contracting with the District government. As a result, agency officials and program participants who violate the restriction are not penalized or held accountable. This deficiency has permitted individuals who violated the restriction to keep incentive payments without penalty in addition to any payments received from reemployment or contracting with the District government. Violations such as this defeated the purpose of the early retirement incentive program which was intended to reduce the District’s workforce and payroll costs. While the payroll may have been reduced, a significant amount of salary payments were simply converted to contract payments to the same employee for the same or similar work. In fact, violations of the 5-year restriction may have cost the District more in these cases than maintaining violators on the payroll.

RECOMMENDATIONS

1. The Council of the District of Columbia consider establishing penalties for participants who violate the 5-year restriction on reemployment and contracting with the District government.

2. District government agency officials and employees who authorize or approve contracts with early out retirement program participants must be held accountable to the fullest extent under the District’s Comprehensive Merit Personnel Act and the District’s Personnel regulations including terminations.
3. The Council consider establishing a penalty that requires a participant who violates the restriction on reemployment or contracting to repay the incentive bonus. If the participant does not voluntarily make repayment, the Council should consider requiring the Office of the Corporation Counsel to take the appropriate actions to recover incentive payments from those participants. Further, the participant’s employment or contract should be terminated immediately.

**The District’s Current Comprehensive Automated Personnel Payroll System (CAPPs) May be Capable of Monitoring Future Restrictions Against Reemployment**

At the time of the review of internal controls governing the last retirement incentive program, the Auditor found that the District did not have the capacity to periodically search the District’s payroll and vendor databases to determine whether individuals who received incentive bonus payments had been awarded District contracts or had returned to the District’s payroll in violation of the 5-year prohibition on reemployment and contracting. For example, once all bonus payments were made to participating employees, their names were purged from the payroll system thereby eliminating the only systemic control that would raise a flag that an exception applied to the particular employee. However, as long as bonus payments were being made to retirement program participants, the District’s payroll system acted as an internal control that would identify individuals scheduled to receive more than one payment through the payroll system. In order to circumvent the 5-year restriction on reemployment, a retiree could wait until the expiration of the 24-month period during which incentive payments were made or until after receiving a lump sum bonus payment and then reapply for employment with the District.

The District’s current Comprehensive Automated Personnel and Payroll System can be programmed to monitor compliance with a future incentive program’s 5-year restriction against reemployment for the entire five-year period. According to the District’s current Comprehensive Automated Personnel Payroll System⁴ (CAPPs) project manager, CAPPs as it is presently structured "does not have controls programmed to flag individuals with the employment prohibitions that result

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⁴The District’s previous personnel system Unified Personnel Payroll System (UPPS) was replaced with a new automated personnel and payroll system integrating budget, personnel and payroll functions into one system. The new system is considered a managerial information system and went on-line during February 1999.
from early out agreements." The project manager did note that, based on the automated feature of CAPPS, controls could be programmed into the system once the specific terms of a future early out program were established. Additionally, because CAPPS is capable of maintaining personnel information for up to twenty years it has the capacity to effectively monitor reemployment violations for a much longer period than was previously available.

**RECOMMENDATION**

The District’s Chief Financial Officer ensure that, at the appropriate time, the Comprehensive Automated Personnel and Payroll System (CAPPS) is programmed to monitor compliance with the reemployment restriction that may be imposed under future retirement incentive programs.

**CONCLUSION**

Internal controls governing future District of Columbia early retirement incentive programs must be strengthened. The District must work towards developing a monitoring and compliance program within the procurement system to facilitate identification of retirement program participants who receive incentive payments and then return to the District as personal services contractors or sole source consultants.

The absence of an effective monitoring and compliance program has permitted violations against the restriction on contracting to occur. The Auditor identified twenty-eight individuals in a sample of 530 who received $556,805 in incentive payments under the retirement incentive program that appeared to have improperly entered into sole source consultant or personal services contracts with District government agencies at a cost of at least $2.9 million in contract payments.

The Auditor notes that the prior legislation did not contain a penalty provision to serve as a deterrent to non-compliance with the program’s restrictions. As a result, appropriate corrective or adverse actions were not taken to hold the violators accountable even if they were identified. Future early retirement incentive programs must hold program participants accountable for violating the restrictions contained in the legislation and should include penalty provisions for those who knowingly violate these provisions. These penalties may include: (1) a fine; (2) repayment of the
incentive bonus; (3) immediate termination of employment or cancellation of contract; or (4) permanent restriction from future District government employment and contracting. The recommended actions in this report should serve to strengthen the District’s oversight and enforcement of the 5-year restriction on reemployment and contracting in future early retirement incentive programs.

Respectfully submitted,

[Signature]

Deborah K. Nichols
District of Columbia Auditor
AGENCY COMMENTS
AGENCY COMMENTS

On September 14, 1999, the District of Columbia Auditor submitted the draft report for review and comment to the Chief Financial Officer of the District of Columbia, the Interim Director of the Office of Personnel, the Acting Director of the Office of Pay and Retirement, the Director of the Office of Contracting and Procurement, the Superintendent of D.C. Public Schools, and the President of the University of the District of Columbia (UDC).

In response to the draft audit report, the Auditor received comments from the Office of the Chief Financial Officer, the Office of Pay and Retirement, the Office of Personnel and UDC. The Office of Contracting and Procurement and D.C. Public Schools failed to submit written comments to the report. An exit conference was held on September 23, 1999 with officials from the Office of the Chief Financial Officer and the Acting Director of the Office of Pay and Retirement to discuss the draft report. Based upon discussions during the exit conference, changes were made to the draft report and a revised draft was issued for further review and comment.

The comments received from the Office of the Chief Financial Officer, the Office of Pay and Retirement, the Office of Personnel and UDC are appended in their entirety to this report. Where appropriate, changes were made to the final report to reflect the comments provided by these agencies.
September 30, 1999

Deborah K. Nichols
District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, DC 20005

Dear Ms. Nichols:

I have reviewed the draft of your proposed report entitled “Observed Weaknesses in the Easy Out Retirement Incentive Program Offered By the District Government During Fiscal Year 1995. My comments are as follows:

**Inconsistency In Easy Out/Early Out Retirement Incentive Program Rules, Regulations and Guidelines Existed Among Independent Agencies of the District Government.**

In the 1995 Easy Out/Early Out Programs, the OCFO Office of Pay and Retirement Services (the District’s paying authority) worked with the D. C. Office of Personnel and independent personnel authorities in establishing coding in the UPPS payroll system to identify employees by social security number who participated in the programs. This programmed coding was used to reject input of personnel actions for those employees upon reemployment.

At the inception of the 1995 Easy Out/Early Out Program, The Office of Pay and Retirement Services paid employees in the independent agencies except the Washington Convention Center Authority. OPRS detected several employees seeking reemployment for which notification was made to the agencies including the D. C. Housing Authority, which has since left the paying authority of OPRS. Subsequently, several other agencies including the District Courts, D. C. Parole Board, and Pretrial Services have left the District payroll.

**OCFO Recommendation**

The OCFO CAPPS (Comprehensive Automated Payroll System) can be programmed to identify participants and reject and/or identify those attempting reemployment. This detection would be limited to those agencies that are paid by the Office of Pay and Retirement Services.
The Procurement System Was Not Equipped to Identify Early Out Retirement Incentive Program Participants Who Violated the 5-year Restriction on Sole Source Consultant And Personal Service Contracting With the District Government

The Office of the Chief Financial Officer will coordinate with the D. C. Office of Personnel and the Chief Procurement Officer in developing a mechanism to detect sole source consultants and personal services contractor who have participated in this program. The SOARS system can only adequately monitor and/or detect contractors who participated in the program if the common information link (SSN) is used as their identification number. However, many contractors do not use their SSN but an Employee Identification Number (EIN) provided by the federal government. Thus, the system would not detect such participants. The OCFO would have to work with other District agencies and the DC Auditor to conceive a detection policy for participants identified by EIN.

The Past and Current Legislation Governing Easy Out Retirement Incentive Programs Failed to Establish a Penalty for Violating the 5-year Restriction Against Reemployment and Contracting with the District Government.

Should the Council consider establishing a penalty that authorizes recovery of penalties from the reemployed participant's retirement payments, the District’s ability to recover such payments would be governed by the rules of the specific retirement plan. The Chief Financial Officer’s authority would be further limited to those retirement funds maintained by the District. The U. S. Office of Personnel Management administers employees eligible for the Civil Service Retirement System and these retirement funds would not be accessible to the Chief Financial Officer for recovery.

OCFO Recommendation

The Office of Corporation Council could have the responsibility to administer a penalty program since this entity has the power to enforce liens as a method of recovery.

The District's Current Comprehensive Automated Personnel Payroll System (CAPPS) May be Capable of Monitoring Future Restrictions Against Reemployment

The OCFO can coordinate with the District’s Personnel Office, and all independent personnel authorities that elect to participate, in programming CAPPS to monitor compliance. This task should not be undertaken until January 2000 when all agencies are under CAPPS. However, this would only ensure compliance with reemployment within Deborah K. Nichols
those District agencies paid from CAPPS or UPPS. Another mechanism would have to be established between DCOP and the independent agencies.

Thank you for the opportunity to comment on your draft report.

Sincerely,

[Signature]

Valerie Holt
Chief Financial Officer
September 28, 1999

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

Dear Ms. Nichols:

We received your draft report entitled, “Observed Weaknesses in the Easy Out Retirement Incentive Program Offered by the District Government During Fiscal Year 1995”, which was transmitted to this office on September 14, 1999 for review and comments.

We agree with the comments and recommendations in the draft report, and look forward to working with other agencies to bring about the recommended changes, if the current incentive program is utilized. As noted in the report, the lack of automation at the time of the 1995 “easy out” was the major cause of the problem. The Comprehensive Automated Personnel Payroll System and the System of Accounting and Reporting will go a long way in preventing this from occurring again.

We suggest the following changes to the final report: Page 9, recommendation # 2, should read:

The Auditor recommends that the following statement be placed in all District contracts. Receipt of the notice must be acknowledged by the contractor’s signature: “A prior District employee who received a retirement incentive payment may not be reemployed with the District government or retained as a sole source or personal services contractor for five years from the date of retirement. You are required to disclose if anyone connected with the contractor is in this category.”
Additionally, although we agree that the City Council of the District of Columbia should establish penalties associated with the prohibition, it is recommended that included in the final report should be a request for a legal opinion from the Office of the Corporation Counsel to see if penalties for former employees are legally attainable.

If you have any questions, please contact me at (202) 442-9600 or William E. Byrd, Associate Director, Office of Compensation and Benefits at (202) 442-9655.

Sincerely,

Judy D. Banks
Interim Director of Personnel

GMC/bas
September 29, 1999

Ms. Deborah K. Nichols  
Office of the District of Columbia Auditor  
717 14th Street, NW  
Washington, DC 20005

Dear Ms. Nichols:

This is a response to the audit findings and recommendations. The University of the District of Columbia will include the 5-year restriction statement in future notices to employees when conducting an easy out retirement incentive program.

Sincerely,

[Signature]
Christine Poole