



# Audit Report



OIG-21-013

## FINANCIAL MANAGEMENT

**Audit of the Office of D.C. Pensions' Financial Statements  
for Fiscal Years 2020 and 2019**

December 9, 2020

Office of Inspector General  
Department of the Treasury

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

December 9, 2020

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR  
OFFICE OF D.C. PENSIONS**

**FROM:** James Hodge /s/  
Director, Financial Audit

**SUBJECT:** Audit of the Office of D.C. Pensions' Financial Statements  
for Fiscal Years 2020 and 2019

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the Office of D.C. Pensions' (ODCP) consolidated balance sheets as of September 30, 2020 and 2019, and the consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the years then ended, and provided a report on internal control over financial reporting, and compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

In its audit of the ODCP, KPMG found

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a significant deficiency with ODCP's general information technology controls over the System to Administer Retirement; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

KPMG also issued a management letter dated December 9, 2020, discussing a matter involving internal control over financial reporting that was identified during the audit. The matter involves controls related to the review of new or required changes to financial statement disclosures. This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the ODCP's consolidated financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' report dated December 9, 2020, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial Audit, at (202) 927-5591.

Attachment

# Department of the Treasury Office of D.C. Pensions

**FISCAL YEAR  
2020  
ANNUAL REPORT**



**District of Columbia Pensions Program**





# MESSAGE FROM THE DIRECTOR

December 2020

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year (FY) 2020 Annual Report, which provides highlights of the program's significant accomplishments as well as plans for upcoming years.



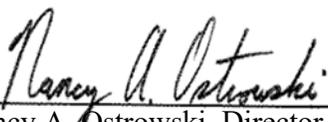
Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Police Officers and Firefighters', and Teachers' Retirement Plans. As of September 30, 2020, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling \$4.1 billion. During FY 2020, \$777.5 million in benefit payments were processed for annuitants and beneficiaries, and refunds of employee contributions were made to former active employees or their beneficiaries.

The Office of D.C. Pensions continued to efficiently manage finances while making all benefit payments to annuitants on time. An independent public accounting firm rendered an unmodified opinion on the FY 2020 financial statements of the Office of D.C. Pensions. This was accomplished through partnership with the District of Columbia Retirement Board, the Bureau of the Fiscal Service, and other Department of the Treasury and District entities. The Office of D.C. Pensions continues to assess the systems and processes for capturing and consolidating the financial and performance data presented within this Annual Report as reliable and complete.

The Office of D.C. Pensions and our service providers and business partners continued to enhance the System to Administer Retirement (STAR), our pension/payroll system. Two significant enhancements will be implemented in FY 2021, which includes the automation of off-cycle payments in November 2020 and the introduction of annuitant self service in June 2021. In addition, significant program initiatives were executed this year: the Multi-Year Plan updated for FY 2021 – FY 2022; the Long-Term Business Planning project continued; and SharePoint, the Office document repository, upgraded to the 2016 version.

The entire staff from the D.C. Pensions Program demonstrated great resilience during the COVID-19 global pandemic where the interruption changed the work environment. With little notice, staff shifted to a fully remote work environment requiring tremendous flexibility and communication. With support from our service providers and business partners, the Office of D.C. Pensions continued to perform all program activities without interruption. The Office of D.C. Pensions continues to evaluate internal and external business processes to ensure the well-being of staff while exploring opportunities to enhance efficiency and effectiveness in a remote working environment.

The Office of D.C. Pensions continued to work collaboratively with all entities associated with the District of Columbia Pensions Program to provide high quality service to the annuitants and to carry out the Department of the Treasury's responsibilities under the Act.

  
Nancy A. Ostrowski, Director  
Office of D.C. Pensions  
Department of the Treasury

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**PART I**

# **Management's Discussion and Analysis (Unaudited)**





## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2020 (Unaudited)

***Vision:***

The vision of the Office of D.C. Pensions is successful stewardship of the pension funds; high quality benefits administration services; and effective use of program resources, while fostering mutually beneficial relationships with our business partners at the District of Columbia, the Treasury's Bureau of the Fiscal Service, and other Treasury entities.

***Mission:***

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended. The responsibilities are to make timely and accurate benefit payments associated with the District of Columbia retirement programs for police officers and firefighters, teachers, and judges by managing investments, providing oversight and program management, and ensuring funding is available for future payments.

### **I. Introduction**

#### **A. *Statutory Basis and Responsibilities***

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act<sup>1</sup>), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers, and firefighters based upon service accrued on or before June 30, 1997, and administering the retirement benefits earned by District judges, regardless of when service accrued. These benefits are referred to as Federal benefit payments. Benefit

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<sup>1</sup>There have been six amendments to the Balanced Budget Act of 1997. These include the District of Columbia Courts and Justice Technical Corrections Act of 1998, Pub. L. 105-274, 112 Stat. 2419 (Oct. 21, 1998); the Technical and Clarifying Amendments Relating to District of Columbia Retirement Funds, Title VIII of Pub. L. 105-277, 112 Stat. 2681-530 (Oct. 21, 1998); the Law Enforcement Pay Equity Act of 2000, Title IX of Pub. L. 106-554, 114 Stat. 2763A-303 (Dec. 21, 2000); an Act to Amend the District of Columbia Retirement Protection Act of 1997, Pub. L. 107-290, 116 Stat. 2051 (Nov. 7, 2002); the District of Columbia Military Retirement Equity Act of 2003, Pub. L. 108-133, 117 Stat. 1386 (Nov. 22, 2003); and the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, 118 Stat. 3966 (Dec. 23, 2004).

payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters, and teachers based upon service accrued after June 30, 1997) are referred to as District benefit payments. Police officers, firefighters, and teachers' benefit payments based upon service accrued before and after June 30, 1997, are the financial responsibility of both the Department of the Treasury (Treasury) and the District. Payments resulting from such service are referred to as split benefit payments.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, Treasury's Office of D.C. Pensions (the Office) engages in a wide range of legal, policy, and operational activities in the areas of benefits administration, information technology, financial management, and program management. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

Since September 26, 2005, the District of Columbia Retirement Board (DCRB) has served as the interim benefits administrator for the Police Officers and Firefighters', and Teachers' Retirement Plans. The Office reimburses DCRB for expenses associated with administering the Federal benefit payments. Also, as of that date, the Office assumed benefit administration responsibility for the Judges' Retirement Plan.

## ***B. Organizational Structure and Staffing***

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO). The DASHR/CHCO reports to the Assistant Secretary for Management (ASM). The ASM reports through the Deputy Secretary to the Secretary.

The Office fulfills its responsibility through key functional areas: Benefits Administration, Information Technology Systems Administration, Finance and Resource Administration, and Program Management.

- **Benefits Administration**: The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. Approximately \$777.5 million in Federal and District benefit payments were made to annuitants and beneficiaries for the year ended September 30, 2020.
- **Finance and Resource Administration**: The Office is responsible for ensuring compliance with various financial laws and regulations. The Office provides oversight for investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately \$4.1 billion as of September 30, 2020. The Office contracts with a third-party enrolled actuary to perform an annual actuarial valuation to determine the pension liability of the retirement plans and the annual contributions from the Treasury General Fund to the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)

and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- Information Technology Systems Administration: The Office operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration and annuitant payroll. The Office conducts annual assessments of STAR security requirements to ensure compliance with the Federal Information Security Management Act (FISMA). The Office continues to utilize the STAR Change Control Board (CCB) first established in 2002 which acts as the approving authority for all STAR requirement changes.
- Program Management: The Office executes its responsibilities through program management activities, which include planning and project management, quality management, and risk management. The Office also produces, analyzes, and acts upon performance management information to continually improve operations.

As of September 30, 2020, the D.C. Federal Pension Fund and the Judicial Retirement Fund paid for 19 Treasury positions. In addition, the Office funds two positions in other Treasury offices performing critical functions to accomplish the Office's mission.

Pursuant to Interagency Agreements (IAA) with the Treasury's Bureau of the Fiscal Service (Fiscal Service), the Administrative Resource Center (ARC) provides financial management, annuitant payroll, and information technology support services. The financial management services include financial management system platforms, budget processing, financial reporting, and investment accounting. Annuitant payroll services include: STAR payroll processing, debt management, split benefit reconciliation and reporting, third party payroll reporting, and mailings. Information technology support services include systems administration and hosting for STAR and security support services which include FISMA compliance.

## **II. Executive Summary**

During Fiscal Year (FY) 2020, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), the Treasury's Bureau of the Fiscal Service (Fiscal Service), Administrative Resource Center (ARC), and other Department of the Treasury (Treasury) entities to execute responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act).

The COVID-19 global pandemic interrupted and changed the way the Office operated for the last seven months of FY 2020. With little notice, the Office shifted to a fully remote operating environment. This is the first time the Office has executed its missions for an extended period where staff, our service providers, and business partners have worked together in a 100% telework environment. This unanticipated change required extensive coordination, the Office adapted and continued to perform all program activities without interruption. The Office did not require or receive additional budgetary resources to

accommodate these challenges and there was no financial impact to annuitants who continued to be paid on-time. The Office received exceptional support from our service providers and business partners to continue to deliver results under these difficult circumstances. The Office continues to evaluate internal and external business processes to minimize program risks, ensure the well-being of staff, and explore opportunities to enhance efficiency and effectiveness.

The Office Leadership Team supports long-term strategic planning with a focus on program oversight, quality management, risk management, and performance management. The Office's Multi-Year Plan was updated for FY 2021 — FY 2022. The Multi-Year Plan allows the Office to look at the program holistically and collaborate on planning and decision-making. A team comprised of the Director, Senior Program Manager, Risk Manager, Assistant Director for Benefits Administration, Assistant Director for Finance and Resource Administration, and the Assistant Director for Information Technology Systems Administration, continued with a Long-Term Business Planning (LTBP) project focusing on the review of the Act.

The Office continues to focus on promoting a program-wide perspective, maintaining an effective oversight and advisory role, optimizing benefits administration, enhancing System to Administer Retirement (STAR) operations and maintenance, and pursuing financial management and operational efficiencies. The following sections of the Management's Discussion and Analysis provide more details about the FY 2020 program results and plans for future years.

### **III. Strategic Goals, Objectives, Outcomes, Performance Measures and Results**

The Office of D.C. Pensions (the Office) has three Strategic Goals that contribute to the achievement of one of the five Department of the Treasury (Treasury) Fiscal Year (FY) 2018 — FY 2022 Strategic Goals and Objectives. The Treasury Strategic Goal that the Office contributes to is *Achieve Operational Excellence*, as shown below.

#### **Treasury Strategic Goal: Achieve Operational Excellence**

Strategic Objectives:

- Workforce Management
- Customer Value and Experience

**Office Strategic Goals that contribute to the Treasury Strategic Goal:**

**1. Office Strategic Goal: Effectively Managed Finances**

Office Outcomes:

- Benefit payments are accurate and timely
- Pension funds are effectively invested
- Pension funds are effectively managed
- Pension funds meet future needs

**2. Office Strategic Goal: Management and Organizational Excellence**

Office Outcomes:

- Program is effectively managed

**3. Office Strategic Goal: Effective Quality Assurance Program**

Office Outcomes:

- Program creates continuous improvement

The table on the following pages displays the Office's Strategic Goals, Objectives, and Outcomes linked to Treasury's FY 2018 — FY 2022 Strategic Goal. It also identifies the Office's Performance Measures and Results.

## Office of D.C. Pensions Strategic Goals, Objectives, Outcomes, Performance Measures and Results

Fiscal Years 2018 – 2022					Fiscal Year 2020
Treasury Goals and Objectives		Office Strategic Goals, Objectives, and Outcomes			Office Performance Measures and Results
Treasury Strategic Goal	Treasury Strategic Objective	Office Strategic Goals	Office Strategic Objectives	Office Outcomes	
Achieve Operational Excellence	Workforce Management	Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	FY 2020 projected monetary error rate for benefit calculations Target: 5% or less Actual: 11.2% (See footnote 1)
					STAR is available to users Target: 99% or more Actual: 99.96%
					FY 2020 investment strategy executed timely Target: 100% Actual: 100%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	FY 2021 investment strategy developed timely Target: September 25, 2020 Actual: September 23, 2020
					FY 2020 minimum daily cash balance exceeds the minimum balance as defined in the FY 2020 investment strategy Target: 100% Actual: 100%
					FY 2020 annual contribution from General Fund received timely into pension funds Target: September 28, 2020 Actual: September 28, 2020
Pension funds are effectively managed	Pension funds are effectively managed	FY 2020 minimum daily cash balance exceeds the minimum balance as defined in the FY 2020 investment strategy Target: 100% Actual: 100%			
		FY 2020 annual contribution from General Fund received timely into pension funds Target: September 28, 2020 Actual: September 28, 2020			
		FY 2020 annual contribution from General Fund received timely into pension funds Target: September 28, 2020 Actual: September 28, 2020			

Fiscal Years 2018 – 2022				Fiscal Year 2020	
Treasury Goals and Objectives		Office Strategic Goals, Objectives, and Outcomes			Office Performance Measures and Results
Treasury Strategic Goal	Treasury Strategic Objective	Office Strategic Goals	Office Strategic Objectives	Office Outcomes	
Achieve Operational Excellence (continued)	Workforce Management (continued)	Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively managed (continued)	Monthly benefit payments made to annuitants by the first business day of the month Target: 100% Actual: 100%
					Electronic benefit payments made to annuitants Target: 98.7% Actual: 98.8%
					Pension funds meet future needs
	Customer Value and Experience	Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Risks are reviewed in accordance with the schedule outlined in the Risk Management Plan Target: Quarterly Meetings Actual: Quarterly Meetings
FY 2020 financial statement audit opinion received from an independent external auditor Target: Unmodified opinion Actual: Unmodified opinion					

Fiscal Years 2018 – 2022				Fiscal Year 2020	
Treasury Goals and Objectives		Office Strategic Goals, Objectives, and Outcomes			Office Performance Measures and Results
Treasury Strategic Goal	Treasury Strategic Objective	Office Strategic Goals	Office Strategic Objectives	Office Outcomes	
Achieve Operational Excellence (continued)	Customer Value and Experience (continued)	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	FY 2020 Annual Report and Financial Statements printed Target: December 18, 2020 Actual: December 18, 2020 (ETA)
					FY 2019 open material weakness on September 30, 2020 Target: 0 Actual: 0
		FY 2020 Actuarial Valuation Report delivered timely Target: September 21, 2020 Actual: September 21, 2020			
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	FY 2020 Quality Assurance Plans approved by September 30, 2020 Target: 100% Actual: 100%
Footnotes:					
1) The monetary error rate for FY 2020 showed a slight increase over the 8.2% monetary error rate in FY 2019. The increase in the error rate may be attributed to process changes made to adapt to a virtual work environment due to COVID-19.					

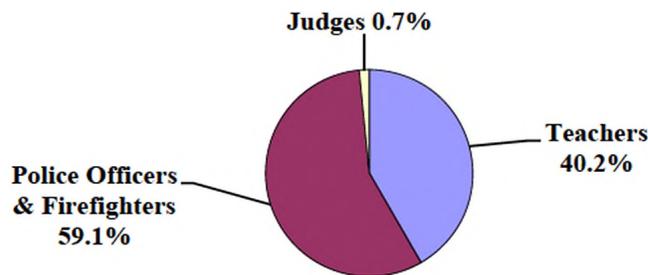
**A. *Benefit payments are accurate and timely***

**1. Program Results**

**a. Benefits Administration**

General Operations

Benefits administration services were provided to annuitants and beneficiaries in three District of Columbia retirement plans: the Police Officers and Firefighters’ Retirement Plan, the Teachers’ Retirement Plan, and the Judges’ Retirement Plan. The annuitant and beneficiary population as of September 30, 2020, is as follows: teachers 5,776; police officers and firefighters 8,489; and judges 104.



The average monthly Federal and District benefit payments in FY 2020 was \$64.8 million. All annuitant payroll files were submitted on time, ensuring timely payment of annuitant benefits on the first business day of the month. With oversight and support by the Office, the District of Columbia Retirement Board (DCRB) performed benefits administration services for the Police Officers and Firefighters’ Retirement Plan and the Teachers’ Retirement Plan. The Office performed benefits administration for the Judges’ Retirement Plan.

General benefit administration operations focused largely on transaction processing and customer service activities. On a monthly basis, benefit administration activities included the processing of new retirements and/or survivor benefits, identifying individuals no longer eligible for benefits, and updating annuitants’ personal and benefits information. In addition to focusing on the accuracy and timeliness of transaction processing, the Office and its business partners strive to deliver high quality customer service.

The Office encourages annuitants to receive their benefit payments through direct deposit, as it is a more convenient, secure, and timely method of delivering benefits. At the end of the fiscal year, the Electronic Funds Transfer (EFT) participation rate for annuitants in all retirement plans was 98.8 percent.

The table below illustrates the EFT participation rates for annuitants by retirement plan as of September 30:

District of Columbia Retirement Plans	Electronic Funds Transfer (EFT) Participation Rate	
	FY 2020	FY 2019
<i>Police Officers &amp; Firefighters</i>	98.6%	98.5%
<i>Teachers</i>	99.0%	99.0%
<i>Judges</i>	100.0%	100.0%

In FY 2020, a variety of outreach efforts continued to ensure that accurate and timely information was provided to annuitants, including:

- Letters notifying annuitants when their benefits changed;
- DCRB newsletters which provides retirement plan information for active and retired police officers, firefighters, and teachers;
- Earning statement messages alerting annuitants to changes in benefits such as a cost-of-living adjustments (COLA), informing annuitants of the opportunity to make changes to the annuitant data (e.g., signing up for direct deposit, changing tax withholdings or updating mailing addresses), and providing information regarding customer service improvements;
- Letters to retired judges providing information regarding the COLA effective December 2019; and
- Letters to retired judges announcing Federal Employees Dental and Vision Insurance Programs (FEDVIP) and Federal Employees Health Benefits (FEHB) Program open seasons.

### Annuitant Payroll Operations

Pursuant to an Interagency Agreement (IAA) with the Treasury’s Bureau of the Fiscal Service (Fiscal Service), Administrative Resource Center (ARC) Pension Payroll utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that supports benefit administration and annuitant payroll operations, to process monthly benefit payments. ARC Pension Payroll works closely with DCRB to process monthly benefit payments, and is responsible for reconciling the payroll reports generated from STAR to ensure the annuitant payroll is processed correctly.

In FY 2020, ARC Pension Payroll staff made 173,063 Federal and District benefit payments totaling approximately \$777.5 million for a monthly average of \$64.8 million. These monthly benefits represent payments for annuitants, beneficiaries, and Qualified Domestic Relations Orders (QDROs). In addition, off-cycle payments totaling approximately \$944.9 thousand were paid to annuitants when benefits were not processed in time for the regular on-cycle schedule.

During FY 2020, ARC Pension Payroll reported the share of Federal and District benefit payments. This information is calculated by STAR and is included in the Split Reimbursement Summary Report (SRSR). The SRSR supports the monthly reimbursement to the Office from DCRB for District benefit payments. ARC Pension Payroll also provided mail management support to ensure that monthly earnings statements and other annuitant communications are distributed in an efficient and timely manner.

In FY 2020, the Office continued to focus on making accurate and timely payments. ARC Pension Payroll generates the Preliminary Statistics Report to conduct a preliminary review of the monthly payroll statistics before the close of pension processing. Meetings will continue to be held with the Office, DCRB, and ARC Pension Payroll to review the statistical data for consistency from month-to-month, percentage differences, large payment amounts to annuitants, and variations in the gross and/or net pay to individual annuitants. All identified anomalies will be explained, validated and/or corrected before the close of pension processing.

### Benefit Administration Activities and Projects

During FY 2020, the Office continued to collaborate with DCRB to focus on key benefit activities and data integrity. In support of these efforts, the Office contracted with a consulting firm with experience in benefits administration to assist with benefit administration support activities. This allows the Office to have maximum flexibility to simultaneously execute various benefit activities and projects.

In an effort to make benefits administration process improvements, the Office continued to make incremental improvements, which included completing enhancements to the Payment Review Tracking Tool, improving STAR functionality for STAR users, incorporating DCRB staff input for topics to cover during the monthly Quality Assurance Forums, and assessing the training needs to address quality review findings and to fill in knowledge gaps.

During FY 2020, the Office discovered that Judges who elected the optional survivor benefit after they were appointed to the bench may not have made survivor contributions back to the date of appointment. In FY 2021, the Office will coordinate with the D.C. Courts Human Resources Office to communicate with the affected Judges about their options.

In FY 2021, the Office will develop a quality management approach for monitoring benefit administration activities. The Office will continue assessing training requirements to ensure skills and knowledge exists to effectively manage and execute benefits administration activities. In addition, the Office will review business processes, procedures, and reporting to ensure benefit payments are processed accurately and timely.

### *Treasury Offset Program*

In FY 2020, the Office continued discussions with the Fiscal Service, Debt Management Services' (DMS) Treasury Offset Program (TOP) regarding an exemption for 100% of all

payments under the Police Officers and Firefighters', Teachers', and Judges' Retirement Plans. In February 2020, the collaborative efforts of DCRB, Fiscal Service, and the Office resulted in the exemption being granted. The exemption shall remain in place as long as the Office is disbursing benefit payments on behalf of the District of Columbia.

### *Off-Cycle Payments*

In FY 2020, the Office collaborated with DCRB and ARC Pension Payroll to develop requirements for automating Off-Cycle payments using STAR. Currently, Off-Cycle payments are manually processed by DCRB and ARC Pension Payroll outside of STAR. After the payments are manually processed, they are recorded by ARC Pension Payroll in STAR at the end of the processing month. The automated processing of Off-Cycle payments in STAR will allow DCRB, ARC Pension Payroll, and the Office access to "real-time" payment information. Additionally, processing Off-Cycle payments in STAR will minimize the creation of overpayments that are caused by the manual process. The expected implementation date for processing Off-Cycle payments in STAR is November 2020.

### *Summary Plan Description (SPD)*

The SPDs are designed to provide Plan members accurate and easy to understand information about the retirement plans. The SPDs are updated in five-year increments. The SPDs for the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan are scheduled to be updated in 2022. The District of Columbia Judges' Retirement Plan SPD is scheduled to be updated in 2024.

### *Former District Employees Retirement Contributions*

Former District employees who have not requested a refund or retirement benefits and have retirement contributions remaining in the retirement funds, are entitled to a deferred retirement benefit or a refund of the contributions. Former employees with service totaling less than five years are entitled to a refund. Former employees with service totaling five years or greater are entitled to a deferred retirement benefit. The Office is working with DCRB to analyze the data to identify the former District employees who may be entitled to a deferred benefit or refund of retirement contributions. Once the population has been identified, the Office and DCRB will collaborate to determine the necessary next steps.

### *STAR Annuitant Self-Service*

Currently, annuitants are required to submit a request in writing for information about their benefit or to make changes to their retirement records. To make the process more efficient for annuitants and staff, the Annuitant Self-Service STAR Change Request was submitted to allow annuitants of the Plans to have access to the certain retirement information maintained in STAR. The self-service functionality will allow annuitants an opportunity to view and edit certain STAR information. Allowing annuitants to view and, in some cases, make changes to their information will make it easier and more convenient and reduce the level of effort required for DCRB and the Office.

As part of the Annuitant Self-Service implementation, the Office will utilize Treasury's Office of the Chief Information Officer (OCIO) contract with ID.me. ID.me is a private company which provides multi-factor authentication services and a complete online identity verification process that will allow individuals access to STAR after completing the registration process on the ID.me website. This process allows annuitants to safely and securely enter STAR.

In FY 2021, the Office will collaborate with DCRB to identify the requirements and to develop the appropriate communication for annuitants. Implementation of the self-service functionality is scheduled for FY 2021 with a limited population of approximately 600 annuitants. After at least 90 days, DCRB and the Office will evaluate the impact to determine how and when to allow access to a larger population.

## **b. System to Administer Retirement (STAR)**

### Background and History

STAR is an automated pension/payroll system developed by the Office in cooperation with the District. STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables retirement analysts to quickly access information and provide annuitants with real-time customer service. In addition to processing retirements, STAR calculates the share of Federal and District benefit payments.

STAR is based on Oracle/PeopleSoft's "commercial off-the-shelf" (COTS) software for human resources, pensions, and payroll administration. The STAR implementation was phased and deployed in bundles known as releases.

- Release 1 was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 was implemented in September 2003 to serve teachers, police officers, and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 was deployed in August of 2005 for teachers, police officers, and firefighters whose initial retirement was processed in STAR after August 1, 2005 (and their survivors). This release also converted teachers, police officers, and firefighters who retired after July 1, 1997, and before August 1, 2005, and whose initial retirement processing took place in the District's legacy system, the Pension Administration and Payroll System (PAPS).
- Release 4 started the implementation of the split benefit calculation to enable STAR to calculate the Federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. This release also included an upgrade of Oracle/PeopleSoft from version 8.0 to 8.9.
- Release 5 was implemented in November 2007 and completed the implementation of the split benefit calculation. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005

and June 2007. In addition, STAR calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in PAPS.

- Release 6 was deployed in May 2012, which upgraded the Oracle/PeopleSoft version 8.9 to version 9.1, and included the implementation of the “person model.” The upgrade leveraged existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations.
- Release 7 was deployed in April 2017, which upgraded the Oracle/PeopleSoft version from 9.1 to version 9.2. The 9.2 upgrade introduced a new model for future upgrades.

### STAR Update Model

The Office adopted Oracle/PeopleSoft update methodology introduced with the implementation of PeopleSoft 9.2. The Office now implements smaller Oracle/PeopleSoft updates annually, rather than the previous model where typically one large update was implemented every three or four years.

In May 2020, the Office implemented its third annual update using the new strategy. This update keeps the STAR system up to date with Oracle’s latest version, but did not introduce any new features. In FY 2021, the Office will continue to execute this update strategy.

### STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Fiscal Service, Information Security Services (ISS). Since September 2003, ISS staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. A supplemental support contract is also in place to provide assistance to ISS in both operations and maintenance activities. In FY 2020, STAR was available 99.96 percent of the time.

### STAR System Security

In FY 2020, as a part of the Security Assessment and Accreditation (SA&A) process, the Office conducted an annual security assessment of the STAR system. The SA&A is a process that ensures that federal systems and major applications are well-documented, authorized, and adhered to formal and established security requirements. The annual assessment is a part of ODCP’s continuous monitoring effort to test STAR’s security-relevant changes that occur out of the SA&A cycle but do not necessarily constitute a 'significant change' necessitating a new SA&A. This effort was conducted to ensure the STAR system remains in compliance with all relevant security requirements and to renew the system’s Authorization to Operate. There were fifteen vulnerabilities identified in the assessment and documented as Plan of Action and Milestone (POA&M) items. Of the fifteen vulnerabilities, nine have been mitigated to date and two are being researched for a solution. The remaining four vulnerabilities are being addressed as part of current STAR Annuitant Self-Service enhancement. The next full assessment is scheduled for FY 2021.

As required by National Institute of Standards and Technology (NIST), Security and Privacy Controls for Information Systems and Organizations (NIST 800-53 Rev. 4), the Office conducted the second scheduled FISMA required backup data test, a contingency test, and the first of two backup data tests.

- The second backup test consisted of testing the data mirroring process between the STAR Production and STAR Contingency sites. Data mirroring refers to the real-time operation of copying data, as an exact copy, from one location to another location. This test successfully validated the mirroring process between STAR Production and STAR Contingency.
- The Contingency test consisted of testing remote access through the Treasury, Departmental Offices Remote Access (DORA) connection to the STAR Contingency site. This test successfully validated remote connectivity to the STAR Contingency site via DORA.
- The first information system backup exercise for FY 2020 consisted of testing the reliability and integrity of backup data from one of STAR's schedule system backups. This test successfully validated the integrity of STAR backup files.
- The second information system backup exercise is scheduled to be conducted in March 2021.

In FY 2020, the Office also conducted its annual incident response exercise that consisted of investigating an unauthorized release of Personally Identifiable Information (PII) data. The exercise identified gaps in investigation process. Updates were made to the PII incident Response Plan to better describe steps needed to ensure the right people are notified to properly investigate potential data breaches.

Lessons learned from all the tests/exercises are used to update STAR security documentation. STAR security management adheres to the Federal Information Security Management Act (FISMA) calendar year which starts July 1 and ends June 30.

In addition to updating STAR security documentation after the above-mentioned tests/exercises, STAR security documentation is reviewed and updated prior to each security assessment. In FY 2020, the Office reviewed STAR security documents to record the major change in the STAR system posture from non-public facing to public facing as required to implement Annuitant Self-Service. The Office also reviewed the Treasury/DO .214 D.C. Pensions Retirement Records system of records which will be updated along with the STAR Privacy and Civil Liberties Impact Assessment in FY 2021.

#### STAR Change Control Board

The Office's STAR Change Control Board (CCB) acts as the approving authority for all STAR requirement changes. The Board is comprised of representatives from the Office, the Office of General Counsel (OGC), DCRB, Fiscal Service ISS, and ARC Pension Payroll. The CCB evaluates the benefits and risks associated with any proposed change, makes a determination as to whether the proposed change should be implemented, and establishes the priority for each approved change.

In FY 2020, the Office has undertaken an update to the STAR Change Control Plan, which establishes the STAR Change Control Board and defines its mission, roles, responsibilities, and processes. The updated STAR Change Control Plan will incorporate the STAR Change Control Charter into one consolidated document. Updates to the STAR Change Control Plan are being coordinated with DCRB and are scheduled to be presented to the CCB for vote by the end of calendar year 2020.

In FY 2020, the Office implemented a major refinement to STAR's Payment Review Tracking Tool (PRTT) which is used for tracking and reporting of monetary, procedural, and documentation quality reviews. The updates to the PRTT improved functionality and increased reporting capabilities.

In FY 2021, the Office plans to undertake the development of a tool in STAR to track and report debt and benefit due process cases. The tool will improve the coordination and communication between the Office, DCRB, and ARC Pension Payroll.

## ***B. Pension Funds are effectively invested, managed, and meet future needs***

### **1. Program Results**

#### **a. Pension Funds**

Pursuant to the Act (as amended by Public Law 105-277) and pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, the Office administers Federal benefit payments through two funds:

- **The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal benefit payments and pays necessary administrative expenses for the Police Officers and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are:
  - An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations; and
  - Interest earned on investments.

Total assets for the D.C. Federal Pension Fund as of September 30, 2020 are \$3.9 billion.

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal benefit payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund:

- An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations;
- Interest earned on investments; and
- Judges’ employee contributions.

Total assets for the Judicial Retirement Fund as of September 30, 2020 are \$182.8 million.

To ensure the Office achieves its strategic goal #1 (Effectively Managed Finances), our Risk Management Program tracks several risks related to the stated objective, “*pension funds meet future needs*” for both the D.C. Federal Pension Fund and the Judicial Retirement Fund. These risks have been evaluated and categorized as low.

**b. Fund Deposits**

Warrants

As authorized by the Act, the D.C. Federal Pension Fund and the Judicial Retirement Fund receive annual payments from the Treasury General Fund to cover administrative expenses for the year and amortize the unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the annual net experience gains or losses over 10 years, and any annual changes in actuarial liabilities over 20 years. The annual payment to the Judicial Retirement Fund also includes amounts necessary to fund the normal cost of the retirement program.

In accordance with the Act, the annual payments to the D.C. Federal Pension Fund and the Judicial Retirement Fund are calculated by an enrolled actuary. These funds are requested in September each year and invested upon receipt in Government Account Series (GAS) non-marketable Treasury securities, with maturities and par amounts consistent with the expected payment dates and payout amounts of the pension liabilities.

The table below reflects FY 2020 and FY 2019 annual payments from the Treasury General Fund as of September 30:

Office of D.C. Pensions’ Funds	Annual Payments from the Treasury General Fund (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$540.0	\$498.3	\$41.7
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$16.0	\$16.6	\$(0.6)
<b>Totals</b>	<b>\$556.0</b>	<b>\$514.9</b>	<b>\$41.1</b>

A major component of each of the above annual payments is the 30-year payment established in 1997 to amortize the unfunded liabilities of the retirement programs assumed by the

Federal Government. There are seven years remaining of these 30-year payments of \$348.6 million for the D.C. Federal Pension Fund and \$2.1 million for the Judicial Retirement Fund after which the original unfunded liabilities will be fully amortized.

The year-to-year differences in the annual payments from the Treasury General Fund are driven primarily by the amortization of actuarial gains or losses in the current year, the continued impact of amortizations scheduled from previous years, and the completion of some prior year amortizations reaching the end of their applicable amortization period.

Interest

The amount of Interest Payments (deposits) in the table below reflects three sources of interest: interest earned on GAS long-term securities, interest earned on overnight securities, and interest earned through the amortization of discounts. In the table below, the Interest Earned (recognized) reflects the Interest Payments collected less the amortization of premiums and discounts from GAS securities while the Rate of Return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities. The FY 2020 and FY 2019 annual interest as of September 30 from the pension funds are summarized in the following tables:

Office of D.C. Pensions' Funds	FY 2020 Annual Interest (in Millions)		
	Interest Payments (deposits)	Interest Earned (recognized)	Rate of Return
<i>District of Columbia Federal Pension Fund</i>	\$81.8	\$65.1	1.84%
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$3.8	\$3.6	2.14%
<b>Totals</b>	<b>\$85.6</b>	<b>\$68.7</b>	

Office of D.C. Pensions' Funds	FY 2019 Annual Interest (in Millions)		
	Interest Payments (deposits)	Interest Earned (recognized)	Rate of Return
<i>District of Columbia Federal Pension Fund</i>	\$91.8	\$68.2	1.95%
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$4.0	\$3.8	2.33%
<b>Totals</b>	<b>\$95.8</b>	<b>\$72.0</b>	

Year-to-year differences in the Interest Earned (recognized) and Rates of Return are driven primarily by the interest rates for available GAS non-marketable Treasury securities available at the time investments are placed.

Judges' Employee Contributions

Active judges are required to contribute 3.5 percent of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5 percent of salary. The table below summarizes the contributions of active judges' contributions for the most recent fiscal years as of September 30:

Office of D.C. Pensions' Fund	Employee Contributions from Active Judges (in Thousands)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$664.8	\$620.7	\$44.1

Summary of Fund Deposits

The following table reflects the fund deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30:

Office of D.C. Pensions' Funds (in Millions)			
Fund	Type of Deposit	FY 2020	FY 2019
<i>District of Columbia Federal Pension Fund</i>	Warrant	\$540.0	\$498.3
	Interest	\$81.8	\$91.8
	District Benefit Payments	\$225.7	\$202.8
	Post-1987 D.C. Health & Life Employer Payments	\$21.2	\$17.6
	STAR Administrative Expense Reimbursements	\$1.7	\$1.9
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	Warrant	\$16.0	\$16.6
	Interest	\$3.8	\$4.0
	Employee Contributions	\$0.7	\$0.6
<b>Totals</b>	<b>Warrant</b>	<b>\$556.0</b>	<b>\$514.9</b>
	<b>Interest</b>	<b>\$85.6</b>	<b>\$95.8</b>
	<b>Employee Contributions</b>	<b>\$0.7</b>	<b>\$0.6</b>
	<b>Reimbursements and Payments</b>	<b>\$248.6</b>	<b>\$222.3</b>

**c. Collections**

District Benefit Payments

Treasury pays all benefit payments under the Police Officers and Firefighters’ and Teachers’ Retirement Plans from the D.C. Federal Pension Fund. DCRB makes an advance payment to the D.C. Federal Pension Fund prior to the last business day of the month for benefit payments made by Treasury on behalf of the District. The STAR Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month.

The table below summarizes reimbursement activity for the most recent fiscal years as of September 30:

Office of D.C. Pensions’ Fund	District Benefit Payments (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$225.7	\$202.8	\$22.9

Post-1987 D.C. Health & Life Insurance

Treasury pays the employer share of Post-1987 D.C. health and life insurance premiums on behalf of the District from the D.C. Federal Pension Fund. The District makes an advanced payment to the D.C. Federal Pension Fund prior to the last business day of the month for the premiums that are paid by Treasury.

The table below summarizes reimbursement activity for the most recent fiscal years as of September 30:

Office of D.C. Pensions’ Fund	D.C. Health and Life Insurance Payments (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$21.2	\$17.6	\$3.6

The District’s advances of the employer share of Post-1987 D.C. health and life insurance premiums continues to increase year over year as the number of retirees who were hired after October 1, 1987 increases.

STAR Administrative Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administrative

costs incurred by the Office when administering Federal and District benefit payments. The methodology takes into consideration the number of 100 percent Federal annuitants, 100 percent District annuitants, and split annuitants. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2020 actual expenses. The following table summarizes STAR administrative expense reimbursements for the most recent fiscal years as of September 30:

Office of D.C. Pensions' Fund	STAR Administrative Expense Reimbursements (in Millions)		
	FY 2020*	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$2.3	\$2.1	\$0.2

\*Amount includes a receivable of \$610 thousand for the fourth quarter of FY 2020.

The year-to-year increase in the reimbursements for STAR administrative expenses are driven primarily by cost of living increases and STAR enhancement during FY 2020.

#### Debt Management

The ARC Pension Payroll manages the debt collection and prevention activities for the Office. During FY 2020, the Office collaborated with ARC Pension Payroll, OGC, and DCRB to pursue debt prevention and collection efforts. Approximately, \$1.1 million was recovered after the notification of an annuitant's death. In addition, \$167.0 thousand was collected through offsets, lump sum payments, or installment payments.

The Office has an agreement with the Fiscal Service DMS Cross-Servicing Program. The FY 2020 agreement allows collection processes for delinquent debt through a number of tools including: issuing demand letters, conducting telephone follow-up calls, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment, and referring debts to private collection agencies.

During FY 2021, the Office, ARC Pension Payroll, and DCRB plan to begin work on the development of the Debt and Due Process Tracking Tool (DDPTT). This tool will reside in STAR to track and report debt and benefit due process cases. The DDPTT will provide a single platform for managing and tracking debt and benefit due process case information from initiation through resolution. Currently, all tracking of debt and due process cases is done outside of STAR and requires manual manipulation of all reports, tracking, and communication between offices. The ability for each organization to instantly access the current status of a debt or due process case will benefit all organizations.

#### **d. Investments**

As required by the Act, amounts received in the D.C. Federal Pension Fund and the Judicial

Retirement Fund are invested in non-marketable securities issued to mirror the characteristics of marketable securities. The Fiscal Service invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the D.C. Federal Pension Fund and the Judicial Retirement Fund strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2020, the cash balances in the D.C. Federal Pension Fund and Judicial Retirement Fund, available for contingencies, were targeted to remain above \$95.0 million and \$2.6 million, respectively, which represent approximately two months of federal obligations. Typically, the Office invests the cash balance in one-day certificates, except for an un-invested balance of \$500 thousand at month-end to cover unanticipated withdrawals on the last day of the calendar month.

By the end of FY 2020, the Office held securities with maturity dates in the D.C. Federal Pension Fund which extended to May 2027, and held securities in the Judicial Retirement Fund with maturity dates which extended to August 2030. Similar to the prior year, the Office also invested a portion of the FY 2020 warrant for the Judicial Retirement Fund in a bond with a February 2036 maturity date. The Office normally invests in 10-year notes with maturities selected to immunize the funds’ projected future benefit payments, but available funds from the FY 2020 warrant exceeded the securities available with this profile. The Office will return to investing in 10-year notes for the Judicial Retirement Fund as they become available.

Investments are valued at cost, and, if applicable, adjusted for unamortized premiums and discounts. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

The following table reflects the net investments breakdown as of September 30 for the two most recent years:

Office of D.C. Pensions’ Funds	Net Investments (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$3,875.0	\$3,822.0	\$53.0
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$182.2	\$176.6	\$5.6
<b>Totals</b>	<b>\$4,057.2</b>	<b>\$3,998.6</b>	<b>\$58.6</b>

To ensure the Office achieves its strategic goal #1 (Effectively Managed Finances), our Risk Management Program tracks risks directly related to the stated objective, “*pension funds are effectively invested*” for both the D.C. Federal Pension Fund and the Judicial Retirement Fund. These risks have been evaluated and categorized as low.

**e. Payments**

**Federal Benefit Payments**

Treasury pays all federal benefit payments under the Police Officers and Firefighters', Teachers', and Judges' Retirement Plans.

The following table summarizes the Federal benefit payments as of September 30:

Office of D.C. Pensions' Funds	Federal Benefit Payments (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$539.3	\$543.3	\$(4.0)
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$14.4	\$13.5	\$0.9
<b>Totals</b>	<b>\$553.7</b>	<b>\$556.8</b>	<b>\$(3.1)</b>

**Refunds of Employee Contributions**

DCRB processes refunds of contributions for active police officers, firefighters, and teachers, and later, requests reimbursement from the Office for the Federal portion of those refund payments. The Office also processes refunds of contributions for active judges when requested. The table below summarizes the refunds of employee contributions processed as of September 30:

Office of D.C. Pensions' Funds	Refunds of Federal Portion of Employee Contributions (in Whole Dollars)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$53,813	\$75,532	\$(21,719)

The year-to-year difference in the District of Columbia Federal Pension Fund refunds is driven by year-to-year differences in employee terminations.

**Benefit Administration Expense Reimbursements**

The Office reimburses DCRB for administrative expenses incurred in administering Federal benefit payments. The Office and DCRB have developed a methodology for estimating costs incurred by DCRB while administering Federal and District benefit payments and entered into a cost sharing agreement for reimbursement of FY 2020 actual expenses. The methodology takes into consideration: (1) the number of active employees, 100 percent Federal annuitants, 100 percent District annuitants, and split annuitants; (2) the estimated

DCRB resources needed to support these populations; (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function; and (4) the level of effort associated with processing Federal benefit payments.

The table below is an estimate of the amounts the Office expects to reimburse DCRB as of September 30 for FY 2020 administrative expenses incurred while administering Federal benefit payments; and the actual reimbursement for FY 2019:

Office of D.C. Pensions' Fund	Reimbursements to DCRB for Administrative Expenses (in Millions)		
	FY 2020*	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$3.1	\$3.4	\$(0.3)

\*Estimates based on discussions with DCRB.

#### Administrative Expenses

The Office funds administrative expenses from the D.C. Federal Pension Fund and the Judicial Retirement Fund. When administrative expenses related to activities that benefit all of the retirement programs occur, expenses are usually allocated 99 percent to the D.C. Federal Pension Fund and one percent to the Judicial Retirement Fund for majority of contracts and interagency agreements. The remaining administrative expenses such as Office staff salaries and benefits, are allocated at ninety-five percent to the D.C. Federal Pension Fund and five percent to the Judicial Retirement Fund. The allocation percentages are based on the number of annuitants covered by each Fund. When expenses benefit only one group, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The Office's major administrative expenses consisted of DCRB benefit administration (discussed above), the Office's staff salaries, and contractors engaged to provide benefit administration and IT system support.

The following table reflects administrative expenses by fund for two most recent fiscal years ending September 30:

Office of D.C. Pensions' Funds	Administrative Expenses (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$22.9	\$22.0	\$0.9
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$0.5	\$0.5	\$0.0
<b>Totals</b>	<b>\$23.4</b>	<b>\$22.5</b>	<b>\$0.9</b>

In FY 2020, the Office was again subject to the Sequestration under the Bipartisan Budget Act of 2015 (Public Law 114-74) which modified the caps on defense and nondefense funding for Fiscal Year 2018 that were established by the Budget Control Act of 2011. The Office of Management and Budget (OMB) issued a report to the Congress on the Joint Committee Reductions for Fiscal Year 2018. OMB prepared the report consistent with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended. The report provided calculations of the amounts by which FY 2018 direct spending is required by section 251A of BBEDCA to be reduced and listed the required reductions for each non-exempt budget account with direct spending.

Based on this report, the Office identified the District of Columbia Federal Pension Fund and the District of Columbia Judicial Retirement and Survivors Annuity Fund as budget authority subject to sequestration. Although reductions due to sequestration had no impact on payments to annuitants, the Office absorbed these reductions in FY 2020 in the area of administrative expenses by delaying approved hiring actions and delaying the award of several contract actions (postponing planned projects).

The table below summarizes these reductions for the two most recent fiscal years as of September 30:

Fund	Payment Type	Sequestration Impact (in Millions)		
		FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	Annuitant Benefit Payments	\$0.0	\$0.0	\$0.0
	Administrative Expenses	\$1.4	\$1.4	\$0.0
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	Annuitant Benefit Payments	\$0.0	\$0.0	\$0.0
	Administrative Expenses	\$0.1	\$0.1	\$0.0
<b>Total Reduction due to Sequestration</b>		<b>\$1.5</b>	<b>\$1.5</b>	<b>\$0.0</b>

Unless language within the Sequestration Transparency Act of 2012 is changed by Congress, the Office will continue to be subject to sequestration reductions until 2029 per the Bipartisan Budget Act of 2019 (Public Law 115-123 Division C, Title I, Sec. 30101), and will comply with implementation guidance issued by OMB and the Department of the Treasury.

Payment Integrity Improvement

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, requires agencies to periodically review all programs and activities and identify those that

may be susceptible to significant improper payments. An *improper payment* is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. *Incorrect amounts* are overpayments, underpayments, or duplicate payments that are made to eligible recipients. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Agencies are required to annually report amounts and causes of improper payments to the President and Congress, and their plans for monitoring and reducing improper payments.

In FY 2020, the Office worked with ARC to analyze the various types of payments disbursed by the Office and reported these results using a standardized, risk-based model. Additionally, the Office reported and reviewed results from ongoing internal benefit payment quality reviews. The Office will continue to work with Treasury's Office of the Deputy Chief Financial Officer (ODCFO) to comply with OMB Circular A-123 Appendix C reporting requirements.

The Office was selected by Treasury's Office of the Inspector General (OIG) as part of its FY 2020 IPERIA Compliance Audit for the Office's submission of the FY 2019 Payment Recapture Audit reporting requirement. The OIG auditor reviewed supporting documentation provided by the Office and did not note any matters involving FY 2019 IPERIA activities considered to be significant, or any instances of noncompliance with laws and regulations.

#### Prompt Payment Act and Electronic Invoice Payments

The Prompt Payment Act was enacted to ensure that suppliers doing business with the Federal Government are paid by the government in a timely manner. The Office paid 100% of the 72 payments by electronic funds transfer and received no Prompt Pay Act violations.

### **f. Financial Operations**

#### Accounting Support

Pursuant to an IAA with ARC, ARC Fiscal Accounting provides accounting support services that include processing accounting transactions such as commercial invoices, purchase cards, obligations, accruals, and revenue transactions. Transaction processing consists of a full range of accounting transactions necessary to maintain a complete general ledger, including budgetary transactions, accounts payable, accounts receivable, and fixed assets. ARC Fiscal Accounting uses Oracle Federal Financial (Oracle) as the core financial management system to record and process financial transactions. The Office's transactions are entered into Oracle, both manually and via custom interfaces, from ancillary systems such as Procurement Request Information System Management (PRISM) and Concur Government Edition (CGE). Accounting entries that are recorded in the Oracle accounting system are supported by Treasury Financial Manual (TFM) to ensure compliance with standard general ledger

reporting requirements. ARC Fiscal Accounting also prepares the Office’s financial statements and other useful data for managerial reporting. ARC Fiscal Accounting provides a report writer package called Oracle Business Intelligence (OBI), which allows the Office to generate various accounting reports to monitor obligations and expenditures.

In FY 2020, ARC continued to work towards implementing a cloud-based solution named OneStream. OneStream is designed to streamline the financial reporting process and provide data analytics functionality while improving management’s visibility and controls. The COVID-19 global pandemic stalled progress during FY 2020 for the testing phases of this implementation, but the Office anticipates being involved in testing and training for the implementation of the OneStream solution in FY 2021.

**g. Actuarial Valuation**

In FY 2020, the Office’s actuarial contractor performed the annual actuarial valuation for the Office, as required by the Act. The annual actuarial valuation is used to determine the pension liability and FY 2021 funding requirement of the retirement plans administered by the Office. The actuarial valuation was based on assets and liabilities as of the end of FY 2020. The actuarial accrued liability was determined using the demographic rates from the FY 2019 Actuarial Experience Study and economic assumptions in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The Federal Government’s total liability for Federal benefit payments for the Police Officers and Firefighters’ Retirement Plan, Teachers’ Retirement Plan, and Judges’ Retirement Plan is summarized in the table below for the two most recent years.

Office of D.C. Pensions’ Funds	Actuarial Accrued Liability (in Millions)		
	FY 2020	FY 2019	\$ Change
<i>District of Columbia Federal Pension Fund</i>	\$8,050.5	\$8,188.7	\$(138.2)
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$267.9	\$255.4	\$12.5
<b>Total Actuarial Accrued Liability</b>	<b>\$8,318.4</b>	<b>\$8,444.1</b>	<b>\$(125.7)</b>

The year-to-year differences in the actuarial accrued liability are driven primarily by actuarial gains and losses associated with demographic experience and changes in demographic and economic assumptions.

Other key results from the Actuarial Valuation Report can be found on page 71 of this Annual Report.

**C. *Program is effectively managed and creates continuous improvement***

**1. Program Results**

**a. Leadership Team**

In FY 2020, the Office Leadership Team composed of the Office Director, the Assistant Director for Benefits Administration, Assistant Director for Finance and Resource Administration, Assistant Director for IT Systems Administration, and the Senior Program Manager focused on major external deliverables in addition to execution and impact of cross-functional/organizational activities. Regular meetings between the Office Leadership Team and their DCRB counterparts take place quarterly to ensure alignment of major operational activities and timely creation of and adherence to Memoranda of Understanding, Service Level Agreements, and Quality Plans.

**b. Multi-Year Planning**

In FY 2020, the Office Leadership Team continued to focus attention on major functional areas and activities assessed as having longer term and multi-entity impact. The Leadership Team tracked the performance indicators to ensure that the Office and its business partners made progress toward achieving the results contemplated in the Office Multi-Year Plan. The Leadership Team updated the Multi-Year Plan for FY 2021 — FY 2022. In FY 2021, the Leadership Team will review the Multi-Year Plan to determine if the contemplated results were achieved and to update the Multi-Year Plan to ensure the appropriate emphasis is reflected in order to achieve optimal results.

**c. Long-Term Business Planning**

The Long-Term Business Planning (LTBP) project began in FY 2018 to consider potential future program impacts and proactively assess those impacts. During FY 2020, the team continued to address areas outlined on the “roadmap” which was developed in FY 2018 and updated in FY 2020. The “roadmap” will guide leadership with determining the appropriate timing and circumstances for future decision making and for the creation of actionable activities. In FY 2021, the Office will continue to determine an approach to address items outlined in the “roadmap.”

**d. Program Management**

A key component of program management involves setting the Office’s annual project activities and major priorities. In FY 2020, the Office’s major priorities included the annual financial statements audit, the actuarial valuation, and enterprise content management projects. In addition, the Office reviewed various processes to ensure benefit payments were made accurately and timely.

In FY 2020, the Office reviewed and updated the Treasury/DO .214 DC Pensions Retirement Records system of records which is referred to as the System of Records Notice (SORN). In

FY 2021, the Office will submit the updated SORN to Treasury's Office of Privacy, Transparency, and Records (PTR) for review. PTR will coordinate with internal Treasury offices and provide the SORN to the OMB, for review and clearance. After incorporating comments, Treasury will publish the Treasury/DO .214 DC Pensions Retirement Records system of records in the Federal Register and solicit comments from the public. If no changes are necessary, it will become effective.

#### **e. Service Level Agreements**

The Office has annual Service Level Agreements (SLAs) in place with Fiscal Service, ARC for the STAR administration and hosting, and annuitant payroll operations. In FY 2020, the SLAs were reviewed and revised to more accurately define responsibilities, required services, and reporting requirements for service providers and to ensure the Office is providing high quality service to annuitants.

In FY 2021, the Office will collaborate with DCRB to develop a robust SLA to ensure a comprehensive view of service requirements for benefit administration.

#### **f. Quality Program**

##### Benefits Administration

As part of the Office's Quality Program, a quality plan guided the review of benefit administration activities. In FY 2020, the Office's staff and benefits administration contractor focused reviews on payment types and data points that impacted the actuarial liability, in addition to calculations that have had historically high error rates. The Office provided feedback to DCRB and assessed staff training needs. The Office has worked with the benefits administration contractor to develop and implement a plan to transition quality review activities from the benefits administration contractor to the Office's staff during FY 2021.

In FY 2021, the Office will develop a quality management approach to enhance the Quality Program for benefits administration activities. In addition, an assessment of training materials being performed by the benefits administration contractor will result in a training roadmap for quality review and recommendations for training materials. The Office will review the recommendations and develop a plan to address and implement the training roadmap. The Quality Assurance Forums at DCRB will continue to provide feedback on discrepancies as well as deliver training targeted to address quality review findings. The quality review activities from the benefits administration contractor to the Office's staff are expected to be fully transitioned by December 2020.

##### Annuitant Payroll Administration

The Office's Quality Program includes reviews of annuitant payroll processing functions. The Office reviews preliminary and final payroll statistics, large annuitant payments, and third-party payroll reporting. In addition to the aforementioned reports, each month the

Office monitors death audit verification, that includes reviewing obituaries provided by the vendor, Do Not Pay (DNP) notifications, pending issues escalated for resolution, checks which have not been cashed for an extended period of time, payment reclamations, and returned mail.

In FY 2020, the Office strengthened its process to track and report returned payments with new STAR functionality that minimizes the use of spreadsheets outside of the system. The functionality sends a system generated email with details regarding each individual returned payment and has the capability to report a listing of all returned payments that are pending reissue. Updates can be made to returned payment records to indicate research completed, suggested actions, and resolution/closing of records when payments have been reissued.

#### Information Technology Systems Administration

During FY 2020, the Office continued to include system administration activities and the review of user accounts in its Quality Program. The quality plan tracks system availability, number and type of open production trouble tickets, and completion time of trouble tickets. As part of the quality review, user accounts are reviewed semi-annually to ensure that users have the least amount of access privileges necessary to perform their duties. The semi-annual reviews are used by the Office to manage resources, maintain system security, and track the quality of STAR production support and hosting services. Additionally, in FY 2020, the Office continued the monthly active account verification reviews to ensure departing employee accounts were locked/terminated in a timely manner.

#### **g. Office of D.C. Pensions Program Performance Reporting**

In FY 2020, the Office tracked, collected, and reported performance data to continue to promote transparency, and improve decision making using the performance measurement reporting tool. The performance measures are reported and reviewed during the Office's monthly status meeting. The performance data is utilized to make improvements in program management areas, such as operational planning and resource needs assessments.

#### **h. Capstone Project**

During FY 2020, the Office reviewed its email records management practices. Consistent with the rules set out by PTR and the National Archives and Records Administration (NARA). Microsoft Outlook email inboxes with email records were inventoried. The Office's staff and contractors treated email messages created or received during official business with due regard for records management policies. The *C<sup>2</sup>* approach (*Clean x Categorize*) was developed to guide the Office's email management practices.

In FY 2021, Treasury's Office of the Chief Information Officer (OCIO) is integrating technologies, part of which includes an update of MS Office suite to MS Office 365. In the future, Capstone email retentions will be added to MS Outlook which will include automatic records retention/disposition dates. The Office is in ongoing discussion with OCIO and PTR

to find the best approach to continue managing email records. The Office is committed to ensuring safe preservation of all emails determined to be Federal records.

**i. SharePoint Project**

In FY 2020, the Office was able to fully capitalize on the benefits of the FY 2019 SharePoint upgrade and re-design by effortlessly transitioning to a remote working environment during the COVID-19 global pandemic. The Office was able to operate with minimal disruption due to the conversion to a SharePoint-centric operational model.

During FY 2020, OCIO upgraded to SharePoint 2016. In FY 2021, the Office plans to capitalize on these efforts and the features offered by this platform to facilitate records digitization and other electronic document management requirements. The Office will continue to enhance and evaluate opportunities to expand the use of SharePoint.

**j. Risk Management Program**

In FY 2020, the Office Leadership Team worked with the Risk Manager to review and make recommendations to revise the Risk Management Program. In addition, the Office compared its Risk Management Program to Treasury’s goal of promoting and facilitating a risk-aware culture across the federal government by developing a Federal Enterprise Risk Management (ERM) framework and strategies. The Office has taken a proactive approach of developing and nurturing a risk-aware culture by integrating program and fraud control activities into its daily operations.

In FY 2020, the Office developed the Fraud Risk Management Framework to expand upon the Summarized Fraud Management Overview. The framework will be included in the Risk Management Plan in FY 2021.

**k. Emergency Preparedness**

In FY 2020, the Office updated its Continuity of Operations Plan (COOP) to ensure the ability to continue to perform essential functions under a broad range of circumstances. The Memorandum of Understanding with Fiscal Service establishes protocols for making annuitant payments during an emergency situation when STAR is not operational. The MOU was enhanced and signed in FY 2020. All documentation supporting the MOU, such as Standard Operating Procedures and form templates, will be updated in FY 2021. In FY 2021, an emergency payroll exercise will be conducted. This exercise will provide a training opportunity for the individuals involved with executing the MOU. This exercise will also help identify gaps in the procedures that will be used to process emergency payments. Lastly, this exercise will help identify missing or outdated information so that it can be addressed before an emergency event.

**l. Budget Formulation**

In FY 2020, the Office revised its internal budget formulation processes in developing the

FY 2021 budget request and FY 2022 — FY 2025 budget estimates to continually improve the accuracy and transparency of the budget formulation life cycle. The Office shifted to a SharePoint based model to facilitate the collaboration and consolidation of staff input, and to develop a more robust repository of the decisions underlying annual budget requests for reference in future year budget formulation.

#### **m. Internal Control Program**

In accordance with requirements as outlined in the OMB Circular A-123 Appendix A, the Office's Senior Assessment Team (SAT) together with the help of a contractor, tested, documented, and reported on the Office's internal control over financial reporting as required by the Federal Manager's Financial Integrity Act of 1982 (FMFIA). The Office used the *FY 2020 Treasury Implementation Guide for OMB Circular A-123 Appendix A: Management of Reporting and Data Integrity Risk* issued by Treasury's ODCFO, Risk and Control Group to conduct the review. The scope for FY 2020 OMB Circular A-123, Appendix A testing covered July 1, 2019 through June 30, 2020, and management reviewed test results for changes in controls or other subsequent events through September 30, 2020, to support the Office's Final FY 2020 Assurance Statement. The following activities were performed:

- Quantitative and qualitative materiality assessments were conducted to determine the scope of testing;
- Internal Control Framework Assessment was performed to document and evaluate the design of internal controls;
- Seven test plans were prepared and executed to confirm the design and evaluate the operating effectiveness of internal controls; and
- Results of test plans were evaluated and no material weaknesses were identified.

The results supported management's assessment that Office's internal controls activities are operating effectively and as intended. The Office submitted an unmodified statement of assurance for FY 2020.

In FY 2021, the Office will continue to rotate test plans allowing other processes within the organization to be evaluated as part of the OMB Circular A-123, Appendix A assessment.

In FY 2020, the Office received two Notice of Findings and Recommendations (NFRs) during the annual financial statement audit related to STAR system-level access approval procedures and the evidence of STAR audit log reviews. The Office will work with the Fiscal Service ISS team, to more fully develop processes for documenting reviews of audit logs and streamline existing controls encompassing system access.

#### **n. Financial Statement Audit Opinion**

KPMG LLP (KPMG), an independent public accounting firm, rendered an unmodified opinion on the Office's FY 2020 Consolidated Financial Statements. KPMG noted no material weakness in the Office internal controls over financial reporting. Also, results of KPMG's tests of compliance with laws and regulations disclosed no instances of

noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*.

#### **IV. Limitation of the Financial Statements**

The consolidated financial statements have been prepared to report the financial position and results of operations of the Office of D.C. Pensions (the Office), pursuant to the requirements of the 31 U.S.C. 3515 (b).

The consolidated financial statements have been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget Circular A-136, Financial Reporting Requirements. The financial reports used to monitor and control budgetary resources are prepared from the same books and records.

The consolidated financial statements should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

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**PART 2**

# **Independent Auditors' Report**





KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Deputy Inspector General, Department of the Treasury, and  
Director, Office of D.C. Pensions:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of the Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury's Office of D.C. Pensions as of September 30, 2020 and 2019, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

## *Other Matters*

### Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Annual Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

### Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Message from the Director and the Other Information section is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

### *Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2020, we considered the ODCP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit A, that we consider to be a significant deficiency.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether ODCP's consolidated financial statements as of and for the year ended September 30, 2020 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

#### *ODCP's Response to Findings*

The ODCP's response to the findings identified in our audit is described in Exhibit A. The ODCP's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

#### *Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ODCP's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC  
December 9, 2020

### **General Information Technology (IT) Controls over the System to Administer Retirement (STAR)**

During fiscal year 2020, certain deficiencies existed surrounding general IT controls associated with ODCP's financial systems, as follows:

- ODCP's general IT controls over the review of STAR audit logs were not properly designed to maintain evidence that an independent individual reviewed and actioned, as necessary, activity on the audit logs for the application, database and operating system layers. This resulted because Fiscal Service, ODCP's service provider, did not sufficiently define the criteria for documentation of the review of the automated audit log report to address the risk that inappropriate activity is investigated and resolved, and ODCP did not sufficiently monitor the control activities of Fiscal Service.
- In addition, general IT controls over the approval of new user access to the operating system on which STAR resides did not operate effectively because Fiscal Service did not communicate internally nor adhere to STAR Operating System Account Management Policy and Procedures. As a result of these deficiencies, an individual was inappropriately granted access to STAR but such access was retroactively approved, and there is increased risk that inappropriate activity within STAR is not investigated and resolved.

#### **Recommendations:**

We recommend that ODCP management:

- Fully develop existing policies and procedures to document a process for reviewing, investigating, and resolving unusual or suspicious activity identified during the audit log review, as well as maintaining evidence of such review, investigation and resolution; and
- Reinforce policies and procedures, through internal communication or training for control operators, regarding their assigned responsibilities, or that management realign responsibilities.

#### **ODCP's Response:**

The Office of D.C. Pensions (ODCP) concurs with the two deficiencies identified above and the two recommendations offered to ODCP management.

However, ODCP believes that the two deficiencies should be addressed in a Management Letter. In the first finding above, the issue was a lack of documenting the reviews of audit logs and ODCP's insufficient monitoring of that activity performed by our Shared Service Provider. In the second finding, a new system administrator was granted access to the STAR system prior to approval by an authorized official. ODCP believes the categorization of a significant deficiency is disproportionate to the documented deficiencies because it does not reflect the extent of existing compensating controls. Database NetIQ alerts are in place to notify ODCP of select system activities and administrator account reviews are routinely conducted.

While ODCP has these compensating controls in place, discussions with our Shared Service Provider are underway to address the findings and to continue to strengthen our internal control environment.

#### **KPMG's Response to ODCP's Response:**

We evaluated the aggregation of the findings noted above, in accordance with auditing standards generally accepted in the United States of America, to conclude that a significant deficiency does exist, taking into consideration the increased risk that inappropriate activity within STAR is not investigated and resolved. Although management stated that they do not concur with our classification of the findings as a significant deficiency, they plan on taking corrective actions to address them.



**PART 3**

# **Financial Statements and Notes**



**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Balance Sheets**  
**As of September 30, 2020 and September 30, 2019**  
**(in thousands)**

	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Entity Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 497	\$ 491
Investments, Net (Note 3)	4,057,209	3,998,634
Interest Receivable	<u>20,257</u>	<u>22,577</u>
Total Intragovernmental	4,077,963	4,021,702
Accounts Receivable, Net (Note 4)	2,062	3,069
Taxes Receivable	<u>6</u>	<u>6</u>
<b>Total Assets</b>	<b>\$ <u><u>4,080,031</u></u></b>	<b>\$ <u><u>4,024,777</u></u></b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts Payable	\$ 53	\$ 116
Accrued Payroll and Benefits	<u>42</u>	<u>33</u>
Total Intragovernmental	95	149
Accounts Payable	7,137	5,136
Advances from Others	21,479	19,359
Accrued Pension Benefits Payable	45,979	46,084
Actuarial Pension Liability (Note 6)	8,272,445	8,397,990
Accrued Payroll and Benefits	<u>455</u>	<u>354</u>
<b>Total Liabilities</b>	<b>\$ 8,347,590</b>	<b>\$ 8,469,072</b>
<b>Net Position:</b>		
Cumulative Results of Operations	<u>(4,267,559)</u>	<u>(4,444,295)</u>
<b>Total Net Position</b>	<b>\$ <u><u>(4,267,559)</u></u></b>	<b>\$ <u><u>(4,444,295)</u></u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u><u>4,080,031</u></u></b>	<b>\$ <u><u>4,024,777</u></u></b>

The accompanying notes are an integral part of these financial statements.

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2020 and September 30, 2019**  
**(in thousands)**

	<u>2020</u>	<u>2019</u>
<i>Program Costs</i>		
<i>Administrative Expenses (Note 5)</i>	\$ 23,374	\$ 22,482
<i>District Benefit Payments and Employer Share of DC Health and Life Plans Pension Expense before Actuarial Assumption Changes (Note 6)</i>	244,803	218,350
	<u>124,478</u>	<u>94,450</u>
<i>Total Program Costs</i>	<u>392,655</u>	<u>335,282</u>
<i>Less: Earned Revenues</i>		
<i>Reimbursable Income</i>	246,531	220,232
<i>Interest Earned</i>	68,702	71,924
<i>Employee Contributions</i>	<u>665</u>	<u>621</u>
<i>Total Earned Revenues</i>	<u>315,898</u>	<u>292,777</u>
 <i>Net Expense Before Loss from Actuarial Assumption Changes</i>	 76,757	 42,505
 <i>Loss on Actuarial Assumption Changes, Net (Note 6)</i>	 <u>302,695</u>	 <u>487,272</u>
 <i>Net Cost of Operations</i>	 <u>\$ 379,452</u>	 <u>\$ 529,777</u>

*The accompanying notes are an integral part of these financial statements.*

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Statements of Changes in Net Position**  
**For the Years Ended September 30, 2020 and September 30, 2019**  
**(in thousands)**

	<u>2020</u>	<u>2019</u>
<i>Unexpended Appropriations:</i>		
Beginning Balance	\$ -	\$ -
<i>Budgetary Financing Sources:</i>		
Appropriations Received	556,005	514,898
Appropriations Used	<u>(556,005)</u>	<u>(514,898)</u>
Total Budgetary Financing Sources	<u>-</u>	<u>-</u>
Total Unexpended Appropriations	<u>-</u>	<u>-</u>
<i>Cumulative Results of Operations:</i>		
Net Position - Beginning of Year	\$ (4,444,295)	\$ (4,429,645)
<i>Budgetary Financing Sources:</i>		
Appropriations Used	556,005	514,898
<i>Other Financing Sources (Nonexchange):</i>		
Imputed Financing	<u>183</u>	<u>229</u>
Total Financing Sources	556,188	515,127
Net Cost of Operations	<u>(379,452)</u>	<u>(529,777)</u>
Net Change	176,736	(14,650)
Cumulative Results of Operations	\$ <u>(4,267,559)</u>	\$ <u>(4,444,295)</u>
Net Position	\$ <u><u>(4,267,559)</u></u>	\$ <u><u>(4,444,295)</u></u>

The accompanying notes are an integral part of these financial statements.

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2020 and September 30, 2019**  
**(in thousands)**

	<u>2020</u>	<u>2019</u>
<i>Budgetary Resources:</i>		
<i>Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 8)</i>	\$ 19,652	\$ 18,391
<i>Appropriations (Discretionary and Mandatory)</i>	1,128,880	1,092,452
<i>Spending Authority from Offsetting Collections</i>	<u>248,651</u>	<u>222,252</u>
<i>Total Budgetary Resources</i>	<u>\$ 1,397,183</u>	<u>\$ 1,333,095</u>
<i>Status of Budgetary Resources:</i>		
<i>New Obligations and Upward Adjustments</i>	\$ 1,375,704	\$ 1,313,736
<i>Unobligated Balance Exempt from Apportionment, End of Year</i>	<u>21,479</u>	<u>19,359</u>
<i>Total Status of Budgetary Resources</i>	<u>\$ 1,397,183</u>	<u>\$ 1,333,095</u>
<i>Outlays, Net (Discretionary and Mandatory)</i>	\$ 1,125,115	\$ 1,088,915
<i>Distributed Offsetting Receipts</i>	<u>(587,895)</u>	<u>(593,347)</u>
<i>Agency Outlays, Net (Discretionary and Mandatory)</i>	<u>\$ 537,220</u>	<u>\$ 495,568</u>

*The accompanying notes are an integral part of these financial statements.*

*Department of the Treasury  
Departmental Offices  
Office of D.C. Pensions (the Office)  
Notes to Financial Statements  
September 30, 2020 and September 30, 2019*

**1) Summary of Significant Accounting Policies**

***a. Reporting Entity***

Under provisions in Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers and Firefighters' Retirement Plan, the Teachers' Retirement Plan and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

***District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund***

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund – 20X5511). Effective October 1, 2004, the assets and liabilities of the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund - 20X8230) and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500) were transferred to the D.C. Federal Pension Fund. The D.C. Federal Pension Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers and Firefighters' and Teachers' Retirement Plans under the provisions of the Act.

The D.C. Federal Pension Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred to the Department of the Treasury (Treasury) from the District of Columbia Retirement Board (DCRB) pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the D.C. Federal Pension Fund;
- Reimbursement from DCRB for the District's share of annuitant benefits paid from the D.C. Federal Pension Fund;

- Reimbursement from the District for the District’s employer contribution for Post-1987 D.C. Health and Life benefits; and
- Reimbursement from DCRB for the Office’s actual expenses incurred in support of administering District benefit payments.

The portion of the D.C. Federal Pension Fund that is not needed to meet the level of current Federal benefit payments, refunds, and net administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Bureau of the Fiscal Service (Fiscal Service). Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amounts paid into the D.C. Federal Pension Fund during FY 2020 and FY 2019 were \$540.0 million and \$498.3 million, respectively, which are included in Appropriations Received on the Consolidated Statements of Changes in Net Position and Appropriations in the Combined Statements of Budgetary Resources.

***District of Columbia Judicial Retirement and Survivors Annuity Fund***

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund – 20X8212).

The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges’ Retirement Plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from DCRB pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount, and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount

necessary to amortize the original unfunded liability of the retirement program assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2020 and FY 2019 were \$16.0 million and \$16.6 million, respectively, which are included in Appropriations Received on the Consolidated Statements of Changes in Net Position and Appropriations in the Combined Statements of Budgetary Resources.

***b. Basis of Accounting and Presentation***

The Office is presenting Financial Statements that consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the related notes. The Financial Statement Notes consist of a summary of significant accounting policies and other relevant explanatory information. The Consolidated Financial Statements have been prepared from the accounting records of the Office in accordance with accounting principles generally accepted in the United States of America for federal entities. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is designated by the American Institute of Certified Public Accountants as the official accounting standards-setting body for the Federal Government.

The Consolidated Financial Statements present balances and activities of the D.C. Federal Pension Fund and the Judicial Retirement Fund. There were no transactions between the Funds that require elimination during consolidation.

***c. Fund Balance with Treasury***

Fund Balance with Treasury represents appropriated funds from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity.

***d. Investments, Net***

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund in GAS, market-based (“MK”) securities — special non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by Fiscal Service. The Office follows Treasury's investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments typically range from less than one year to approximately 10 years, except for one investment in the Judicial Retirement Fund with a maturity of February 15, 2036.

Amounts that are not necessary to meet current obligations are invested in MK securities. Amounts needed to meet current obligations are invested overnight in one-day MK securities, which are redeemed at face value plus accrued interest. If amounts held in cash,

overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Investments held in one-day securities are shown in the Note 3 as Non-Marketable Par Value Securities.

***e. Accounts Receivable, Net***

Accounts receivable consist primarily of:

- The amount due from the DCRB for the District's share of benefits paid by the Office to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period;
- Pending amounts due from annuitants as a result of benefit overpayments that have not completed collection due process; and
- Amounts due from annuitants as the result of benefit overpayments.

***f. Advances from Others***

The Office is authorized to disburse funds for the District's share of monthly benefits, and the employer contribution for Post-1987 Health and Life benefits. Under a memorandum of understanding with the DCRB, the Office is to receive an advance of these monies prior to the actual disbursements.

***g. Accrued Pension Benefits Payable***

Accrued pension benefits payable relates primarily to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. This accrual may also include amounts for refund claims for which processing was not completed during the reporting period but will be paid in the subsequent period.

***h. Actuarial Pension Liability***

The actuarial cost method used to determine costs for the Police Officers and Firefighters' Retirement Plan and Teachers' Retirement Plan is the Projected Unit Credit Cost Method. Under this funding method, the accrued liability is determined based on service earned to the valuation date. Because the benefits under the Police Officers and Firefighters' Retirement Plan and the Teachers' Retirement Plan were fully accrued at June 30, 1997, the accrued liability is calculated as the present value of future benefits expected to be paid and there is no normal cost.

The actuarial cost method used to determine costs for the Judges' Retirement Plan is the Individual Entry Age Normal Cost Method. Under this funding method, the normal cost is a

level percent of covered salary, which, along with the member contributions, will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability.

The economic assumptions (rate of return, inflation, and salary increases) are based upon the requirements of SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

To calculate the actuarial pension liabilities for FY 2020, the Office used a 100-year yield curve of spot rates developed by Treasury's Office of Economic Policy. The yield curve is based on a 10-year average of quarterly rates, consistent with the requirements of SFFAS No. 33. The assumptions for inflation and salary increases were also the average of 10-year historical values. The assumptions used to calculate the pension liabilities were spot rates gradually increasing from 0.82 percent to discount FY 2021 payments, to a maximum of 3.60 percent to discount longer term payments; annual inflation and cost-of-living adjustments of 1.52 percent for judges, 1.71 percent for teachers, and 1.76 percent for police officers and firefighters; and salary increases at an annual rate of 0.94 percent for judges, 2.30 percent for teachers, 2.15 percent for police officers, and 2.20 percent for firefighters.

The assumptions used to calculate the pension liabilities for FY 2019 were spot rates gradually increasing from 0.74 percent to discount FY 2020 payments, to a maximum of 3.84 percent to discount longer term payments; annual inflation and cost-of-living adjustments of 1.36 percent for judges, 1.82 percent for teachers, and 1.80 percent for police officers and firefighters; and salary increases at an annual rate of 0.83 percent for judges, 2.30 percent for teachers, 1.95 percent for police officers, and 2.00 percent for firefighters.

The economic assumptions used by the Office for the Police Officers and Firefighters', Teachers', and Judges' Retirement Plans differ from those used by Office of Personnel Management (OPM) for the following reasons: (1) the annual rate of salary increase assumptions are based on different plan member experience; (2) the annual rate of inflation and cost-of-living adjustment assumptions are based on different statutory requirements (applicable Consumer Price Index and period of calculation); and (3) for the discount rate assumption, OPM and the Office use Treasury spot rate yield curves, but the averaging periods differ and OPM converts the yield curve to a single equivalent rate while for teachers, police officers, and firefighters, the Office uses the individual yield curve rates.

#### ***i. Appropriations Received and Used***

Treasury is required to make annual payments from the General Fund of the Treasury to the D.C. Federal Pension Fund and Judicial Retirement Fund and to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative

expenses of the D.C. Federal Pension Fund and the Judicial Retirement Fund. The appropriations are received into the Office's appropriation funds and are transferred out to the D.C. Federal Pension Fund and the Judicial Retirement Fund to be invested in non-marketable GAS securities. The Office has permanent and indefinite appropriations to cover the Accrued Pension Benefits Payable, the Actuarial Pension Liability and costs to administer the retirement plans. Congress has appropriated funds or funding is otherwise available to pay amounts due. In accordance with SFFAS No. 7, Accounting for Revenue and Other Financing Sources, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position.

***j. Treasury Employee Retirement Plans***

The D.C. Federal Pension Fund and Judicial Retirement Fund pay the salaries and benefits of Treasury employees who support the Office as reasonable and necessary expenses incurred in carrying out the Secretary's responsibilities under the Act. In FY 2020 and FY 2019, Office staff salaries and benefits are split 95 percent and 5 percent between the D.C. Federal Pension Fund and the Judicial Retirement Fund.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established, and the D.C. Federal Pension Fund and the Judicial Retirement Fund make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the D.C. Federal Pension Fund and the Judicial Retirement Fund make matching contributions, ranging from one percent to four percent of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

FERS employees and certain CSRS reinstatement employees participate in the Social Security program. The D.C. Federal Pension Fund and Judicial Retirement Fund remit the employer's share of the required contributions for eligible employees.

The D.C. Federal Pension Fund and Judicial Retirement Fund do not report information pertaining to the CSRS and FERS retirement plans covering Treasury employees. OPM is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

***k. President's Budget***

The President's Budget for 2022, which includes actuals for FY 2020, has not yet been published as of the date of these financial statements. The President's Budget is currently expected to be published and delivered to Congress in early February 2021. The FY 2019 Combined Statement of Budgetary Resources (SBR) was reconciled to the Program

and Financing (P&F) Schedules within the President's Budget for 2021, published in February 2020, and there were no differences for budgetary resources, status of budgetary resources, or net outlays.

The President's Budget for 2021, which includes the Office's budget within the Other Independent Agencies' budget appendix, is available at the OMB website.

### ***l. Revenue and Financing Sources***

All proceeds received and deposited by the Office are used for the purpose of providing annuity payments for retired District of Columbia teachers, police officers and firefighters for services earned prior to July 1, 1997, and for retirement benefits earned by District of Columbia judges, regardless of when services were earned.

Funding for the Judicial Retirement Fund is authorized by 111 Stat. 757, Sec. 11251, Public Law 105-33 as amended by 112 Stat. 2681-534, Sec. 804(a)(4), Public Law 105-277. Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084, Public Law 108-489. Sources of revenue or other financing sources for the years ended September 30, 2020, and 2019, respectively, were annual federal payments into the funds, employee contributions, and interest earnings from investments.

### ***m. Income Taxes***

The Office, a component of an agency of the Federal Government, is not subject to Federal, state, or local income taxes and accordingly, no provisions for income taxes have been recorded in the accompanying consolidated financial statements.

### ***n. Classified Activities***

Accounting standards require all reporting entities to disclose that the accounting standards allow certain statements and disclosures to be modified if needed to prevent the disclosure of classified information.

### ***o. Intra-Governmental Costs***

The Office reports intra-governmental costs resulting from the receipt of services provided on a reimbursable basis from other federal entities.

In certain instances, other federal entities incur costs that are directly identifiable to the Office's operations. In accordance with SFFAS No. 4, as amended, the Office recognizes identified costs paid on behalf of the Office by other federal entities. The imputed intra-governmental financing sources the Office currently recognizes include the actual cost of future benefits for the CSRS and FERS retirement plans and the Federal Employees Health Benefits Program that other federal entities pay on the Office's behalf. The funding for these costs appears on the Consolidated Statements of Net Cost, and as imputed financing sources on the Consolidated Statements of Changes in Net Position.

**p. Reclassification**

Certain amounts in the prior period Notes to Financial Statements have been reclassified for consistency with the presentation of the current period Notes to Financial Statements. Specifically, prior year line items on Note 7 were reclassified and corrected to align with current year presentation. These reclassifications and immaterial changes have no effect on the Office’s financial statement balances or reported results.

**q. Overall Estimates Disclosures**

The use of estimates in the preparation of financial statements requires management to make certain estimates and assumptions that effect the recorded amounts of assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2) Fund Balance with Treasury**

The Status of Fund balance with Treasury as of September 30, 2020 and 2019 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
<i>Status of Fund Balance with Treasury:</i>		
<i>Unobligated Balance - Available</i>	\$ <u>497</u>	\$ <u>491</u>
<i>Total</i>	\$ <u><u>497</u></u>	\$ <u><u>491</u></u>

**3) Investment, Net**

Investments, Net as of September 30, 2020 and 2019 consisted of the following (in thousands):

	<u>2020</u>			
	<u>Investments,</u>	<u>Unamortized</u>	<u>Investments,</u>	<u>Market</u>
	<u>Gross</u>	<u>Premium,</u>	<u>Net</u>	<u>Value</u>
		<u>Net</u>	<u>Net</u>	
<i>Intragovernmental Securities</i>				
<i>Non-Marketable Par Value</i>	\$ 219,552	-	219,552	219,552
<i>Non-Marketable Market-based</i>	<u>3,776,138</u>	<u>61,519</u>	<u>3,837,657</u>	<u>4,000,220</u>
<i>Total</i>	\$ <u><u>3,995,690</u></u>	<u><u>61,519</u></u>	<u><u>4,057,209</u></u>	<u><u>4,219,772</u></u>

	<b>2019</b>			
	<i>Investments,</i>	<i>Unamortized</i>	<i>Investments,</i>	<i>Market</i>
	<u>Gross</u>	<u>Premium,</u>	<u>Net</u>	<u>Value</u>
<i>Intragovernmental Securities</i>				
<i>Non-Marketable Par Value</i>	\$ 217,515	-	217,515	217,515
<i>Non-Marketable Market-based</i>	<u>3,755,810</u>	<u>25,309</u>	<u>3,781,119</u>	<u>3,828,776</u>
<i>Total</i>	<u>\$ 3,973,325</u>	<u>25,309</u>	<u>3,998,634</u>	<u>4,046,291</u>

The amortization method utilized by the Office is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2020 and 2019, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in these figures are net unrealized gains of \$162.6 million and \$47.7 million as of September 30, 2020 and 2019, respectively.

The amortized cost of Investments, Net (*including par value securities invested overnight*) as of September 30, 2020 and 2019, by maturity date is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
<i>Less than or Equal to 1 Year</i>	\$ 822,010	\$ 830,786
<i>More than 1 Year and Less than or Equal to 5 Years</i>	2,269,999	2,323,699
<i>More than 5 Years and Less than or Equal to 10 Years</i>	960,150	840,613
<i>More than 10 Years</i>	<u>5,050</u>	<u>3,536</u>
<i>Total</i>	<u>\$ 4,057,209</u>	<u>\$ 3,998,634</u>

#### 4) **Accounts Receivable, Net**

The components of Accounts Receivable, Net as of September 30, 2020 and 2019, are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
<i>Accounts Receivable, Gross</i>	\$ 4,930	\$ 3,701
<i>Allowance for Loss on Accounts Receivable</i>	<u>(2,868)</u>	<u>(632)</u>
<i>Accounts Receivable, Net</i>	<u>\$ 2,062</u>	<u>\$ 3,069</u>

During FY 2020 and FY 2019, a quarterly review and analysis of historical collection rates were used to determine that appropriate Allowance for Loss on Accounts Receivables. The Allowance for Loss on Accounts Receivable are attributed to debts resulting from benefit overpayments.

Accounts Receivable, Net also includes criminal restitution. For FY 2020 and FY 2019, the Office continued to report three instances of criminal debt in the gross amount of \$796.7 thousand and \$789.3 thousand, respectively. The net realizable value of the criminal debt reported in FY 2020 and FY 2019 was \$74.2 thousand and \$286.4 thousand, respectively.

## 5) Administrative Expenses

Administrative expenses for the years ended September 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
<i>Intragovernmental Expenses</i>		
Salaries and Related Benefits	\$ 981	\$ 957
Contractual Services	5,544	5,909
Rent	679	690
<i>Total Intragovernmental Expenses</i>	<u>7,204</u>	<u>7,556</u>
<i>Public Expenses</i>		
Salaries and Related Benefits	3,158	3,045
Contractual Services	10,443	11,612
Other	2,569	269
<i>Total Public Expenses</i>	<u>16,170</u>	<u>14,926</u>
<i>Total Administrative Expenses</i>	<u>\$ 23,374</u>	<u>\$ 22,482</u>

## 6) Pension Expense

Pension expense for the plan years ended September 30, 2020, and 2019, includes the following components (in thousands):

	<u>2020</u>	<u>2019</u>
<i>Beginning Liability Balance</i>	\$ 8,397,990	\$ 8,372,470
<i>Pension Expense:</i>		
Normal Cost	5,300	5,600
Interest on Pension Liability During the Period	66,357	54,607
Actuarial (Gains) Losses During the Period:		
From Experience	52,821	34,243
From Discount Rate Assumption Change	382,631	290,082
From Other Assumption Changes	(35,887)	133,487
From Non-Economic Changes	(44,049)	63,703
Pension Expense before Other / Non-Actuarial Adjustments	<u>427,173</u>	<u>581,722</u>
<i>Less Amounts Paid and Accrued:</i>	<u>(552,718)</u>	<u>(556,202)</u>
<i>Ending Liability Balance</i>	<u>\$ 8,272,445</u>	<u>\$ 8,397,990</u>

Reconciliation to amounts reported in the Consolidated Statements of Net Cost  
(in thousands):

	<u>2020</u>	<u>2019</u>
<i>Pension Expense before Actuarial Assumption Changes:</i>		
Normal Cost	\$ 5,300	\$ 5,600
Interest on Pension Liability During the Period	66,357	54,607
Actuarial (Gain) Loss During the Period from Experience	<u>52,821</u>	<u>34,243</u>
<i>Total Pension Expense before Actuarial Assumption Changes</i>	124,478	94,450
<i>Loss on Actuarial Assumption Changes, Net</i>		
<i>Actuarial (Gains) Losses During the Period:</i>		
From Discount Rate Assumption Change	382,631	290,082
From Other Assumption Changes	(35,887)	133,487
From Non-Economic Changes	<u>(44,049)</u>	<u>63,703</u>
<i>Total Loss on Actuarial Assumption Changes, Net</i>	302,695	487,272
<i>Total Pension Expense</i>	<u>\$ 427,173</u>	<u>\$ 581,722</u>

#### *Federal Benefit Payments*

Federal pension benefits paid and accrued during the plan years were \$538.4 million and \$14.3 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2020, and \$542.9 million and \$13.3 million, respectively, for 2019. For FY 2020 and FY 2019, approximately \$53.0 thousand and \$76.0 thousand, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund and the Judicial Retirement Fund.

#### *Actuarial Gains and Losses*

In FY 2020, the Office reported a net liability actuarial loss in the D.C. Federal Pension Fund and the Judicial Retirement Fund. The liability actuarial losses were \$382.6 million due to the new discount rate assumptions and \$52.8 million resulting from experience, which were offset by liability actuarial gains of \$35.9 million due to new pay and cost-of-living assumptions and \$44.0 million due to other assumption changes. The net result was a total liability actuarial loss of \$355.5 million for the D.C. Federal Pension Fund and Judicial Retirement Fund.

In FY 2019, the Office reported a net liability actuarial loss in the D.C. Federal Pension Fund and Judicial Retirement Fund. The liability actuarial losses were \$290.1 million due to the new discount rate assumptions, \$34.2 million resulting from experience, \$133.5 million due to new pay and cost-of-living assumptions, and \$63.7 million due to other assumption changes. The net result was a total liability actuarial loss of \$521.5 million for the D.C. Federal Pension Fund and Judicial Retirement Fund.

7) **Reconciliation of Net Cost of Operations to Agency Outlays, Net**

The Reconciliation of Net Cost of Operations to Agency Outlays, Net depicts the differences between proprietary financial accounting information and budgetary accounting information. Proprietary financial accounting information is intended to provide a picture of the government's financial operations and financial position and is presented on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting information is used for planning and control purposes and relates to both the receipt and use of cash. The reconciliation of net cost, presented on an accrual basis, and the net outlays, presented on a budgetary basis, provides an explanation of the relationship between financial accounting and budgetary information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary financial accounting.

For the fiscal years ended September 30, 2020 and 2019, the Reconciliation of Net Cost of Operations to Agency Outlays, Net consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
<b>Net Cost of Operations</b>	\$ 379,452	\$ 529,777
<b>Components of Net Cost of Operations Not Part of Outlays:</b>		
Increase/(Decrease) in Assets Not Affecting Outlays:		
Accounts Receivable	(1,007)	164
Interest Receivable	(2,292)	(1,907)
<i>Total Increase/(Decrease) in Assets Not Affecting Outlays:</i>	(3,299)	(1,743)
(Increase)/Decrease in Liabilities Not Affecting Outlays:		
Accounts Payable and Advances from Others	(4,057)	(2,755)
Salaries and Benefits	(111)	(23)
Actuarial Pension Liability	125,545	(25,520)
Other Liabilities	104	59
<i>Total (Increase)/Decrease in Liabilities Not Affecting Outlays:</i>	121,481	(28,239)
Other Financing Sources:		
Imputed Financing Sources	(183)	(230)
Other	665	616
<i>Total Other Financing Sources:</i>	482	386
Other	3,632	3,770
Total Components of Net Cost of Operations Not Part of Outlays	122,296	(25,826)
<b>Components of the Outlays That Are Not Part of Net Cost of Operations:</b>		
Premiums and Amortization of Premiums/Discounts	35,472	(8,383)
Total Components of Outlays That Are Not Part of Net Cost of Operations	35,472	(8,383)
Agency Outlays, Net	\$ <u>537,220</u>	\$ <u>495,568</u>

8) **Additional Information Related to the Combined Statements of Budgetary Resources**

Net Adjustments to Unobligated Balance Brought Forward October 1

During the years ended September 30, 2020 and 2019, adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and 2018. These adjustments primarily include Recoveries of Prior Year Unpaid Obligations that were obligated in prior years.

The adjustments during the years ended September 30, 2020 and 2019 are as follows (in thousands):

	<b>2020</b>	<b>2019</b>
<i>Unobligated Balance Brought Forward, October 1</i>	\$ 19,359	\$ 17,339
<i>Recoveries of Prior Year Unpaid Obligations</i>	250	977
<i>Other Changes in Unobligated Balances</i>	43	75
<i>Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)</i>	<u>\$ 19,652</u>	<u>\$ 18,391</u>

Undelivered Orders

Undelivered orders for the Office represent goods and services ordered and obligated which have not been received or paid. Undelivered orders as of September 30, 2020 and 2019 consisted of the following (in thousands):

	<b>2020</b>		
	<i>Federal</i>	<i>Non-Federal</i>	<i>Total</i>
<i>Unpaid undelivered orders at the end of the year</i>	\$ 240	\$ 5,202	\$ 5,442

	<b>2019</b>		
	<i>Federal</i>	<i>Non-Federal</i>	<i>Total</i>
<i>Unpaid undelivered orders at the end of the year</i>	\$ 487	\$ 5,254	\$ 5,741

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**PART 4**

**Required  
Supplementary  
Information  
(Unaudited)**



Department of the Treasury  
 Departmental Offices  
 Office of D.C. Pensions  
 Combining Statements of Budgetary Resources  
 By Fund (Unaudited)  
 For the Years Ended September 30, 2020 and September 30, 2019  
 (in thousands)

	2020			2019		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined D.C. Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined D.C. Pension Funds Total
<i>Budgetary Resources</i>						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 32	19,620	19,652	\$ 74	18,317	18,391
Appropriations (Discretionary and Mandatory)	30,716	1,098,164	1,128,880	30,408	1,062,044	1,092,452
Spending Authority from Offsetting Collections	-	248,651	248,651	-	222,252	222,252
<b>Total Budgetary Resources</b>	<b>\$ 30,748</b>	<b>1,366,435</b>	<b>1,397,183</b>	<b>\$ 30,482</b>	<b>1,302,613</b>	<b>1,333,095</b>
<i>Status of Budgetary Resources</i>						
New Obligations and Upward Adjustments	\$ 30,748	1,344,956	1,375,704	\$ 30,482	1,283,254	1,313,736
Unobligated Balance Exempt from Apportionment, end of year	-	21,479	21,479	-	19,359	19,359
<b>Total Budgetary Resources</b>	<b>\$ 30,748</b>	<b>1,366,435</b>	<b>1,397,183</b>	<b>\$ 30,482</b>	<b>1,302,613</b>	<b>1,333,095</b>
Outlays, Net (Discretionary and Mandatory)	\$ 30,688	1,094,427	1,125,115	\$ 30,416	1,058,499	1,088,915
Distributed Offsetting Receipts	(15,979)	(571,916)	(587,895)	(16,617)	(576,730)	(593,347)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 14,709</b>	<b>522,511</b>	<b>537,220</b>	<b>\$ 13,799</b>	<b>481,769</b>	<b>495,568</b>

See accompanying independent auditors' report.

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**PART 5**

**Other  
Information  
(Unaudited)**



**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Balance Sheets**  
**By Fund (Unaudited)**  
**As of September 30, 2020 and September 30, 2019**  
**(in thousands)**

	2020			2019		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
<b>Assets:</b>						
<i>Entity Assets</i>						
<i>Intragovernmental</i>						
Fund Balance With Treasury	\$ 101	396	497	\$ 102	389	491
Investments, Net	182,232	3,874,977	4,057,209	176,636	3,821,998	3,998,634
Interest Receivable	464	19,793	20,257	491	22,086	22,577
Total Intragovernmental	182,797	3,895,166	4,077,963	177,229	3,844,473	4,021,702
Accounts Receivable	-	2,062	2,062	-	3,069	3,069
Taxes Receivable	4	2	6	3	3	6
Total Assets	\$ 182,801	3,897,230	4,080,031	\$ 177,232	3,847,545	4,024,777
<b>Liabilities:</b>						
<i>Intragovernmental</i>						
Accounts Payable	\$ 19	34	53	\$ 36	80	116
Accrued Payroll and Benefits	3	39	42	2	31	33
Total Intragovernmental	22	73	95	38	111	149
Accounts Payable	5	7,132	7,137	4	5,132	5,136
Advances from Others	-	21,479	21,479	-	19,359	19,359
Accrued Pension Benefits Payable	1,200	44,779	45,979	1,132	44,952	46,084
Actuarial Pension Liability	266,677	8,005,768	8,272,445	254,283	8,143,707	8,397,990
Accrued Payroll and Benefits	22	433	455	18	336	354
Total Liabilities	\$ 267,926	8,079,664	8,347,590	\$ 255,475	8,213,597	8,469,072
<b>Net Position:</b>						
Cumulative Results of Operations	(85,125)	(4,182,434)	(4,267,559)	(78,243)	(4,366,052)	(4,444,295)
Total Net Position	\$ (85,125)	(4,182,434)	(4,267,559)	\$ (78,243)	(4,366,052)	(4,444,295)
Total Liabilities and Net Position	\$ 182,801	3,897,230	4,080,031	\$ 177,232	3,847,545	4,024,777

See accompanying independent auditors' report.

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Statements of Net Cost**  
**By Fund (Unaudited)**  
**For the Years Ended September 30, 2020 and September 30, 2019**  
**(in thousands)**

	2020			2019		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
<i>Program Costs</i>						
Administrative Expenses	\$ 508	22,866	23,374	\$ 525	21,957	22,482
District of Benefit Payments and Employer Share of DC Health and Life Plans	-	244,803	244,803	-	218,350	218,350
Pension Expense before Actuarial Assumption Changes	17,636	106,842	124,478	17,906	76,544	94,450
Total Program Costs	18,144	374,511	392,655	18,431	316,851	335,282
<i>Less: Earned Revenues</i>						
Reimbursable Income	-	246,531	246,531	-	220,232	220,232
Interest Earned	3,632	65,070	68,702	3,771	68,153	71,924
Employee Contributions	665	-	665	621	-	621
Total Earned Revenues	4,297	311,601	315,898	4,392	288,385	292,777
Net Expense Before Loss from Actuarial Assumption Changes	13,847	62,910	76,757	14,039	28,466	42,505
Loss on Actuarial Assumption Changes, Net	9,022	293,673	302,695	(4,759)	492,031	487,272
Net Cost of Operations	\$ 22,869	356,583	379,452	\$ 9,280	520,497	529,777

See accompanying independent auditors' report.

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Statements of Changes in Net Position**  
**By Fund (Unaudited)**  
**For the Years Ended September 30, 2020 and September 30, 2019**  
**(in thousands)**

	2020			2019		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
<i>Unexpended Appropriations:</i>						
Beginning Balance	\$ -	-	-	\$ -	-	-
<i>Budgetary Financing Sources:</i>						
Appropriations Received	15,979	540,026	556,005	16,617	498,281	514,898
Appropriations Used	(15,979)	(540,026)	(556,005)	(16,617)	(498,281)	(514,898)
Total Budgetary Financing Sources	-	-	-	-	-	-
Total Unexpended Appropriations	-	-	-	-	-	-
<i>Cumulative Results of Operations:</i>						
Net Position - Beginning of Year	\$ (78,243)	(4,366,052)	(4,444,295)	\$ (85,591)	(4,344,054)	(4,429,645)
<i>Budgetary Financing Sources:</i>						
Appropriations Used	15,979	540,026	556,005	16,617	498,281	514,898
<i>Other Financing Sources (Nonexchange):</i>						
Imputed Financing	9	174	183	11	218	229
Total Financing Sources	15,988	540,200	556,188	16,628	498,499	515,127
Net Cost of Operations	(22,869)	(356,583)	(379,452)	(9,280)	(520,497)	(529,777)
Net Change	(6,881)	183,617	176,736	7,348	(21,998)	(14,650)
Cumulative Results of Operations	\$ (85,124)	(4,182,435)	(4,267,559)	\$ (78,243)	(4,366,052)	(4,444,295)
Net Position	\$ (85,124)	(4,182,435)	(4,267,559)	\$ (78,243)	(4,366,052)	(4,444,295)

See accompanying independent auditors' report.

Department of the Treasury  
 Departmental Offices  
 Office of D.C. Pensions  
 Schedule of Pension Expense - by Fund (Unaudited)  
 For the Years Ended September 30, 2020 and September 30, 2019  
 (in thousands)

	2020			2019		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Beginning Liability Balance	\$ 254,283	8,143,707	8,397,990	\$ 254,485	8,117,985	8,372,470
<i>Pension Expense:</i>						
Normal Cost	5,300	-	5,300	5,600	-	5,600
Interest on Pension Liability During the Period	7,755	58,602	66,357	8,048	46,559	54,607
Actuarial (Gains) Losses During the Period:						
From Experience	4,581	48,240	52,821	4,258	29,985	34,243
From Discount Rate Assumption Change	5,978	376,653	382,631	2,982	287,100	290,082
From Other Assumption Changes	4,505	(40,392)	(35,887)	(8,319)	141,806	133,487
From Non-Economic Changes	(1,461)	(42,588)	(44,049)	577	63,126	63,703
Pension Expense before Other / Non-Actuarial Adjustments	26,658	400,515	427,173	13,146	568,576	581,722
Less Amounts Paid and Accrued:	(14,264)	(538,454)	(552,718)	(13,348)	(542,854)	(556,202)
Ending Liability Balance	\$ 266,677	8,005,768	8,272,445	\$ 254,283	8,143,707	8,397,990

See accompanying independent auditors' report.

# Actuarial Valuation Report FY 2020 (unaudited)

## Executive Summary

### Highlights of the Actuarial Valuation

The actuarial valuation report has been completed for the following program for the most recent plan year:

#### United States Department of the Treasury District of Columbia Pensions Program (Program)

The Program refers to the federal responsibility for benefit payments under the following District of Columbia (D.C.) retirement plans: District of Columbia Police Officers and Firefighters' Retirement Plan, District of Columbia Teachers' Retirement Plan, and District of Columbia Judges' Retirement Plan. The designated assets for the federal administration of these plans are held in two separate funds. The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund ("D.C. Federal Pension Fund") covers federal payments under the District of Columbia Police Officers and Firefighters' Retirement Plan and District of Columbia Teachers' Retirement Plan. The Judicial Retirement and Survivors Annuity Fund ("Judicial Retirement Fund") covers payments under the District of Columbia Judges' Retirement Plan.

The purpose of this report is to present the results of the actuarial valuation including:

- To illustrate the current assets and liabilities of each Plan as of the end of Fiscal Year (FY) 2020 (October 1, 2019 through September 30, 2020);
- To review the experience of the Program over the past year and to discuss reasons for changes in Program costs;
- To determine the appropriate contribution to be paid by the Department of the Treasury to the Funds in FY 2021 (October 1, 2020 through September 30, 2021); and
- To identify and discuss any emerging trends in Program costs.

This report also includes certain statement line items and footnote disclosures necessary to compute the annual pension expense in accordance with Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, and No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates (SFFAS 5 and SFFAS 33). Use of the valuation results for other purposes may not be appropriate.

#### Summary of Results

As of October 1, 2020	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
Actuarial Accrued Liability	\$ 8,050,546,961	\$ 267,876,951
Plan Assets	<u>(3,870,858,529)</u>	<u>(182,824,303)</u>
Unfunded Actuarial Accrued Liability	\$ 4,179,688,432	\$ 85,052,648
Normal Cost with Interest (including expected employee contributions)	N/A	\$ 6,400,000

## Executive Summary

### Highlights of the Actuarial Valuation

#### Summary of Gains and Losses

As part of the review of the valuation, an actuarial gain/loss analysis was performed. Expected liabilities and plan assets were developed presuming all demographic and economic assumptions from the prior valuation were realized during the plan year. These expected values were then compared to the actual results. The factors causing the liabilities or assets to be greater than expected (a loss for liabilities and a gain for assets), or smaller than expected (a gain for liabilities and a loss for assets) were isolated. Differences in liability not directly attributable to experience different than assumed, such as changes in assumptions and methods, were separately measured from this process.

The different sources of gains and losses, as well as their individual impacts, are outlined below.

#### Source of Liability (Gain)/Loss due to Actuarial Experience

Source of Demographic (Gain)/Loss	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
<b>(Gains)/Losses due to Plan Experience:</b>		
Active Decrements	\$ (12,427,477)	\$ (1,504,082)
Inactive Mortality	(26,634,555)	3,057,653
Salary Increase	(1,842,830)	1,183,894
New Entrants	N/A	437,739
Cost-of-Living Adjustment (COLA) Different than Expected	33,714,083	249,451
<b>(Gains)/Losses due to Census Changes:</b>	<b>52,317,451</b>	<b>1,166,822</b>
<b>(Gains)/Losses due to New Terminated Vested Plan Members:</b>	<b>3,390,631</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 48,517,303</b>	<b>\$ 4,591,477</b>

We have provided clarification on these items below:

- **(Gains)/Losses due to Plan Experience:** The liability for each plan is expected to change based on certain demographic and economic assumptions; however, actual plan experience will differ to some degree. This creates (gains) or losses due to plan experience being different than expected with these assumptions. This includes the following primary factors:

- **Active Decrements:** The actuarial valuation assumes that each active plan member has a particular probability of terminating, retiring, becoming disabled, or becoming deceased in each year. An individual (gain) or loss is generated based on the plan member's actual status in the current valuation year based on the difference from what was expected. The gain for the Police Officers and Firefighters' and Teachers' Plans is primarily due to a group of new retirees who turned 50 since the prior valuation. The assumption in effect for the measurement of (gain)/loss assumed that an individual who leaves the population prior to attaining age 50 is a termination, causing a gain to be incurred in the active decrements category. The individuals' retirement loss is categorized as "other census changes" resulting in the correct calculation of the liability overall, despite the categorization of the individual pieces. For the Judges' Plan, fewer active members retired than were expected, resulting in a gain.

## Executive Summary

### Highlights of the Actuarial Valuation

- **Inactive Mortality:** The actuarial valuation assumes that each inactive plan member has a particular probability of becoming deceased in each year. An individual (gain) or loss is generated based on whether the plan member actually dies during the year. The gain shown for the Police Officers and Firefighters' and Teachers' Plans is driven by plan members in pay status dying at an earlier age or in greater number than expected in the past year. For the Judges' Plan there was only one death since the prior year, in contrast with the remaining population of older retirees and survivors who survived despite higher probabilities of death. Smaller populations are expected to experience larger deviations from expected year-over-year than a larger population, as individual deaths or survivorship have a more significant relative impact on the liability than in a larger population. Long-term gains and losses are expected to offset each other with experience aligning to the assumed mortality probabilities.
- **Salary Increase:** The actuarial valuation assumes that salaries for active plan members will increase by a certain amount. An individual (gain) or loss is generated for each plan member based on their actual salary amount reported in the current valuation. A gain is reported when a plan member's actual salary is lower than the expected amount, and a loss is reported when a plan member's actual salary is higher than the expected amount.
- **New Entrants:** The actuarial valuation incurs a loss whenever new members enter the plan with past service. The Police Officers and Firefighters' and Teachers' Plans are closed and will never incur a gain or loss due to this reason. The Judges' Plan reports a small loss due to the new plan members with past service.
- **COLA Different Than Expected:** The actuarial valuation assumes that retirement benefits for inactive plan members that are receiving benefits will increase by a certain amount. An individual (gain) or loss is generated for each plan member based on their actual benefit amount reported in the current valuation. The Police Officers and Firefighters' and Teachers' Plans had a loss primarily due to higher actual COLA percentages than expected. Note that the Police Officers and Firefighters' Plan members who retired prior to February 15, 1980 received retroactive pay increases, however, only the difference between the expected COLA and the actual COLA for 2020 have been included here. The remaining loss due to the retroactive increase for those who retired prior to February 15, 1980 is included in the \$4.3 million loss for continuing inactive plan members as discussed in the (Gains)/Losses due to Census Changes section below. The Judges' Plan had a loss due to higher COLA than expected.

## Executive Summary

### Highlights of the Actuarial Valuation

• **(Gains)/Losses due to Census Changes:** Each year, ODCP prepares the census data that will be used as the basis for the annual valuation. Inevitably, there will be updates to the census data beyond those that we would expect due to the passage of time. This category of (gain)/loss is described in more detail below.

For the **Police Officers and Firefighters' and Teachers' Plans**, the net loss amount was \$52.3 million and includes the following:

- A \$19.1 million loss resulting from new beneficiaries following the death of plan members for whom the chosen form of payment was unknown.
- An \$11.8 million net loss resulting from ongoing data management, including unexpected changes to data fields such as hire date, salary, service, etc.
- An \$11.2 million loss resulting from active plan members who retired or terminated within the past year, primarily due to benefits calculated at retirement different than previously estimated or those who were not eligible to begin benefits in the prior valuation.
- A \$4.3 million loss resulting from data updates for continuing inactive plan members, primarily due to correction of benefit amounts and retirement dates in the census data. In addition, the loss due to the retroactive portion of the COLA increase for plan members in the Police Officers and Firefighters' Plan who retired before February 15, 1980 is included in this loss.
- A \$5.7 million loss resulting from beneficiaries found when previously reported as "no future benefits due" in the prior valuation year and from finding new plan members due to data clean-up.
- A \$0.2 million loss resulting from rehires.

For the **Judges' Plan**, the total loss amount includes the following:

- A \$1.2 million loss resulting from active plan members who retired or terminated within the past year, primarily due to benefits calculated at retirement different than previously estimated.

• **(Gains)/Losses due to New Terminated Vested Plan Members:** There were 45 new terminated vested plan members discovered as a result of a data clean-up initiative performed by the program. This caused a \$3.4 million loss to the Police Officers and Firefighters' and Teachers' Plans.

## Executive Summary

### Highlights of the Actuarial Valuation

#### Source of Asset (Gain)/Loss due to Actuarial Experience

Asset (Gain)/Loss	D.C. Federal Pension Fund	Judicial Retirement Fund
Beginning of Year Assets	\$ 3,822,592,727	\$ 177,213,402
Expected Return on Assets	26,209,824	5,310,395
Actual Return on Assets	<u>66,868,543</u>	<u>3,654,359</u>
<b>Asset (Gain)/Loss</b>	<b>\$ (40,658,719)</b>	<b>\$ 1,656,036</b>

The plan assets experienced the following rates of return during the prior plan year:

	D.C. Federal Pension Fund	Judicial Retirement Fund
Assets	1.75%	2.05%

As noted on page 55 of this report in the Interest Rates for (Gain)/Loss section, the expected return on assets for the Judicial Retirement Fund is based on the prior year effective interest rate of 3.12% while the D.C. Federal Pension Fund's expected return on assets is based on the first rate on the prior year's yield curve, 0.74%. The Judicial Retirement Fund experienced a lower-than-anticipated return of 2.05% on fund assets and the D.C. Federal Pension Fund experienced a higher-than-anticipated return of 1.75% on fund assets, thus resulting in an asset loss and an asset gain, respectively.

#### Changes in Plan Provisions from the Previous Valuation

The valuation for the current plan year was based on the same plan provisions as the valuation for the prior plan year. We are not aware of any other changes to the plans since the last valuation.

A full summary of the plan provisions and plan changes for each plan (if any) can be found later in this report in Appendix C: Plan Provisions Summary.

## Executive Summary

### Highlights of the Actuarial Valuation

#### Source of Liability (Gain)/Loss due to Changes in Actuarial Assumptions from the Previous Valuation

<b>Assumption Change</b>	<b>Police Officers and Firefighters', and Teachers' Plans</b>	<b>Judges' Plan</b>
Discount Rate Assumption	\$ 376,652,534	\$ 5,978,103
Other Economic Assumptions	(40,391,580)	4,505,228
Non-Economic Assumptions	<u>(42,587,750)</u>	<u>(1,460,995)</u>
<b>Total</b>	<b>\$ 293,673,204</b>	<b>\$ 9,022,336</b>

The discount rate assumption was updated according to prescribed guidance. The Effective Interest Rate (EIR) for all plans decreased, causing a loss.

The other economic assumptions changed for this valuation were the cost-of-living adjustment (COLA) for annuitants and the salary increase assumption for active plan members. Due to the plans' composition of primarily inactive plan members, the COLA assumption is the primary driver in the calculation of liabilities due to other economic assumptions. A detailed description of the changes since prior year is available in Appendix A: Actuarial Assumptions and Methods.

For the Police Officers and Firefighters', and Teachers' Plans, and the Judges' Plan, the updated mortality projection scale to MP2019 was the only impact for non-economic assumptions. A complete description of the actuarial assumptions and rationale can be found in Appendix A: Actuarial Assumptions and Methods and Appendix B: Rationale.

## Executive Summary

### Highlights of the Actuarial Valuation

#### Government Contributions

This report includes a calculation of the Government Contribution required to be made before the end of FY 2021 (excluding the reimbursement for expenses). The table below contains Government Contribution (excluding expenses) for FY 2020 and FY 2021.

Contribution Year	Government Contribution (excluding expenses)	
	D.C. Federal Pension Fund	Judiciary Retirement Fund
September 30, 2020	\$ 520,300,000	\$ 15,500,000
September 30, 2021	\$ 558,700,000	\$ 18,300,000

The increase in the Government Contribution amounts from FY2020 to FY2021 is explained in the table below.

	Police Officers and Firefighters', and Teachers' Plans	Judges' Plan
Full amortization of the 10/1/2000 Assumption change (gain)/loss	\$ 22,200,000	\$ 600,000
Full amortization of the 10/1/2010 Experience (gain)/loss	\$ 3,300,000	\$ (100,000)
New amortization base for the 10/1/2020 Experience (gain)/loss	900,000	700,000
New amortization base for the 10/1/2020 Assumption change (gain)/loss	12,000,000	600,000
Normal Cost change	-	1,100,000
Employee Contribution change	-	(100,000)
<b>Total</b>	<b>\$ 38,400,000</b>	<b>\$ 2,800,000</b>

## Executive Summary

### Actuarial Valuation Opinion

This report presents the results of the actuarial valuation of the Program as of October 1, 2020. In our opinion, this report is complete and accurate and represents fairly the actuarial position of the Program for the purposes stated herein.

This actuarial valuation has been prepared based upon plan member data and plan provisions provided by the Department of the Treasury as of May 1, 2020 (plan data was projected to September 30, 2020 by adjusting for expected mortality for inactive plan members) and the estimated asset information projected by the Department of the Treasury to September 30, 2020 (provided on July 29, 2019).

We have reviewed the data and other information provided for reasonableness, but have not independently audited the data or other information provided. We have no reason to believe the data and other information provided are not complete and accurate, and know of no further information that is essential to the preparation of the actuarial valuation.

In our opinion, all costs, liabilities, rates of interest, and other factors underlying these actuarial computations have been determined on the basis of actuarial assumptions and methods. Each are reasonable (or consistent with authoritative guidance) for the purposes described herein taking into account the experience of the plans and future expectations. Rates of interest used in this valuation are provided by ODCP and are consistent with authoritative guidance. All other assumptions are reasonable for the purposes described herein.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operations of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on each plan's funded status); and
- Changes in plan provisions or applicable law.

Our scope did not include analyzing the potential range of such future measurements; therefore, this analysis was not performed.

The undersigned with actuarial credentials collectively meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This report was prepared solely for the benefit and internal use of the Department of the Treasury. This report is not intended for the benefit of any other party and may not be relied upon by any third party for any purpose, and Deloitte Consulting LLP accepts no responsibility or liability with respect to any party other than the Department of the Treasury.

To the best of our knowledge, no employee of the Deloitte U.S. Firms is an officer or director of the employer. In addition, we are not aware of any relationship between the Deloitte U.S. Firms and the employer that may impair or appear to impair the objectivity of the work detailed in this report.

#### **DELOITTE CONSULTING LLP**



Jeffrey Rees, FSA, MAAA, FCA  
Enrolled Actuary No. 20-05941  
October 27, 2020



Michael de Leon, ASA, MAAA, FCA  
Enrolled Actuary No. 20-06450  
October 27, 2020

## Executive Summary

### Summary of Results

#### Police Officers and Firefighters', and Teachers' Plans

	Valuation Date	
	October 1, 2020	October 1, 2019
<b>Plan Member Counts</b>		
Actives	1,024	1,307
Terminated Vested	244	204
Annuitants	13,345	13,440
Total	<u>14,613</u>	<u>14,951</u>
<b>Contributions</b>		
Federal Required Contribution	\$ 558,700,000	\$ 520,300,000
<b>Present Value of Benefits (PVB)</b>		
<b>Active Plan Members</b>		
Retirement Decrement	\$ 358,866,503	\$ 467,942,026
Termination Decrement	-	-
Disability Decrement	1,168,243	1,666,607
Death Decrement	<u>494,825</u>	<u>678,418</u>
Total	\$ 360,529,571	\$ 470,287,051
<b>Inactive Plan Members</b>		
Normal Retirees <sup>1</sup>	\$ 6,195,482,251	\$ 6,224,919,047
Terminated Vested	37,732,770	34,993,537
Disabled Retirees <sup>1</sup>	690,435,989	717,875,525
Beneficiaries	<u>766,366,380</u>	<u>740,581,913</u>
Total	\$ 7,690,017,390	\$ 7,718,370,022
<b>Total PVB (inactive and active)</b>	<b>\$ 8,050,546,961</b>	<b>\$ 8,188,657,073</b>
<b>Unfunded Actuarial Accrued Liability (AAL)</b>		
Active AAL	\$ 360,529,571	\$ 470,287,051
Inactive AAL	<u>7,690,017,390</u>	<u>7,718,370,022</u>
Total AAL	\$ 8,050,546,961	\$ 8,188,657,073
Asset Value as of Valuation Date	\$ (3,870,858,529)	\$ (3,822,592,727)
<b>Unfunded AAL</b>	<b>\$ 4,179,688,432</b>	<b>\$ 4,366,064,346</b>

<sup>1</sup>Throughout this report, former spouses receiving benefits under a qualified domestic relations order are not included in counts. Their benefit amounts are included with their associated retired plan member.

## Executive Summary

### Summary of Results

#### Judges' Plan

	Valuation Date	
	October 1, 2020	October 1, 2019
<b>Plan Member Counts</b>		
Actives	61	59
Terminated Vested	-	-
Annuitants	<u>101</u>	<u>96</u>
<b>Total</b>	<b>162</b>	<b>155</b>
<b>Contributions</b>		
Government Contribution (excluding expenses)	\$ 18,300,000	\$ 15,500,000
<b>Present Value of Benefits (PVB)</b>		
<b>Active Plan Members</b>		
Retirement Decrement	\$ 136,533,697	\$ 122,282,090
Termination Decrement	-	-
Disability Decrement	-	-
Death Decrement	<u>733,431</u>	<u>561,503</u>
<b>Total</b>	<b>\$ 137,267,128</b>	<b>\$ 122,843,593</b>
<b>Inactive Plan Members</b>		
Normal Retirees <sup>2</sup>	\$ 173,986,119	\$ 162,493,045
Terminated Vested	-	-
Disabled Retirees <sup>2</sup>	2,052,526	2,119,211
Beneficiaries	<u>9,566,351</u>	<u>8,959,664</u>
<b>Total</b>	<b>\$ 185,604,996</b>	<b>\$ 173,571,920</b>
<b>Total PVB (inactive and active)</b>	<b>\$ 322,872,124</b>	<b>\$ 296,415,513</b>
<b>Unfunded Actuarial Accrued Liability (AAL)</b>		
Active AAL	\$ 82,271,955	\$ 81,844,013
Inactive AAL	<u>185,604,996</u>	<u>173,571,920</u>
<b>Total AAL</b>	<b>\$ 267,876,951</b>	<b>\$ 255,415,933</b>
Asset Value as of Valuation Date	\$ (182,824,303)	\$ (177,213,402)
<b>Unfunded AAL</b>	<b>\$ 85,052,648</b>	<b>\$ 78,202,531</b>
Total Normal Cost	\$ 6,400,000	\$ 5,300,000
Employee Contributions	<u>(600,000)</u>	<u>(500,000)</u>
<b>Net Employer Normal Cost</b>	<b>\$ 5,800,000</b>	<b>\$ 4,800,000</b>

<sup>2</sup>Throughout this report, former spouses receiving benefits under a qualified domestic relations order are not included in counts. Their benefit amounts are included with their associated retired plan member.

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