Audit Report

OIG-16-024

FINANCIAL MANAGEMENT

Audit of the Office of D.C. Pensions' Fiscal Year 2014 Balance Sheet

December 23, 2015

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 23, 2015

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

FROM: Adé Bankole
Acting Director, Financial and Procurement Audit

SUBJECT: Audit of the Office of D.C. Pensions' Fiscal Year 2014 Balance Sheet

We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the consolidated balance sheet of the Office of D.C. Pensions (ODCP) as of September 30, 2014; to provide a report on internal control over financial reporting; and to report any reportable noncompliance 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. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

In its reports, KPMG

- was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, KPMG did not express an opinion on the consolidated balance sheet. The basis for KPMG's disclaimer of opinion was it was unable to obtain sufficient evidential matter that supports the determination of the ODCP's actuarial pension liability and accrued pension benefits payable balances, which represent 99.96 percent of total liabilities as of September 30, 2014.

- reported a material weakness with ODCP's controls over the actuarial pension liability and accrued pension liability.

- found no instances of reportable noncompliance with laws, regulations, and contracts tested.

In connection with the contract, we reviewed KPMG's reports 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 balance sheet or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated December 9, 2015, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5329, or Catherine Yi, Manager, Financial and Procurement Audit, at (202) 927-5591.

Attachment

DEPARTMENT OF THE TREASURY
OFFICE OF D.C. PENSIONS

FISCAL YEAR 2014

FINANCIAL REPORT

DISTRICT OF COLUMBIA PENSIONS PROGRAM

MESSAGE FROM THE DIRECTOR

December 2015

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2014 Financial Report, which provides highlights of the significant accomplishments achieved by the program. The report is delayed because the FY 2014 actuarial valuation report had to be revised due to an error identified by our independent auditors. The revised FY 2014 actuarial valuation report was issued on August 20, 2015.

Pursuant to the Balanced Budget Act of 1997, as amended, 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 Teachers', and Police Officers' and Firefighters' Retirement Plans. As of September 30, 2014, 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 2014, the Office of D.C. Pensions processed $668.5 million in benefit payments to 14,178 annuitants, and refunds of employee contributions totaling $0.2 million were made to former active employees or their beneficiaries.

In FY 2014, the Office of D.C. Pensions initiated a project to review and recalculate retirement benefits due to errors made by the District of Columbia; specifically, the Lookback COLA and 80% Maximum Annuity calculations. The Office of D.C. Pensions entered into a Memorandum of Understanding (MOU) with the Bureau of the Fiscal Service to ensure that the Office of D.C. Pensions can issue monthly benefit payments in an emergency situation. The enrolled actuary for the Office of D.C. Pensions completed an experience study to validate the economic and demographic assumptions used in the calculations for the annual actuarial valuation. Also, in FY 2014, the Multi-Year Plan for FY 2014 through FY 2016 and the Risk Management Program were revised.

In FY 2015, the auditors disclaimed an opinion on the FY 2014 Consolidated Balance Sheet of the Office of D.C. Pensions (see Page 28 for additional information). The audit finding was limited to the balance sheet with no material findings on current year annuitant benefit calculations.

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

Nancy A. Ostrowski

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

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TABLE OF CONTENTS

PART 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) **PAGE**

I. Introduction 1
II. Executive Summary 3
III. Strategic Goals, Objectives, Outcomes, and Performance Measures 5
IV. Limitation of the Balance Sheet 29

PART 2 INDEPENDENT AUDITORS' REPORTS

Independent's Auditors' Report 33
Independent's Auditors' Report on Internal Control Over Financial Reporting 35
Independent's Auditors' Report on Compliance and Other Matters 42

PART 3 BALANCE SHEET AND NOTES

Consolidated Balance Sheet 45
Notes to Consolidated Balance Sheet 46

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PART 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2014 (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 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[1]), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (the 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,

[1] There have been three amendments to the Balanced Budget Act of 1997. These include Technical and Clarifying Amendments Relating to District of Columbia Retirement Funds, Title VIII of Pub. L. 105-277 (Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999), 112 Stat. 2681, (Oct. 21, 1998); Law Enforcement Pay Equity Act of 2000, Pub. L. 106-554, (Consolidated Appropriations Act of 2001) 114 Stat. 2763 (Dec. 21, 2000) and District of Columbia Police Department Retirees – Service Longevity Component, Pub. L. 107-290, 116 Stat. 2051 (Nov. 7, 2007); and the District of Columbia Retirement Protection Improvement Act of 2004 (Pub. L. 108-489, 118 Stat. 3966 (Dec. 23, 2004).

regardless of when service accrued. These benefits are referred to as Federal benefit payments. Benefit 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. Benefit payments which are both Federal and District 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, the Department of the Treasury's (Treasury) 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 and Treasury entities 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 administrating 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) and Chief Performance Officer (CPO). The ASM/CPO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office structure consists of three key functional areas: Benefits and Systems Administration, Finance and Resource Administration, and Program Management.

- Benefits and Systems Administration: The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. The Office also operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration. Approximately $668.5 million in Federal and District benefit payments were made to 14,178 annuitants for the year ended September 30, 2014.

- Finance and Resource Administration: The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. 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, 2014. The Office also 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 Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- Program Management: The Office plans and 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, 2014, 23 Treasury positions were funded by the D.C. Federal Pensions Fund and the Judicial Retirement Fund. In addition, the Office provides funds to other Treasury offices providing support critical to accomplishing the Office's mission.

Pursuant to Interagency Agreements (IAA) with the Treasury's Bureau of the Fiscal Services, the Administrative Resource Center (ARC) provides financial management, human resources management, annuitant payroll, and information technology support services. The financial management services include: financial management system platforms, budget processing, accounts receivable and accounts payable processing, financial reporting, and investment accounting. Annuitant payroll services include: STAR payroll processing, debt management, split benefit reconciliation and reporting, third party reporting, and mailings. Information technology support services include: production support and hosting for STAR, the automated pension/payroll system and security support services which include Federal Information Security Management Act (FISMA) compliance.

II. Executive Summary

During fiscal year (FY) 2014, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Fiscal Service (Fiscal Service), Administrative Resource Center (ARC) and other Treasury entities to execute responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

The Office continued to oversee DCRB's benefit administration activities and conducted training to ensure that benefit payments were accurate and timely. In FY 2014, the Office increased training activities in all areas, including the use of the System to Administer Retirement (STAR) and debt management. In FY 2014, the Office initiated a project to review and recalculate retirement benefits due to errors made by the District of Columbia; specifically the Lookback COLA and 80% Maximum Annuity calculations. Also, in FY 2014, the Office entered into a Memorandum of Understanding (MOU) with the Fiscal Service, Payment Management, to ensure that the Office can issue monthly benefit payments in an emergency situation. The Office upgraded the STAR toolset from PeopleTools 8.50 to PeopleTools 8.53 during FY 2014.

In FY 2014, the enrolled actuary for the Office completed an experience study to validate the economic and demographic assumptions used in the calculations for the annual actuarial valuation. The experience study is completed every five years and compares the actual experience (results) of certain economic and demographic data points against the existing assumptions about those same data points. The economic assumptions (investment rate of return, inflation, cost of living adjustments, and wage inflation) are determined 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*. Demographic assumptions (rates for member mortality, increases in pay, disability, termination, survivor benefits, return of employee contributions, etc.) are determined by historical data. Results of the experience study were carefully reviewed by the Office's actuaries and management prior to being adopted by the enrolled actuary for inclusion in the FY 2014 actuarial valuation calculations.

During FY 2014, the auditors discovered an error in FY 2014 actuarial liability gains/losses by approximately $180 million. This error resulted in changes to entries in the Statement of Net Cost in the FY 2014 financial statements which exceeded the Office materiality threshold for those entries. In response to these findings, the Office revised the FY 2014 actuarial valuation and improved its overall process for the actuarial valuation by developing and implementing standard operating procedures and additional reviews of the actuarial valuation.

Despite these improvements, the auditors disclaimed an opinion on the Office's FY 2014 Consolidated Balance Sheet, because the auditors could not obtain sufficient evidential matter that supports the determination of actuarial pension liability and accrued pension benefits payable. The Office has begun developing strategies to address audit findings and implementing an Action Plan to address and correct the material weakness that led to the Disclaimer opinion. The Office plans to contract with a new actuarial firm with strong quality control processes and will continue to strengthen internal control review process for the actuarial pension liability.

The Office's Program Management Group (PMG) supports long-term strategic planning with a focus on program oversight, quality management, and performance management. In FY 2014, the PMG completed a revision of the Office's Multi-Year Plan for FY 2014 through FY 2016, oversaw revisions to the Risk Management Program, reviewed several Memorandum of Understanding (MOU) and Interagency Agreement (IAA) documents, and updated the inventory of key programmatic activities. The following sections of the Management's Discussion and Analysis provide more details about the FY 2014 program results and plans for future years.

III. Strategic Goals, Objectives, Outcomes, and Performance Measures

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's (Treasury) Strategic Goals: *Create a 21st Century approach to government by improving efficiency, effectiveness, and customer interaction*.

1. Office Strategic Goal: Effectively Managed Finances

Office Outcomes:
- Benefit payments are accurate and timely
- Pension funds are effectively invested
- 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 pursues continuous improvement

The table on the following pages displays the Office's Strategic Goals, Objectives and Outcomes linked to the Department of the Treasury's Strategic Goal, "*Create a 21st Century approach to government by improving efficiency, effectiveness, and customer interaction.*" It also identifies the Office's Performance Measures and Results.

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

Fiscal Years 2014-2016					**Fiscal Year 2014**
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Management Objective**	**ODCP Strategic Goal**	**ODCP Management Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Create 21st Century approach to government by improving efficiency, effectiveness, and customer interaction	Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability	Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	FY 2014 monetary error rate for new benefit calculations and recalculations Target: 5% or less Actual: 7.7% (see footnote #1)
					STAR is available to users Target: 99% or more Actual: 99.9%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	FY 2014 Investment strategy executed timely Target: 100% Actual: 100%
					FY 2015 Investment strategy developed timely Target: September 26, 2014 Actual: September 23, 2014
				Pension funds are effectively financed	FY 2014 minimum daily cash balance as defined in the FY 2014 investment strategy Target: 100% Actual: 100%
					FY 2014 annual required contribution from General Fund received timely into the D.C. Federal Pension & Judicial Retirement Funds Target: September 30, 2014 Actual: September 23, 2014

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

Fiscal Years 2014-2016					**Fiscal Year 2014**
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Management Objective**	**ODCP Strategic Goal**	**ODCP Management Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Create 21st Century approach to government by improving efficiency, effectiveness, and customer interaction (continued)	Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability (continued)	Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively financed (continued)	Monthly benefit payments made to annuitants by the first business day of the month Target: 100% Actual: 99.9% (see footnote #2)
					Electronic benefit payments made to annuitants Target: 97% Actual: 98.5%
				Pension funds meet future needs	FY 2014 Actuarial calculation for annual contribution from General Fund prepared timely Target: November 18, 2013 Actual: October 31, 2013
		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: July 31, 2014 Actual: July 24, 2014
					FY 2014 Balance Sheet audit opinion received from an independent external auditor Target: Unmodified Opinion Actual: Disclaimer (see footnote #3)

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

Fiscal Years 2014-2016					**Fiscal Year 2014**
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Management Objective**	**ODCP Strategic Goal**	**ODCP Management Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Create 21st Century approach to government by improving efficiency, effectiveness, and customer interaction (continued)	Support effective, data-driven decision-making and encourage transparency through intelligent gathering, analysis, sharing, use, and dissemination of information	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	FY 2014 Financial Report prepared timely Target: December 15, 2014 Actual: December 11, 2015 (see footnote #4)
					FY 2014 open material weakness as of October 30, 2015 Target: 0 Actual: 1(see footnote #3)
					FY 2014 Actuarial Valuation Report completed timely Target: November 18, 2014 Actual: August 20, 2015 (see footnote #4)
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	FY 2015 Quality Assurance plans approved by September 30, 2014 Target: 100% Actual: 25% (see footnote #5)

Footnotes:
1) Monetary errors due to DCRB staff reorganization and turnover; **2)** In August 2014, paper checks were printed on time, however, Fiscal Service failed to mail checks timely, causing a delay to the annuitants; **3)** The performance measure, "Unmodified FY 2015 Financial Statement Audit Opinion received from an independent external auditor" was not met due to the auditors inability to obtain sufficient evidential matter that supports the determination of the actuarial pension liability and accrued pension benefits payable as of September 30, 2015; **4)** Financial Report and Actuarial Valuation Report delayed due to revisions to the actuarial liability; and **5)** Majority of the plans were under review and approved by 2nd quarter end.

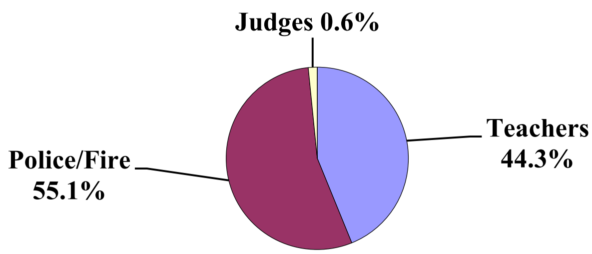
A. *Benefit payments are accurate and timely*

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 14,178 annuitants, as of September 30, 2014, 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 population within each plan is as follows: teachers, 6,276; police officers and firefighters, 7,812; and judges, 90.



In FY 2014, the monthly Federal and District benefit payments averaged $55.7 million. All 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 of D.C. Pensions (the Office), the District of Columbia's Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan, while the Office performed benefits administration for the Judges' Retirement Plan.

General operations focus largely on transaction processing and customer service activities. On a monthly basis, activities include processing new retirements and/or survivor benefits, identifying those annuitants no longer eligible for benefits, and updating annuitants' personal and benefits information as appropriate. In addition to focusing on the accuracy and timeliness of transaction processing, the Office and our business partners strive to deliver high quality customer service.

The Office encourages annuitants to receive benefits through direct deposit. Direct deposit is a more convenient, secure and timely method of delivering benefits. At fiscal year end, the Electronic Funds Transfer (EFT) participation rate for annuitants in all retirement plans was 98.5%.

The table below illustrates the EFT participation rate for annuitants:

District of Columbia Retirement Plans FY 2014 Electronic Funds Transfer (EFT) Participation Rate	
Police Officers/Firefighters	98.2%
Teachers	98.7%
Judges	100%

In FY 2014, a variety of outreach efforts provided accurate and timely information to annuitants, including:

- Letters notifying annuitants when their benefits changed;
- Earning statement messages alerting annuitants to changes such as a cost-of-living adjustment or opportunities to improve services (e.g., signing up for direct deposit, changing tax withholdings or updating mailing addresses);
- DCRB newsletters (which provides retirement plan information for active and retired police officers, firefighters, and teachers); and
- Special correspondence (which provides annuitants with additional information about the retirement plans such as Health Benefits Open Season).

<u>Annuitant Satisfaction</u>

In FY 2014, DCRB continued to reach out to annuitants for feedback regarding customer satisfaction. The annuitant survey asked participants to rate the knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. The overall responses from the annuitants indicated that they are very satisfied with the service provided by DCRB.

<u>Annuitant Payroll Operations</u>

In FY 2014, Treasury's Bureau of the Fiscal Service (Fiscal Service), ARC completed a major reorganization. The teams supporting the Office are now co-located within larger teams performing similar functions for ARC's many federal customers to capture the efficiencies and economies of scale in a Shared Service Provider (SSP) model. Although the names of the team supporting the Office may have changed, from a customer perspective, this organizational change will have no impact on the Office's business partners. For example, the ARC's Pension Payroll team (ARC Pension Payroll) now falls within the Pensions, Grants and Loans (PGL) team. ARC Pension Payroll provides annuitant payroll processing and a variety of payroll related services to the Office including, verification of appropriate payees by leveraging Treasury's

Do Not Pay Program, mail management, split benefits reconciliation and reporting, quality reporting, as well as payroll projects.

ARC Pension Payroll utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that support benefits administration and payroll operations, to process monthly benefit payments. ARC Pension Payroll works closely with DCRB to process monthly benefit payments. ARC Pension Payroll is responsible for reconciling the payroll reports generated from STAR to ensure the annuitant payroll is processed correctly.

In FY 2014, ARC Pension Payroll staff made 169,178 benefit payments totaling approximately $668.5 million for a monthly average of $55.7 million. In addition, the Office issued approximately $2.7 million in off-cycle payments. The off-cycle payments include items such as payments that were not processed in time for the regular on-cycle schedule, nonrecurring payments made to annuitants or beneficiaries, and refunds of retirement contributions or health/life insurance. The off-cycle payments included retroactive benefit payments of approximately $1.4 million paid in September 2014.

In FY 2014, ARC Pension Payroll reported the Federal and District's share of benefit payments. This information is calculated by STAR and is included in the Split Reimbursement Summary Report (SRSR). This report supports the 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 2014, the Office entered into a Memorandum of Understanding with Treasury's Fiscal Service, Payment Management to ensure that the Office can generate monthly benefit payments in the unlikely situation where functions normally completed by STAR, or ARC Pension Payroll are temporarily unavailable.

Benefit Administration Projects

During FY 2014, 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 applicable specialty experience in benefits administration to assist with multiple benefits projects. This allows the Office to have maximum flexibility to execute various projects simultaneously. Some of the key areas for focus include the 80% Maximum Annuity Calculations and Lookback Cost of Living Adjustments (COLA) projects. In addition, the benefits administration contractor worked with the Office to review and recalculate denied payments. This contract will continue into FY 2015 to support the Office with benefits administration projects.

Summary Plan Description (SPD)

In FY 2014, the Office updated and published the District of Columbia Judges' Retirement Plan SPD and distributed it to plan participants. The Office collaborated with the District stakeholders to update the SPD. The SPD was designed to provide Plan members accurate and easy to understand information about the retirement plan.

Post-1956 Military Service

The District of Columbia Retirement Equity Act signed into law on November 22, 2003, permits D.C. Police Officer's and Firefighters' Retirement Plan members to purchase eligible Post-1956 Military Service for purposes of calculating their retirement benefit. In FY 2014, DCRB continued to review and address the documentation provided by annuitants, and to determine if adjustments to the benefits payments are warranted.

Lookback COLA

A cost-of-living adjustment (COLA) was erroneously included in the retirement benefit due to a misapplication of the "lookback" COLA provision, causing some annuitants to receive an additional COLA. This error occurred during the period 1980 to 1997, where both Federal and split annuitants may be impacted. In FY 2014, the Office's benefits administration contractor began work to recalculate the benefits of affected annuitants. Work continued into FY 2015 and benefits were changed effective March 1, 2015. Efforts also focused on reconsideration, appeals and waivers. The Office will continue with these efforts in FY 2015.

80% Maximum Annuity Calculations

In FY 2010, DCRB (with assistance from the District's attorneys) determined that since 1980, the D.C. Code incorrectly described the maximum benefit payable under the D.C. Police Officers and Firefighters' Retirement Plan. In FY 2014, the Office began recalculating the Federal benefits of affected annuitants. Work continued into FY 2015 and benefits were changed effective March 1, 2015. Efforts also focused on reconsideration, appeals and waivers. The Office will continue with these efforts in FY 2015.

Judges' Annuity Adjustment

With assistance from the Treasury's Office of General Counsel (OGC), the Office carefully followed legal proceedings for a case involving four annuitants in the Judges' Retirement Plan. Following the legal decision, the Office determined that 20 participants were eligible for a retroactive payment and an increased monthly benefit. After extensive analysis, in addition to communication and coordination with external business partners, retroactive payments of approximately $1.4 million were issued for 20 judges' benefits during September 2014, with these judges' prospective monthly benefit payments adjusted for the October 1, 2014 pay date. In addition, two judges who were no longer Plan participants received lump sum refunds of retirement contributions that had been deducted from their active back pay settlement amounts. This effort will continue into FY 2015.

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.

STAR Long-Term Architectural Plan

The Office maintains a STAR Long-Term Architecture Plan (LTAP) designed to ensure the system architecture continues to meet business goals and objectives. The STAR LTAP also provides information for planning and budgeting for system enhancements. The STAR LTAP was updated in FY 2014 to reflect the changes in Oracle's planned release dates. This five year management plan outlines the future upgrades to the STAR application software, database, and hardware in order to maintain the vendor license agreements. PeopleTools 8.53 was deployed in STAR on August 25, 2014, and some of the newly available features and functionality not deployed will be evaluated by the users for future consideration.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Treasury's 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 2014, STAR was available 99.9% of the time.

STAR System Security

The STAR system is in compliance with all relevant security requirements and last renewed its triennial security Certification and Accreditation (C&A) in May 2013. The C&A is a process that ensures that systems and major applications are documented, authorized, and adheres to formal and established security requirements.

During FY 2014, the Office successfully mitigated all the vulnerabilities identified during the previous re-certification and accreditation. The FY 2014 System Test and Evaluation (ST&E) identified nine new vulnerabilities (four very low, three low, and two medium). A Plan of Actions and Milestones (POA&M) was developed to mitigate the identified FY 2014 vulnerabilities.

During the FY 2014 system test and evaluation, the Treasury Departmental Offices (DO) replaced their FISMA reporting tool, Trusted Agent FISMA (TAF), with a new tool named Treasury FISMA Inventory Management System (TFIMS). The Office collaborated with DO to ensure STAR artifacts were converted to the new system correctly. At the conclusion of the FY 2014 ST&E, the Office utilized TFIMS to report results of the assessment to DO.

As required by NIST 800-53, the Office conducted the annual test of its STAR Contingency Plan. This plan outlines how the Office responds to potential disruptions in service. In FY 2014, the Office conducted an accessibility and integrity test of the system and its data. The test consisted of testing accessibility to the contingency site from the Office's Washington, DC location and testing the accuracy of queries run in both STAR production and STAR contingency sites. Testing queries in both the STAR production environment and STAR contingency sites validated the contingency site is backed-up nightly with a copy of STAR's production environment.

As required by NIST 800-53, the Office also conducted the annual test of the STAR Incident Response Plan. This plan outlines the procedures for handling any major catastrophe. This year, the Office conducted a mock emergency which involved an internal malicious attacker. Lessons learned from testing both the STAR Contingency Plan and testing the Incident Response Plan were used to update various STAR security documentation.

Change Control Board

The Office's Change Control Board (CCB) acts as the approving authority for all STAR requirement changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change; makes a determination as to whether or not the proposed change should be implemented; and establishes the priority for each approved change. The CCB process enhances internal controls and accountability for new proposed changes. During FY 2014, the Office continued with the revised CCB process.

B. Pension Funds are effectively invested, financed and meet future needs

1. Program Results

a. Pension Funds

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, the Office of D.C. Pensions (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;
    - Interest earned on investments; and
    - Payments from the District of Columbia Retirement Board (DCRB).

Total Assets as of September 30, 2014 are $4.0 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 as of September 30, 2014 are $147.0 million.

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 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 funds 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 FY 2014 annual payments from the Treasury General Fund are summarized in the table below:

Office of D.C. Pensions' Funds FY 2014 Annual Payments from the Treasury General Fund (in Millions)	
District of Columbia Federal Pension Fund	$467.3
District of Columbia Judicial Retirement and Survivors Annuity Fund	$10.5
Total	**$477.8**

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. There are two methods of calculating interest: the Interest Earned (recognized) reflects the amortization of premiums and discounts from GAS securities in the portfolio, while the Rate of Return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities.

Office of D.C. Pensions' Funds FY 2014 Annual Interest (in Millions)	**Interest Payments (deposits)**	**Interest Earned (recognized)**	**Rate of Return**
District of Columbia Federal Pension Fund	$129.9	$61.8	1.9%
District of Columbia Judicial Retirement and Survivors Annuity Fund	$4.3	$3.8	2.9%
Total	**$134.2**	**$65.6**	

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% 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% of salary.

The table below summarizes the contributions of active judges' contributions for FY 2014:

Office of D.C. Pensions' Fund FY 2014 Employee Contributions from Active Judges (in Thousands)	
District of Columbia Judicial Retirement and Survivors Annuity Fund	$1,107

Summary of Fund Deposits

The following table reflects the cash deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund for FY 2014:

Office of D.C. Pensions' Fund FY 2014 Deposits (in Millions)		
Fund	**Type of Deposit**	
District of Columbia Federal Pension Fund	Warrant	$467.3
	Interest	$129.9
	Contributions	$0.0
District of Columbia Judicial Retirement and Survivors Annuity Fund	Warrant	$10.5
	Interest	$4.3
	Contributions	$1.1
	Warrant	**$477.8**
	Interest	**$134.2**
Total	**Contributions**	**$1.1**

c. Collections

District Benefit Payments

Treasury initially pays and funds all benefit payments under the Police Officers' and Firefighters' and Teachers' Retirement Plans from the D.C. Federal Pension Fund. The District of Columbia Retirement Board (DCRB) reimburses the D.C. Federal Pension Fund for benefit payments made by Treasury on behalf of the District. The System to Administer Retirement (STAR) Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month.

The table below summarizes this reimbursement activity for the fiscal year:

Office of D.C. Pensions' Fund FY 2014 Benefit Payments from District of Columbia Retirement Board (in Millions)	
District of Columbia Federal Pension Fund	$112.6

Refunds Reconciliation Project

One hundred and thirty-eight refund cases from FY 1999 and FY 1998 have not been reconciled because data is not available to determine federal and District liability. In FY 2014, the Office analyzed the outstanding balances and developed a methodology to reconcile and process the remaining cases. Receivables for $386,000 and $200,000 have been established for the remaining FY 1999 and FY 1998 refund cases, respectively.

Reimbursement from the District for Overpayments

The Office conducted a review of overpayments of Federal benefit payments made by the District using data from the Treasury's Bureau of the Fiscal Service (Fiscal Service), ARC, Pension Payroll (ARC Pension Payroll). This review included overpayment of Federal benefit payments made by the District between June 30, 1997, and December 31, 2012. The Office requested reimbursement and received payment from the District totaling $413,182. The Office will continue to review and identify overpayments made by the District for which reimbursement will be requested.

Debt Management

During FY 2014, the Office pursued debt prevention and collection efforts working with ARC Pension Payroll, which manages the debt collection process for the Office. The Office worked with ARC Pension Payroll and the Office of General Counsel to pursue debt prevention efforts and ensured approximately $875,800 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. In addition, during the fiscal year, $184,641 was collected through offsets, lump sum payments or installment payments. Also in FY 2014, the Office worked closely with DCRB and ARC Pension Payroll to reduce the number of open debt cases.

The Digital Accountability and Transparency Act (DATA Act) requires agencies to transfer to Treasury non-tax debt over 120 days delinquent. The FY 2014 agreement with the Fiscal Service, Debt Management Services' (DMS) Cross-Servicing Program 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 2014, ARC Pension Payroll referred two debt cases totaling $4,520 to Fiscal Service/DMS for collection.

STAR Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administration costs incurred by the Office when administering District and Federal benefit payments. The methodology takes into consideration the number of 100% Federal annuitants, 100% District annuitants, and split annuitants. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2014 actual expenses.

The table below summarizes the STAR administrative expense reimbursements.

Office of D.C. Pensions' Fund FY 2014 Reimbursements for STAR Administrative Expenses (in Millions)	
District of Columbia Federal Pension Fund	$1.2

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 pension funds 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 pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2014, the cash balances in the D.C. Federal Pension Fund and Judicial Retirement Fund, available for contingencies, were targeted to remain above $94 million, 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 $500,000 at month-end to cover unanticipated withdrawals on the last day of the month. In FY 2014, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to February 2020 and for securities in the Judicial Retirement Fund to February 2024.

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, 2014:

Office of D.C. Pensions' Funds FY 2014 Net Investments (in Millions)	
District of Columbia Federal Pension Fund	$3,929.3
District of Columbia Judicial Retirement and Survivors Annuity Fund	$146.4
Total	**$4,075.7**

e. Payments

Annuity Federal Benefit Payments

Federal benefit payments paid and accrued by the Office are summarized in the table below:

Office of D.C. Pensions' Funds FY 2014 Federal Benefit Payments (in Millions)	
District of Columbia Federal Pension Fund	$545.4
District of Columbia Judicial Retirement and Survivors Annuity Fund	$11.9
Total	**$557.3**

Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests the Office reimburse DCRB for the Federal portion of those refund payments. The table below summarizes the refunds of employee contributions:

Office of D.C. Pensions' Funds FY 2014 Refunds of Federal Portion of Employee Contributions	
District of Columbia Federal Pension Fund	$202,384

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 District and Federal benefit payments and entered into a cost sharing agreement for reimbursement of FY 2014 actual expenses. The methodology takes into consideration: (1) the number of active employees, 100% Federal annuitants, 100% 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 the amount that the Office reimbursed DCRB for FY 2014 administrative expenses incurred while administering Federal benefit payments:

Office of D.C. Pensions' Fund FY 2014 Reimbursements to DCRB for Benefit Administration Expenses (in Millions)	
District of Columbia Federal Pension Fund	$1.7

Administrative Expenses

The Office funds administrative expenses to support federal responsibilities for the retirement programs under the Act 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% to the D.C. Federal Pension Fund and 1% 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. Certain costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing STAR development costs monthly in the D.C. Federal Pension Fund and the Judicial Retirement Fund on a five-year schedule.

The following table reflects administrative expenses by fund for the fiscal year:

Office of D.C. Pensions' Funds FY 2014 Administrative Expenses (in Millions)	
District of Columbia Federal Pension Fund	$12.2
District of Columbia Judicial Retirement and Survivors Annuity Fund	$1.0
Total	**$13.2**

In FY 2014, the Office was again subject to the Sequestration Transparency Act of 2012 (Public Law 112-155-August 7, 2012) required the President to submit to Congress a detailed report on the sequestration required to be ordered by certain sections of the Balanced Budget and Emergency Deficit Control Act (2 U.S.C 901a) for FY 2013. The Office of Management and Budget issued this report and 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 2014 in the area of administrative expenses by delaying approved hiring actions (leaving vacancies unfilled), and delaying the award of several contract actions (postponing planned projects). The table below summarizes these reductions for the two most recent fiscal years:

Office of D.C. Pensions' Funds FY 2014 Sequestration Impact (in Millions)		
Fund	**Payment Type**	**Impact**
District of Columbia Federal Pension Fund	Annuitant Benefit Payments	$0.0
	Administrative Expenses	$1.1
District of Columbia Judicial Retirement and Survivors Annuity Fund	Annuitant Benefit Payments	$0.0
	Administrative Expenses	$0.1
Total Reduction in Budget Authority due to Sequestration		**$1.2**

Unless language within the Sequestration Transparency Act of 2012 is changed by Congress, the Office will continue to be subject to sequestration reductions until 2021 and will comply with implementation guidance issued by the Office of Management and Budget (OMB) and the Department of the Treasury.

Improper Payments Elimination and Recovery Act

In FY 2014, the Office continued to review existing procedures to evaluate whether the Office is effective in preventing and recapturing erroneous payments as required by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). The Office worked extensively with teams from the Fiscal Service 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 and will continue to work with Treasury's Office of the Deputy Chief Financial Officer (DCFO) to comply with IPERIA reporting requirements.

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 invoices received within the timeframes required by the Prompt Payment Act.

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and Fiscal Service encourage federal agencies to use electronic payments. In FY 2014, the Office paid 100% of 81 payments, which include invoices and travel reimbursement by electronic funds transfer. All 81 payments were processed electronically, of which 22% were paid by purchase card.

f. Financial Operations

Accounting Support

Pursuant to an Interagency Agreement (IAA) with Fiscal Service/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 PRISM and Concur Government Edition (CGE). ARC Fiscal Accounting also provides a report writer package called Discoverer, which allows the Office to generate various accounting reports to monitor obligations and expenditures.

Accounting entries that are recorded in the Oracle accounting system are supported by Treasury's Fiscal Service, 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.

g. Actuarial Valuation

In FY 2014, the Office's actuarial contractor performed the annual actuarial valuation for the Office as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office. The actuarial liability, as of October 1, 2014, was determined using the demographic rates from the FY 2014 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 FY 2014 actuarial valuation was revised in FY 2015 and the revised actuarial liability is reported below:

Office of D.C. Pensions' Funds FY 2014 Actuarial Pension Liability (in Millions)	
District of Columbia Federal Pension Fund	$8,992.0
District of Columbia Judicial Retirement and Survivors Annuity Fund	$217.5

h. Reconciliation of District Benefit Payments Project

Pursuant to the Interim Benefits Administration MOU between the Office and the District, once split functionality was established in STAR, the Office was required to conduct a reconciliation of the amounts related to past federal and District benefit payments, investments and administrative expenses. The primary goal of the Reconciliation Project was to calculate District benefit payments for plan members who received retirement benefits during the period from October 1, 1997, and December 31, 2007, based on the final Treasury Split Benefit Regulations and to reconcile these payments with amounts actually paid by the District to Treasury during this period. In FY 2013, the reconciliation concluded with a determination that $30.9 million was due from the District to Treasury for the reconciliation of District benefit payments. Payment of $30.9 million by the District was received by Treasury on March 31, 2014.

C. Program is effectively managed and pursues continuous improvement

1. Program Results

a. Long-Term Strategic Planning

In April 2014, the Office of D.C. Pensions (the Office) completed a revision of its Multi-Year Plan for Fiscal Years 2014 through 2016. This document summarizes the mission, vision, strategic direction and focus areas for the program. The five focus areas are:

- Manage with a Program-wide Perspective
- Achieve Effective Oversight and Advisory Role
- Optimize System Operations and Maintenance
- Optimize Benefits Administration
- Pursue Continuous Improvement in Critical Financial Operations

These focus areas assist the Program Management Group (PMG) during short-term and long-term planning sessions in prioritizing and sequencing projects given recurring operations and providing meaningful, data-driven performance metrics to the Office during monthly quality review meetings.

b. Program Management

In FY 2014, the PMG focused on quality management, risk management, performance reporting activities, and future activities. Two noteworthy achievements include publishing an updated Multi-Year Plan and a program-wide Risk Management Plan. The Risk Management Plan consolidated, validated and reviewed previously identified risks, prioritized these risks, assigned risk owners, and documented the Office's strategy for mitigating risks on an ongoing basis.

c. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with the District of Columbia Retirement Board (DCRB) for benefit administration and with the Bureau of the Fiscal Service (Fiscal Service), ARC for the System to Administer Retirement (STAR) production support and hosting, annuitant payroll operations, human resources management, and financial management services. In FY 2014, the SLAs were reviewed and modified 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 addition, the Office has established quality plans and conducts periodic reviews to ensure responsibilities are executed.

d. Quality Program

Benefits Administration

As part of the Office's Quality Program, quality plans were established to review benefit administration activities such as new annuitant calculations, which include new retirees, survivors, beneficiaries, and Qualified Domestic Relation Orders (QDROs). The benefits administration quality plans are periodically reviewed and revised to ensure benefits processing errors are identified. In FY 2014, the Office's staff and benefits administration contractors conducted quality reviews for annuitant payments. Additionally, the contractor reviewed the Office's current quality plans for benefits administration and offered suggestions for potential improvements in this area.

In FY 2014, the Office continued to review data maintenance activities, such as changes to annuitants' personal data, bank information, health benefits, and life insurance. As part of the Quality Program, the Office provided appropriate feedback to the DCRB to assess training needs for the staff.

Payroll Administration

The Office's Quality Program includes reviews of payroll processing functions. The Office reviews preliminary and final payroll statistics, large annuitant payments, and third-party reporting. In addition to the aforementioned reports, each month the Office monitors death audit verification, Do Not Pay (DNP) notifications, split discrepancies, pending issues escalated for resolution, checks which have not been cashed for an extended period of time, and payment reclamations. In FY 2015, the Office will enhance the monthly preliminary statistics data by creating more robust automated queries of the underlying payment files for review prior to approval. This will improve the Office's ability to monitor erroneous payments and avoid situations that result in debt collections.

System Administration

During FY 2014, 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.

e. Office of D.C. Pensions Program Performance Reporting

In FY 2014, the Office tracked, collected, and reported performance data in an effort 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 quality review meeting. The performance data is utilized to make improvements in program management areas, such as operational planning and resource needs assessments.

f. STAR End-User Forum

The STAR end-user forum has been successful as a platform for the Office and DCRB to present and discuss benefit administration program enhancement ideas aimed at improving benefits processing and customer service. The forum is also used as a training vehicle where users can be informed of new benefit administration processes and processes already established can be reinforced. Additionally, STAR system changes are communicated to end-users at the forums. The Office continues to receive positive feedback on the STAR end-user forum and will continue to hold periodic meetings in FY 2015 to identify areas for improvement.

g. Risk Management Program

In FY 2014, the Office completed a major revision of the Risk Management Program. The revisions included updating the Risk Management Plan, redefining risks in addition to revising the risk management objectives, and developing new roles and responsibilities for the Office. The PMG and the Risk Manager discussed risks and made recommendations to the Office. Also, risks were discussed at quarterly Office meetings.

h. Internal Control over Financial Reporting

The Office used the FY 2014 Guidance and Implementation Plan provided by Treasury's Office of the Deputy Chief Financial Officer (DCFO) to conduct a review of internal controls over financial reporting as required by OMB Circular A-123, Management's Responsibility for Internal Controls, Appendix A, Internal Control Over Financial Reporting. ARC Fiscal Accounting staff members and the Office conducted internal control tests or relied on the Fiscal Service/ARC Statement on Standards for Attestation Engagements No. 16 (SSAE 16) review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting as of June 30, 2014, which included reviewing core financial processes and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines for which the Office contributes 10% or greater and internal financial reports produced for the Office.

i. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, disclaimed an opinion on the Office's FY 2014 Consolidated Balance Sheet on the basis that the auditors could not obtain sufficient evidential matter that supports the determination of actuarial pension liability and accrued pension benefits payable.

IV. Limitation of the Balance Sheet

The FY 2014 Consolidated Balance Sheet has 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).

While the Balance Sheet has been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities, the Balance Sheet is in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The Balance Sheet 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' REPORTS

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

Independent Auditors' Report

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

Report on the Balance Sheet

We were engaged to audit the accompanying consolidated balance sheet of the Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2014, and the related notes to the consolidated balance sheet.

Management's Responsibility for the Balance Sheet

Management is responsible for the preparation and fair presentation of this consolidated balance sheet 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 the consolidated balance sheet that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated balance sheet based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The ODCP's actuarial pension liability and accrued pension benefits payable represent 99.96 percent of total liabilities as of September 30, 2014. We were unable to obtain sufficient evidential matter that supports the determination of such balances. As a result, we were unable to determine whether any adjustments were necessary to the ODCP's consolidated balance sheet referred to above.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this consolidated balance sheet.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis included in Part 1 be presented to supplement the basic consolidated balance sheet. Such information, although not a part of the basic consolidated balance sheet, 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 balance sheet in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015 on our consideration of the ODCP's internal control over financial reporting and our report dated December 9, 2015 on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering ODCP's internal control over financial reporting and compliance.

KPMG LLP

Washington, DC
December 9, 2015

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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the consolidated balance sheet of the Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2014, and the related notes to the consolidated balance sheet, and have issued our report thereon dated December 9, 2015. Our report disclaims an opinion on the consolidated balance sheet because ODCP was unable to provide sufficient evidential matter that supports the determination of the actuarial pension liability and accrued pension benefits payable, as reported in the accompanying consolidated balance sheet.

Internal Control Over Financial Reporting

In connection with our engagement to audit the consolidated balance sheet of ODCP, we considered ODCP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated balance sheet, but not for the purpose of expressing an opinion on the effectiveness of ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of ODCP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in Exhibit I, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in Exhibit I to be a material weakness.

ODCP's Response to Findings

The ODCP's response to the material weakness identified in our audit is described in a separate letter immediately following this report. The ODCP's response was not subjected to the auditing procedures applied in the engagement to audit the consolidated balance sheet and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the ODCP's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the ODCP's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 9, 2015

Department of the Treasury
Office of D.C. Pensions (ODCP)
Independent Auditors' Report on Internal Control over Financial Reporting
Schedule of Finding
Material Weakness

ODCP's Controls over the Actuarial Pension Liability and Accrued Pension Liability Should be Improved

ODCP is required by statute to engage the services of a third party actuary to develop the actuarial pension liability (actuarial liability) as of each fiscal year end. ODCP reviews the actuarial valuation report prepared by the third party actuary to determine whether the underlying data, assumptions, and methodology used are reasonable and appropriate.

During our Fiscal Year (FY) 2014 engagement to audit ODCP's consolidated balance sheet, we noted that ODCP did not have sufficient policies and procedures in place to review the actuarial liability estimate prepared by the third party actuary and related journal entries at an appropriate level of precision that would detect and prevent material misstatements. We identified several deficiencies in the design and implementation and the operating effectiveness of internal control over ODCP's review of the third party actuary's valuation. Specifically, we noted the following:

- Management did not investigate a $220 million loss from experience that was reported by the third party actuary in the original FY 2014 valuation report to determine whether such loss is reasonable and whether the underlying assumptions used to calculate the actuarial liability should be revised to better reflect ODCP's future benefit obligation. Based on inquiries, ODCP worked with the third party actuary and analyzed the amount and determined that there were errors in the amount of approximately $180 million resulting from the incorrect application of cost of living adjustments and longevity pay to a certain group of participants and such amount should not have been reported as FY 2014 activity. As a result, the FY 2014 valuation report was revised to correct these errors.

- Although management implemented additional review procedures over the FY 2014 actuarial liability estimate after the identification of the above errors, the review procedures were primarily focused on determining the reasonableness of the actuarial liability estimate and recalculation of the discounted liability but were not sufficiently detailed to mitigate the risk of material misstatements. Management performed an independent testing of the FY 2015 actuarial liability estimate for a non-statistical sample of 13 participants out of approximately 16,670 participants. ODCP's rationale for such sample size was that the 13 samples represented each group of participants that is representative of the population (e.g. Police officers, firefighters, teachers, disabled, male, etc.) which have similar characteristics and the actuarial model would have applied the assumptions consistently for each group.

  Management relied on the review performed over the FY 2015 valuation report to conclude on the reasonableness of the actuarial liability estimate as of September 30, 2014 and did not perform the same review over the FY 2014 valuation report. Management's testing of the FY 2015 valuation report identified errors in 2 out of the 13 samples tested that were subsequently corrected. Management determined that one of the errors related to the application of an incorrect assumption and resulted in the overstatement of the actuarial liability, as of September 30, 2014, by $17 million and the second error related to an error in the formula used to project the liability for a certain participants' group and resulted in the understatement of the actuarial liability, as of September 30, 2014, by $18 million. Based on our audit procedures, we noted the following:

  - There were approximately 23 different groups of participants in the population and ODCP's sampling approach only covered 13 of the 23 groups.

- ODCP did not perform testing over the third party actuary's model to support their assumption that the actuarial model applied the assumptions consistently for each group. Accordingly, there is no evidence to support that the sample of 13 participants is a representative sample of the participants' population.
- ODCP's review was focused on the FY 2015 valuation report and we were unable to obtain evidence to support the correlation between this review and the FY 2014 valuation report.

- In performing audit procedures over the participants' data used to calculate the actuarial liability estimate, we noted that there is not an adequate review performed of the participants' data to determine that it is complete and accurate. Specifically, we noted the following:
  - ODCP incorrectly excluded 6 participants from the participants' data used in the calculation of the actuarial liability estimate based on an inappropriate assumption that these participants are not entitled to receive future benefits. ODCP subsequently corrected this error in the revised FY 2014 valuation report but did not review the remainder of the population of 63 participants to determine whether the remaining population should have been included until FY 2015. Based on ODCP's review of the remaining population, it was determined that the actuarial liability as of September 30, 2014 was understated by approximately $5.3 million for 30 participants.
  - ODCP did not exclude the data for one judge participant although the participant was not entitled to receive any future benefits. ODCP subsequently corrected this error in the revised FY 2014 valuation report. In addition, ODCP had errors in the underlying data for 2 judge participants that were not corrected until FY 2015.
  - The data for 12 participants were inadvertently excluded from the participants' data used to calculate the actuarial liability estimate while formatting the underlying data. This error resulted in a $4 million understatement of the actuarial liability. ODCP subsequently corrected this error in the revised FY 2014 consolidated balance sheet.
- ODCP was unable to provide documentation to support that a liability in the amount of $10 million due to a third party is properly recorded in the general ledger as of September 30, 2014, in accordance with U.S. generally accepted accounting standards. Accordingly, ODCP's accrued pension liability reported in the consolidated balance sheet as of September 30, 2014 could be understated by approximately $10 million.

The lack of sufficiently detailed review of the actuarial valuation, including the underlying data, and journal entries resulted in the errors noted above and increases the risk that ODCP's consolidated balance sheet could be materially misstated.

Office of Management and Budget Circular No. A-123, *Management Accountability and Control*, Section II: Establishing Management Controls, states: "Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/ AJMD-00-21.3.1) states: "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes."

Recommendations:

We recommend that ODCP management:

1. Design and implement procedures to review and assess the appropriateness of participants' data used in the calculation of the actuarial liability estimate, including changes made. Such review and assessment should be documented and maintained.
2. Perform a detailed review of the valuation report, including the participants' data and assumptions used to develop the estimate, and implement other necessary measures and reviews to ensure that the actuarial liability estimate reported in ODCP's consolidated financial statements is fairly stated in accordance with U.S. generally accepted accounting standards. Such review should be documented and maintained.
3. Strengthen controls over the review of journal entries to ensure that transactions are recorded in accordance with U.S. generally accepted accounting standards. Such review should be documented and maintained.

Management's Response:
Management's response to the finding is in a separate letter immediately following this report.

Auditors' Response:
Controls implemented by ODCP management are not sufficient to mitigate the higher risk of material misstatement evidenced by the history of errors identified in ODCP's financial statements, including a material error identified during the FY 2014 engagement to audit ODCP's consolidated balance sheet and a restatement of ODCP's previously issued financial statements.

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 9, 2015

KPMG LLP
1801 K Street
NW Washington, DC 20006

Ladies and Gentlemen:

This is the Office of D.C. Pensions' (ODCP) response to the audit findings cited in KPMG's FY 2014 internal control report over financial reporting. You have reported four conditions leading to a finding. Management concurs with the finding regarding the first condition (experience loss error) and the third condition (ODCP data review). Management does not concur with the finding regarding the second condition (ODCP review of test lives). Management cannot concur at this time with the fourth condition (ODCP recording of monthly District payment for District benefit payments). Management notes the actuarial liability is an estimate based on assumptions. Because experience will always differ from assumptions, the estimate can never be precise. However, Management will continue to improve the accuracy of the census data, ensure that proper actuarial assumptions are used, and check the liability calculations for reasonableness.

Condition #1 – Experience loss error

Although this was the contracting actuary's error, Management acknowledges not performing a check for reasonableness on all of the gain/loss numbers reported by the actuary. After this error was confirmed, Management added review of pay and cost-of-living gain/loss components to its standard actuarial review procedures. The additional review was performed for the FY 2015 and revised FY 2014 valuations.

Condition #2 – ODCP review of test lives

Management asserts that the additional review procedures implemented by Management to review the revised FY 2014 valuation were sufficiently detailed to mitigate the risk of material misstatements. These additional procedures were included in Standard Operating Procedures presented to the auditors and included more robust data review, additional gain/loss checks and the review of actuarial model test lives.

Management disagrees that choosing to review 13 of 23 test lives should result in a condition. Management chose test lives to cover every type of benefit for police officers, firefighters, and teachers. One gender was selected for each benefit type. Management was able to check the male/female-specific decrements across the 13 test lives and found no evidence of decrement errors due to gender.

Management disagrees with the assertion that there is no evidence to support that the 13 test lives are a representative sample of the participants' population. The 13 test lives cover every type of benefit for police officers, firefighters and teachers. It is standard practice to assume that a test life is representative of all participants of that type in the population. The likelihood of this not being the case is so remote, the burden should be on the auditors to provide evidence to the contrary.

Condition #3 – ODCP data review

Management acknowledges not performing certain data matching procedures in FY 2014 that would have uncovered some of the data errors described in this condition. Management added procedures to the FY 2015 review process that uncovered other errors described in this condition but acknowledges that these errors were not corrected in the revised 2014 valuation. In the future, Management will consider the effect of error corrections on previous liability calculations.

Condition #4 – ODCP recording of monthly District payment for District benefit payments

Management disagrees with the assertion that ODCP was unable to provide documentation. Management provided detail explanation of the current process for recording of the District benefit payments which included the transactions related to the receivable and receipt of the funds. In addition, the Bureau of the Fiscal Service, Administrative Resource Center provided the documents that supported the posting of this transaction. Furthermore, Management held meetings with KPMG describing the process and documentation. The question is not on the documentation but in the proper presentation of this transaction on the financial statements. Management contends that the issue regarding the presentation of this payment is unresolved and requires further review and discussion. Therefore, Management cannot concur at this time that the recording is incorrect.

Recommendation #1 – Improve data review

Management improved its data review in FY 2015 and will make further improvements in FY 2016.

Recommendation #2 – Improve actuarial report review

Management improved its review procedures in FY 2015. Management asserts that its current review procedures are acceptable and actually exceed the level typically expected for reliance on outside experts. Management will focus its efforts in FY 2016 on engaging a third party actuary with well-regarded experience in public pension valuations and strong quality review credentials.

Recommendation #3 – Strengthen control over review of journal entries

Management will continue to review the particular journal entry described in Condition #4 to ensure proper presentation in the financial statements.

Sincerely,

Nancy A. Ostrowski

Nancy A. Ostrowski
Director, Office of D.C. Pensions

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

Independent Auditors' Report on Compliance and Other Matters

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the consolidated balance sheet of the Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2014, and the related notes to the consolidated balance sheet, and have issued our report thereon dated December 9, 2015. Our report disclaims an opinion on the consolidated balance sheet because ODCP was unable to provide sufficient evidential matter that supports the determination of the actuarial pension liability and accrued pension benefits payable, as reported in the accompanying consolidated balance sheet.

Compliance and Other Matters

In connection with our engagement to audit the consolidated balance sheet of ODCP, 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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. 15-02. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic consolidated balance sheet, other instances of noncompliance or other matters may have been identified and reported herein.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the ODCP's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the ODCP's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 9, 2015

PART 3

BALANCE SHEET
AND NOTES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheet
As of September 30, 2014
(in thousands)

		2014
Assets:		
Entity Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	*$*	*10,615*
Investments, Net (Note 3)		*4,075,690*
Interest Receivable		*36,386*
Total Intragovernmental		*4,122,691*
Accounts Receivable, Net (Note 4)		*2,583*
ADP Software, Net (Note 5)		*6*
Equipment, Net (Note 6)		*-*
Total Assets	*$*	*4,125,280*
Liabilities:		
Intragovernmental		
Accounts Payable	*$*	*301*
Accrued Payroll and Benefits		*10*
Total Intragovernmental		*311*
Accounts Payable		*3,025*
Accrued Pension Benefits Payable		*57,372*
Actuarial Pension Liability		*9,209,525*
Accrued Payroll and Benefits		*263*
Total Liabilities		*9,270,496*
Net Position:		
Cumulative Results of Operations		*(5,145,216)*
Total Net Position		*(5,145,216)*
Total Liabilities and Net Position	*$*	*4,125,280*

The accompanying notes are an integral part of the Balance Sheet.

1) Summary of Significant Accounting Policies

a. Reporting Entity

Under provisions in Title XI of the Balanced Budget Act of 1997, 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.

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 administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

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

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 from Treasury from the District of Columbia Retirement Board (DCRB) pursuant to Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the D.C. Federal Pension Fund; and
- Reimbursement from DCRB for the District's actual share of benefits paid from the D.C. Federal Pension Fund.

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 Treasury's 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 amount paid into the D.C. Federal Pension Fund during FY 2014 was $467.3 million.

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' 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 net 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 amount paid into the Judicial Retirement Fund during FY 2014 was $10.5 million.

b. Basis of Accounting and Presentation

The Office is presenting a single financial statement, the Consolidated Balance Sheet, and related notes which consist of a summary of significant accounting policies and other relevant explanatory information. The Consolidated Balance Sheet has 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 Balance Sheet presents the consolidated balances 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, except as restricted by law.

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 range from less than one year to approximately ten years.

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 return interest method.

d. 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;
- Amounts due from the DCRB for the District's estimated share of refunds paid by the Office in prior years;
- Pending amounts due from annuitants and survivors as a result of benefit overpayments that have not completed collection due process; and
- Amounts due from annuitants and survivors as the result of benefit overpayments.

e. ADP Software, Net

ADP Software, Net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 – FY 2008 to develop a pension/payroll system to meet Treasury's and the District's needs (net of accumulated amortization). It also represents enhancements that added new capabilities in the pension/payroll system in FY 2010 (net of accumulated amortization).

Internal use software is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize software acquisitions that exceed $125,000

- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than $5,000 and less than $125,000) that exceed $500,000

- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than $125,000) that exceed $500,000

Software is amortized using the straight-line method over an estimated useful life of five years, with six months amortization taken in the first and last year.

g. Equipment, Net

Equipment, Net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to run ADP Software and operation of the pension/payroll system. Equipment is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed $50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than $5,000 and less than $50,000) that exceed $500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than $50,000) that exceed $500,000

Equipment is depreciated using the straight-line method over an estimated useful life of five years, with six months depreciation taken in the first and last year.

h. Accrued Pension Benefits Payable

Accrued pension benefits payable relate 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.

i. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and 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 (under the Judges' Plan only), 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 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*.

To calculate the actuarial pension liabilities as of October 1, 2014, 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 as of October 1, 2014, were spot rates gradually increasing from 1.72%

to discount FY 2015 payments, to 4.27% to discount FY 2035 payments, to a maximum of 4.42% to discount longer term payments; annual inflation and cost-of-living adjustments of 2.50% for judges, 2.51% for teachers, and 2.39% for police officers and firefighters; and salary increases at an annual rate of 1.90% for judges, 3.00% for teachers, 2.31% for police officers, and 2.20% for firefighters.

The economic assumptions used by the Office for the Teachers, Police Officers and Firefighters, and Judges' plans differ from those used by the Office of Personnel Management (OPM) for the following reasons: (i) the annual rate of salary increase assumptions are based on different plan member experience; (ii) 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 (iii) for the discount rate assumption, OPM and the Office use the same underlying yield curve but 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.

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. These salaries and benefits are split 90% and 10% between the D.C. Federal Pension Fund and the Judicial Retirement Fund, respectively.

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 Funds make matching contributions, ranging from 1% to 4% 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. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

k. *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 provision for income taxes have been recorded in the accompanying balance sheet.

2) Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2014, consisted of the following (in thousands):

		2014
Fund Balances		
Trust Fund	$	86
Special Fund		10,529
Total Fund Balance with Treasury	$	10,615

3) Investment, Net

Investments, Net as of September 30, 2014, consisted of the following (in thousands):

		2014			
		Cost	Unamortized Premium, Net	Investments, Net	Market Value
Intragovernmental Securities					
Non-Marketable Par Value	$	198,911	-	198,911	198,911
Non-Marketable Market-based		3,646,211	230,568	3,876,779	3,892,041
Total	$	3,845,122	230,568	4,075,690	4,090,952

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, 2014, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in these figures is a net unrealized gain of $15.3 million as of September 30, 2014.

The amortized cost of Investments, Net (*including par value securities invested overnight)* as of September 30, 2014, by maturity date is as follows (in thousands):

		2014
Less than or Equal to 1 Year	$	*816,071*
More than 1 Year and Less than or Equal to 5 Years		*2,599,335*
More than 5 Years and Less than or Equal to 10 Years		*660,284*
Total	$	*4,075,690*

4) Accounts Receivable, Net

The components of Accounts Receivable, Net as of September 30, 2014, are as follows (in thousands):

		2014
Accounts Receivable, Gross	$	*2,746*
Allowance for Loss on Accounts Receivable		*(163)*
Accounts Receivable, Net	$	*2,583*

5) ADP Software, Net

The components of ADP Software, Net as of September 30, 2014, are as follows (in thousands):

		2014
ADP Software	$	*40,129*
Accumulated Amortization		*(40,123)*
ADP Software, Net	$	*6*

6) Equipment, Net

The components of Equipment, Net as of September 30, 2014, are as follows (in thousands):

		2014
ADP Hardware	*$*	*500*
Accumulated Depreciation		*(500)*
Equipment, Net	*$*	*-*

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Treasury OIG Website

Access Treasury OIG reports and other information online:
http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx

Report Waste, Fraud, and Abuse

OIG Hotline for Treasury Programs and Operations – Call toll free: 1-800-359-3898
Gulf Coast Restoration Hotline – Call toll free: 1-855-584.GULF (4853)
Email: Hotline@oig.treas.gov
Submit a complaint using our online form:
https://www.treasury.gov/about/organizational-structure/ig/Pages/OigOnlineHotlineForm.aspx