Audit Report

OIG-12-029

Audit of the Office of D.C. Pensions' Fiscal Years 2011 and 2010 Financial Statements

December 16, 2011

Office of Inspector General

Department of the Treasury

The Treasury Department is committed to making its Web Site accessible to all citizens and ensuring that it meets or exceeds the requirements of Section 508 of the Rehabilitation Act. The attachment to our report, the FY 2011 Annual Report for the District of Columbia Pensions Program, does not conform to the Standards of Section 508 of the Rehabilitation Act. To obtain an accessible copy of the Office of D.C. Pensions' FY 2011 Annual Report, see its website at:

http://www.treasury.gov/about/organizational-structure/offices/Mgt/Pages/annual-report-index.aspx

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In addition, please note that the Independent Auditors' Reports, contained in Part 2 (on pages 37 through 46); the Consolidated Balance Sheets (on page 49) and the Combined Statements of Budgetary Resources (on page 52) contained in Part 3; and the Supplementary Schedules (on pages 69 to 72 and 74 through 79) contained in Part 4 are not searchable as required by Section 8L of the Inspector General Act of 1978 (5 U.S.C. App.), as amended by the Inspector General Reform Act of 2008.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 16, 2011

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Office of D.C. Pensions' Fiscal Years 2011 and 2010 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2011 and 2010. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2011 and 2010 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. However, KPMG LLP identified control deficiencies related to (1) supervisory review and monitoring controls over adding or modifying annuitant benefit payments in the System to Administer Retirement (STAR) and (2) STAR configuration and change management controls that were collectively considered a significant deficiency. Further, KPMG LLP found no instances of reportable noncompliance with laws and regulations tested.

KPMG also issued a management letter dated December 5, 2011 discussing certain matters involving internal control over financial reporting and its operation that were identified during the audit but were not required to be included in the auditors' reports. This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated December 5, 2011 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Shiela Michel, Manager, Financial Audits at (202) 927-5407.

Attachment

Department of the Treasury
Office of D.C. Pensions

Fiscal Year 2011 Annual Report

District of Columbia Pensions Program

MESSAGE FROM THE DIRECTOR

November 2011

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2011 Annual Report, which highlights program results for this year, as well as the Office of D.C. Pensions' plans for upcoming years.

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, 2011, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling $4.0 billion. During FY 2011, the Office of D.C. Pensions paid $537 million in federal benefit payments to approximately 13,700 annuitants and refunds of employee contributions totaling $0.5 million were made to former active employees or their beneficiaries.

Throughout FY 2011, the Office of D.C. Pensions continued its focus on oversight and management of the D.C. Pensions Program. The quality program was expanded to increase the review over certain types of complex benefit payments. The Office undertook successful initiatives to eliminate erroneous payments and increase the number of annuitants receiving monthly benefit payments via Electronic Fund Transfer. The Office of D.C. Pensions began implementing an application upgrade to the System to Administer Retirement (STAR) which will be complete in FY 2012. In addition to implementing the STAR upgrade, a STAR Security Management program was created to monitor the resolution of items identified during the Security Test and Evaluation (ST&E).

An independent public accounting firm rendered an unqualified opinion on the FY 2011 financial statements of the Office of D.C. Pensions, making this the Office of D.C. Pensions' 13th consecutive year of unqualified opinions. This was accomplished through our partnership with the District of Columbia Retirement Board, the Bureau of the Public Debt, and other Department of the Treasury and District entities. The Office has begun addressing the control deficiencies identified in the auditors' report and establishing corrective action plans.

The Office of D.C. Pensions continued to emphasize the program's goals which are to provide successful stewardship of the pension funds, high quality benefit administrative service, and effective use of resources. The Office of D.C. Pensions worked collaboratively with all entities associated with the District of Columbia Pensions Program to carry out the program's goals and 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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PART 1: Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2011

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 Public Debt, 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), 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 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, 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 entities and stakeholders to administer its responsibilities.

All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal benefit payments. All 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. Benefits partially paid by Treasury and partially paid by the District of Columbia are referred to as split benefits.

B. Organizational Structure and Staffing

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 and Chief Financial Officer (ASM/CFO). ASM/CFO 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 $609 million in Federal and District benefit payments were made to 13,835 annuitants as of September 30, 2011.

- Finance and Resource Administration: The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. The Office manages and accounts for net investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately $4.0 billion as of September 30, 2011. The Office also performs an annual actuarial valuation to determine the pension liability of the retirement programs and the annual contribution from the Treasury General Fund into 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 provides oversight of its responsibilities through special project management and a quality assurance program, which ensures internal program areas and Treasury/District stakeholders meet quality standards.

  As of September 30, 2011, 21 Treasury positions were funded from the D.C. Federal Pensions Fund and the Judicial Retirement Fund. In addition, the Office funds and receives support from other Treasury offices and the Office of General Counsel.

  Pursuant to a reimbursable services agreement, Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), performs: systems administration and hosting for the automated pension/payroll system, accounting, and annuity payroll services.

  Since September 26, 2005, the District of Columbia Retirement Board (DCRB) serves 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.

II. Executive Summary

During Fiscal Year (FY) 2011, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Public Debt (BPD), 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 developed phase two of its System to Administer Retirement (STAR) Long-Term Architecture Plan, which is designed to ensure system architecture continues to meet business objectives for the next five years. In preparation for the Oracle/PeopleSoft 9.1 application upgrade (Release 6), the Office successfully completed hardware, database and software upgrades. In FY 2011, the Office completed an Oracle/PeopleSoft 9.1 application upgrade analysis. Based on that analysis and approval from the Change Control Board, the Office began implementation of Release 6 with an expected completion date of summer FY 2012.

In addition to implementing STAR upgrades, the Office created a STAR Security Management program to monitor the resolution of Plan of Actions and Milestones (POA&M) identified during the Security Test and Evaluation (ST&E). This program improved the Office's ability to oversee changes to STAR configuration, access levels, and system upgrade needs and to proactively identify and resolve potential audit findings.

During FY 2011, the Office implemented numerous initiatives focusing on eliminating erroneous payments and communications to annuitants regarding the benefits of electronic fund transfers. One initiative the Office implemented was the Annuitant Verification Project, where 200 annuitants were contacted to confirm that retirement benefit payments were received by the intended recipients. The Office was able to confirm that 95% of the 200 identified benefit payments were received properly; the remaining annuitants will be contacted in early FY 2012. In addition, the Office continued its efforts to increase participation in Electronic Funds Transfer (EFT) by encouraging 649 annuitants receiving paper checks to enroll in direct deposit. As a result of the initiative, 116 annuitants enrolled in direct deposit increasing the participation rate to 96.3%.

During FY 2011, the Office continued to work on the Reconciliation Project and met regularly with DCRB and the District regarding the methodologies, procedures, data, agreements and timing for conducting reconciliation activities. Significant progress has been made on the project which is expected to be completed in FY 2012.

The Office provided successful stewardship of the pension funds, high quality benefit administration services and effective use of resources through relationships with DCRB and BPD/ARC. For the 13th consecutive year, the Office received an unqualified audit opinion.

In FY 2011, the Office created a Program Management Group designed to support long-term strategic focus areas including program oversight, quality management and performance management. In FY 2012, the Office plans to continue to collaborate on strategic focus areas with program stakeholders throughout the District of Columbia Pensions Program. The Management's Discussion and Analysis provides more details about the FY 2011 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 two of the Department of the Treasury's (Treasury) Strategic Goals.

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

   Office Outcomes:
   - Benefit payments are accurate and timely
   - Pension funds are effectively invested
   - Pension funds are effectively financed
   - Pension funds meet future needs

   Treasury Strategic Goal: Effectively Managed U.S. Government Finances

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

   Office Outcomes:
   - Program is effectively managed

   Treasury Strategic Goal: Management and Organizational Excellence

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

   Office Outcomes:
   - Program creates continuous improvement

   Treasury Strategic Goal: Management and Organizational Excellence

The following table displays the Office's Strategic Goals, Objectives and Outcomes with a link to the two Treasury Strategic Goals. It also identifies the Office's Performance Measures and Results.

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

Fiscal Years 2011					Fiscal Year 2011
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Strategic Objective**	**ODCP Strategic Goal**	**ODCP Strategic Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Effectively Managed U.S. Government Finances	Cash resources are available to operate the government	Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	New annuitant benefit calculation error rate as of June 1 payment date Target: 5% or less Actual: 2.4% (through June 1, 2011)
					STAR is available to users Target: 98% or more Actual: 99.9%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	Investment strategy developed timely Target: Third week of Sept. Actual: September 15, 2011
					Investment strategy implemented timely Target: 100% Actual: 100%
				Pension funds are effectively financed	Minimum daily cash balance equivalent to two months of benefit payments Target: 100% Actual: 96.4%
					Annual Contribution from General Fund received into the D.C. Federal Pension & Judicial Retirement Funds Target: September 30, 2011 Actual: September 16, 2011

Fiscal Years 2011					Fiscal Year 2011
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Strategic Objective**	**ODCP Strategic Goal**	**ODCP Strategic Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Effectively Managed U.S. Government Finances (continued)	Cash resources are available to operate the government (continued)	Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively financed (continued)	Monthly payments made to annuitants by the first business day of the month Target: 100% Actual: 100%
					Electronic payments made to annuitants Target: 95% Actual: 96.3%
					Vendor payments made timely Target: 100% Actual: 98.6%
				Pension funds meet future needs	Actuarial calculation of annual contribution from General Fund prepared timely Target: November 16, 2010 Actual: November 11, 2010
Management and Organizational Excellence	Enabled and effective Treasury Department	Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Office employees received timely annual performance plans and quarterly reviews Target: 100% Actual: 100%
					Financial Statement Audit Opinion received from an independent external auditor Target: Unqualified opinion Actual: Unqualified opinion

Fiscal Years 2011					Fiscal Year 2011
Treasury Goals and Objectives		**ODCP Strategic Goals, Objectives, and Outcomes**			**ODCP Performance Measures**
Treasury Strategic Goal	**Treasury Strategic Objective**	**ODCP Strategic Goal**	**ODCP Strategic Objective**	**ODCP Outcomes**	**ODCP Performance Measure**
Management and Organizational Excellence (continued)	Enabled and effective Treasury Department (continued)	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	Annual Report and Financial Statements prepared timely Target: December 15, 2010 Actual: December 3, 2010
					Open financial management material weaknesses or corrective actions as of September 30 Target: 0 Actual: 0
					Actuarial valuation completed timely Target: November 16, 2010 Actual: November 11, 2010
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	Quality assurance plans developed by October 1 Target: 100% Actual: 50%

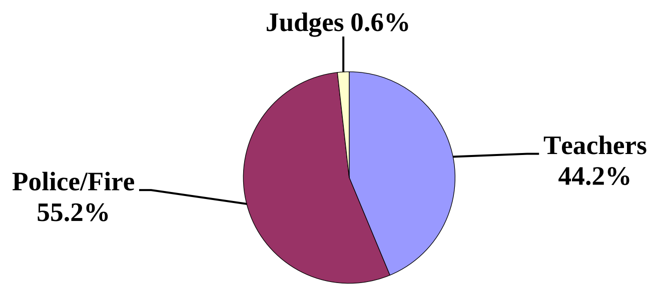
A. Benefit payments are accurate and timely

1. Program Results

a. Benefits Administration

<u>General Operations</u>

Benefits administration services were provided to 13,835 annuitants, as of September 30, 2011, 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, 6,105; police officers and firefighters, 7,642; and judges, 88.



In FY 2011, the monthly Federal and District benefit payments averaged $50.8 million, which is $1.5 million higher than the previous year. During the year, all payment files were submitted on time ensuring timely payment of annuitant benefits by 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, the transaction processing represents a variety of activities from processing new retirements and/or survivor benefits, to terminating those no longer eligible, and to updating annuitants' personal and benefits information.

FY 2011 Average Monthly Processing in Key Areas	
Customer Service Activity	**Monthly Volume**
New Retirements	23
Beneficiaries/Estates	20
Purchase of Service	2
Direct Deposit Changes	54
New Survivors	9
Qualified Domestic Relations Orders (QDRO)	1
Refunds	30
Tax Changes	142

Equally important to transaction processing is customer service. The DCRB customer service team performed a wide range of activities, including resolving annuitant inquiries.

In FY 2011, the average monthly support from the customer service team included:

- Answering Calls – 1,457 per month
- Servicing Walk-ins – 71 per month

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 96.3%, resulting in a 1.4% increase from the previous year. The table below illustrates the EFT participation rates for annuitants by retirement plan.

Percentage of EFT Participation		
Annuitants	**2011**	**2010**
Police/Fire	95.5%	93.9%
Teachers	97.1%	96.1%
Judges	98.9%	98.8%

In FY 2011, 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 (*e.g., signing up for direct deposit*)
- DCRB newsletter (*which provides important plan information for active and retired police officers, firefighters, and teachers*)
- Special correspondence *(which provide annuitants with additional information about the plans such as EFT enrollments)*

Annuitant Satisfaction

In FY 2011, DCRB continued to reach out to annuitants for feedback regarding customer satisfaction. The annuitant survey form asked participants to rate the patience, professionalism, knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. In addition, the survey asked how satisfied the caller was with the process, their overall experience with the Member Services Center, their wait time, and their perception of the customer service representatives' ability to understand their issue and help them. Ratings range from 1 (excellent) to 5 (poor). Responses from the annuitants surveyed indicated that the services provided were excellent.

Annuitant Payroll Operations

Treasury's Bureau of the Public Debt, Administrative Resource Center (BPD/ARC) provides a variety of services to the Office including annuitant payroll operations, mail management, split benefits reconciliation and reporting, as well as, special project implementation.

BPD/ARC utilizes the System to Administer Retirement (STAR), the automated pension/ payroll system that supports benefits administration and payroll operations, to process monthly Federal and District benefit payments. BPD/ARC works closely with DCRB to process monthly annuity payments and associated insurance carrier payments. BPD/ARC is responsible for reconciling the payroll reports generated from STAR to ensure the retirement payroll is processed correctly. In FY 2011, BPD/ARC staff made 166,179 benefit payments totaling approximately $609 million for a monthly average of $50.8 million.

BPD/ARC also provides mail management support to ensure that monthly earnings statements and other annuitant communications are distributed in an efficient and timely manner. In FY 2011, BPD/ARC issued approximately 166,380 earnings statements and letters to approximately 13,835 annuitants.

BPD/ARC is responsible for reporting the share of Federal and District benefit payments. This information is calculated by STAR and is included in the Split Reimbursement Summary Report (SRSR). BPD/ARC completes the preparation of the SRSR, reconciles the report to monthly STAR payment activity, and makes adjustments to the report to account for non-STAR activities, such as debt collection. This report supports the reimbursement to Treasury from DCRB for District benefit payments.

In FY 2011, BPD/ARC implemented Drop Zone functionality to streamline the transfer of annuitant related payment files to the Financial Management Services (FMS) via Connect Direct. This functionality provides a more efficient and secure process by automating all of the manual steps that were previously completed by BPD/ARC. With this change, the monthly annuitant payment files, as well as payment files containing taxes, insurance and garnishments, are automatically transferred.

Special Benefit Administration Projects

Annuitant Verification Project

During FY 2011, the Office continued its Annuitant Verification Project to identify, reduce, and recapture erroneous annuitant benefit payments. As part of this project, BPD/ARC contacted 200 annuitants to confirm that benefit payments were received by the intended recipients. As of September 30, 2011, the Office received 190 responses of which reported receiving the correct benefit payments. DCRB will contact the remaining 5% of the annuitants who have not responded.

Beginning in FY 2012, the activities associated with the Annuitant Verification Project will be performed on an annual basis. The Office will also research whether STAR can be utilized to generate annuitant verification letters and to track the responses.

Electronic Funds Transfer Project

During FY 2011, the Office continued its efforts to increase participation in Electronic Funds Transfer (EFT) by contacting 649 annuitants to encourage them to enroll in direct deposit. In doing so, BPD/ARC mailed personalized letters requesting each individual to consider converting from paper checks to direct deposit. Of the 649 letters mailed to annuitants, 116 converted to direct deposit. As a result of these efforts, EFT participation increased from 94.9% in FY 2010 to 96.3% in FY 2011. In FY 2012, the Office will continue to focus on increasing EFT enrollments for survivors and new annuitants.

District Post Retirement Health Benefits Legislation

The Office is working with the District and DCRB to implement in STAR District legislative changes that impact retirees and survivors of the Police, Firefighters and Teachers plans. The changes will increase the annuitants' share of their health benefit premium. Additionally, the legislation introduces a graduated rate structure based on length of service at retirement.

Scanning Retirement Benefit Records

DCRB implemented a document imaging and workflow management system for retirement benefit records with support from the Office. The first phase of this project involved scanning 3.4 million images for retirement records dating over many decades. DCRB completed the scanning of all participant case files during FY 2009.

During FY 2011, DCRB completed the scanning of documents that were received after the initial retirement files were scanned, finished indexing approximately 50% of the scanned documents, and mapped the electronic workflows. DCRB's scanning system, FileNet, was enhanced to allow greater functionality and more rapid document retrieval.

In addition, the process was reengineered to scan documents upon receipt as opposed to after the adjudication of the case. During FY 2012, workflows and added functionality will be refined, a reporting capability will be added, and the quality assurance process will be evaluated.

STAR Training Tools Assessment

During FY 2011, the Office conducted an assessment of the training tools developed to assist users in performing their benefit administration activities in STAR. The training tools assessed included a combination of computer-based training, on-line help, training manuals, and additional documentation. As a result of the assessment, the Office decided to replace the existing training suite with a more cost-effective solution that continues to allow users to access self-guided computer-based training, on-line help, and print up-to-date training documents.

Benefit Correction Projects

During FY 2011, the Office collaborated with DCRB to define key areas of focus including benefit activities and data integrity. As a result of these efforts, in FY 2012, the Office plans to procure a benefits contractor to assist with special benefits projects. This will allow the Office to have maximum flexibility to execute various projects simultaneously.

In FY 2011, a District error in the codification of the Police Officers' and Firefighters' Retirement Plan was discovered which relates to the calculation of the maximum benefit. The plan language has been corrected and in the interim, a manual process has been used to ensure accurate payments. A STAR Configuration Item Change Request (CICR) was approved to correct calculations going forward. In early FY 2012, the CICR will be implemented. In addition, impacted annuitants will be identified and benefits will be corrected.

The Office also worked with the Social Security Administration to establish a data exchange agreement that will capture information related to plan participants. This information will aid in the identification of improper payments. In FY 2011, the Office gained access to the Social Security Number Verification System to ensure that the proper reporting of tax information is conveyed to the Internal Revenue Service.

b. System to Administer Retirement (STAR)

General Overview

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 pension 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 off-the-shelf software for human resources, pensions, and payroll administration. The STAR implementation was phased and deployed in bundles known as releases.

- Release 1 of STAR was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 of STAR 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 of STAR, which supported annuitants who retired on or after July 1, 1997, including newly retired teachers, police officers and firefighter retirees, and their subsequent survivors, was deployed in August 2005.

- Release 4 of STAR 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 of STAR was implemented in November 2007 and completed the implementation of the split benefit calculation.

The split benefit calculation involved three phases of work. These phases were implemented with STAR Releases 4 and 5 as follows:

- Phase 1 was deployed as an integral part of STAR Release 4. It enabled STAR to calculate the split benefits for annuitants brought into pay status beginning in June 2007.
- Phase 2 was completed as part of STAR Release 5. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007.
- Phase 3 was completed as part of Release 5 and calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in the District's legacy system, PAPS or Pension Administration and Payroll System. These annuitants were converted into STAR in August 2005 as part of Release 3.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Treasury's Bureau of the Public Debt (BPD). Since September 2003, BPD staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. In FY 2011, STAR was available to the user population 99.9% of the time. A supplemental support contract is also in place to provide assistance to BPD in both operations and maintenance activities.

STAR System Security

The STAR system is in compliance with all relevant requirements and last renewed its triennial security Certification and Accreditation (C&A) in August of 2010. The C&A is a process that ensures that systems and major applications adhere to formal and established security requirements that are well documented and authorized. A C&A is required by the Federal Information Security Management Act (FISMA). All systems and applications that reside on U.S. government networks must go through a formal C&A before being put into production, and every three years thereafter. The next Assessment and Accreditation (A&A), formerly known as the C&A, is scheduled for 2013. The certification effort is the comprehensive and continual testing and evaluation of the management, operational, and technical controls of an IT system. The accreditation is the official management authorization to operate an IT system and to explicitly accept the risk to agency operations, agency assets, or individuals based on the implementation of security controls. As part of continuous monitoring, a Security Test and Evaluation (ST&E) is required to be conducted annually in years that an A&A is not conducted. The ST&E is also performed to satisfy federal requirements that executive agencies periodically review the security controls in their information systems.

During FY 2011, seven Plan of Actions and Milestones (POA&M) identified during the ST&E conducted in FY 2010 were successfully mitigated. In addition, seven new POA&M items were identified during the FY 2011 ST&E. A corrective action approach has been established and the Office plans to implement its mitigation strategies in FY 2012.

During FY 2011, the STAR Security Management program was instituted within the Office to monitor the resolution of the POA&M, and any audit findings associated with the STAR system. In addition, the program oversees changes to the STAR hardware configuration, access levels, and system upgrade needs. The implementation of the program has enabled the Office to be more proactive in resolving STAR security issues.

During FY 2012, the Office plans to implement a new system security and awareness training program. In addition, the Office will test its contingency and disaster recovery plans in preparation for its FY 2012 ST&E.

STAR Long-Term Architectural Plan

The Office developed a STAR Long-Term Architecture Plan 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.

Phase 1 – STAR LTAP

The plan delineated the STAR upgrade path from FY 2009 through FY 2011. The implementation of the plan began in FY 2009 and continued during FY 2010 with a replacement of the hardware which included a STAR database upgrade to Oracle/PeopleSoft 11g. The new database version was needed to support a Oracle/PeopleTools 8.5 software upgrade which took place in FY 2010.   This underlying software was required to be upgraded to implement the newer version of the Oracle/PeopleSoft 9.1 application.

In early FY 2011 an analysis of the new Oracle/PeopleSoft 9.1 application was conducted. The analysis consisted of reviewing new functionality or methodologies used in version 9.1 that were useful in fulfilling the STAR requirements. In addition, a total review of the existing Oracle/PeopleSoft modifications was conducted to determine any de-customizations that could be performed. De-customizations will allow STAR to utilize the delivered Oracle/PeopleSoft functionality, thus reducing the amount of modified software and cost of future upgrades. In mid- FY 2011, the Change Control Board (CCB) approved the Oracle/PeopleSoft 9.1 application implementation.

In mid- FY 2011, the STAR support team began the implementation to upgrade STAR from Oracle/PeopleSoft version 8.9 to version 9.1 which is referred to as Release 6. The upgrade will leverage existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations. The 9.1 upgrade will align with the delivered method for tracking a person, differentiating between active and annuitants using the "person model". Some of the newly delivered functionality also includes a "Smart Hire" template, which should reduce data entry errors and reduce the time to enter a new annuitant. The "go-live" date for Release 6 is scheduled for mid FY 2012.

Phase 2 – STAR LTAP

In FY 2011, Phase 2 of the STAR LTAP identified the STAR upgrade path from FY 2012 through FY 2017. 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. In addition the plan identifies a period of time to implement change requests that were delayed due to the "code freeze" period of Release 6 and to implement the maintenance processes and procedure improvements to successfully execute the Office's architecture and application roadmap.

Operational Process Improvements and Enhancements

A program review of STAR technical support was completed in early FY 2010. The program review identified opportunities for process improvements and efficiencies in the areas of STAR requirements management, configuration management, and testing. The Operational Process Improvements and Enhancements (OPIE) project began in FY 2010 to address the recommendations from the program review to minimize overall operational risks to the STAR system by improving technical support processes and procedures.

In FY 2011, the OPIE project produced improved processes in the areas of development coding standards and templates, requirements management plan, test plan and measurement plan. Updates were also drafted for the CCB Charter and Plan in an effort to improve the efficiency, thoroughness and overall management of STAR technical changes. The introduction of a quarterly STAR release model has been incorporated into the updates, and is the planning foundation for the other areas of technical process improvements. The CCB changes will be formally introduced in FY 2012.

In FY 2012, the OPIE project will continue to focus on details in the areas of testing and requirements. In addition, the plan is to implement a more production support user-friendly structure for the STARBASE document repository.

STAR Contingency Plan

The Office has established a STAR Contingency Plan to address potential disruptions in service. As required by the plan, the Office annually conducts contingency site tests to verify the accuracy and integrity of the data and functionality of the contingency system. In FY 2011, the disaster recovery site relocated to the Kansas City Regional Operations Center (KROC) in Kansas City, KS. The Office leveraged this move as an opportunity to test its contingency plan.

Change Control Board

The Office established the CCB in FY 2002 as the approving authority for all system 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. Changes are categorized as either a Change Request (CR) or as a Configuration Item Change Request (CICR).

A CR generally addresses a major project such as a new release or an upgrade, or a significant change in direction or activity. CRs are reviewed by subject matter experts and an Advisory Committee, and must be approved by the CCB. There was one approved CR that carried over from FY 2010; it dealt with analysis of the Oracle/PeopleSoft 9.1 which was completed in FY 2011. There were seven CRs submitted during FY 2011 and they addressed topics such as an Upgrade Analysis, and the implementation of the Oracle/PeopleSoft 9.1 application upgrade. One CR was withdrawn, and another was returned for further analysis.

During FY 2011, the Office reviewed the CCB process in an effort to improve and streamline the review process for CRs. In FY 2012, the Office plans to update the CCB Charter and Plan to incorporate improved processes for the management of technical changes within STAR. This includes a reclassification of STAR change ticket categories, which more clearly differentiates between changes to existing system requirements with operational maintenance items. The Office also plans to implement a quarterly release cycle for system changes, which will align with industry practices.

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: payments from the District of Columbia Retirement Board (DCRB); an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

- **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: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

b. 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 fund covered 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 made in September each year and are invested in Government Account Series (GAS), non-marketable Treasury securities, with maturities consistent with the expected payment dates of the pension liabilities. In FY 2011, approximately $491.7 million was deposited into the D.C. Federal Pensions Fund and approximately $9.3 million was deposited into the Judicial Retirement Fund. In FY 2010, $519.2 million was deposited into the D.C. Federal Pension Fund and $8.0 million into the Judicial Retirement Fund.

Interest

In FY 2011, the Office received $132.3 million of interest ($112.6 million earned) in the D.C. Federal Pension Fund and $4.8 million ($4.2 million earned) in the Judicial Retirement Fund. The rate of return in FY 2011 for the Office's pension funds was 3.3% for the D.C. Federal Pension Fund and 3.4% for the Judicial Retirement Fund. In FY 2010, the Office received $132.7 million of interest ($122.6 million earned) in the D.C. Federal Pension Fund and $4.9 million ($4.3 million earned) in the Judicial Retirement Fund. The rate of return in FY 2010 for the Office's pension funds was 3.6% for the D.C. Federal Pension Fund and 3.5% for the Judicial Retirement Fund. The rate of return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

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. Active judges' contributions to the retirement fund in FY 2011 totaled approximately $615,000. In FY 2010, active judges' contributions to the retirement fund totaled $729,000.

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 2011 and FY 2010, respectively.

Fund Deposits by Fiscal Year (in millions)			
Fund	**Type of Deposit**	**2011**	**2010**
D.C. Federal Pension Fund	Warrant	$491.7	$519.2
	Interest	$132.3	$132.7
	Contributions	$0.0	$0.0
Judicial Retirement Fund	Warrant	$9.3	$8.1
	Interest	$4.8	$4.9
	Contributions	$0.6	$0.7
Total	**Warrants**	**$501.0**	**$527.2**
	Interest	**$137.1**	**$137.6**
	Contributions	**$0.6**	**$0.7**

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. On the first business day of the month, DCRB then reimburses the D.C. Federal Pension Fund for benefit payments made by Treasury on behalf of the District. The STAR Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month. The FY 2011 and FY 2010 reimbursements for District benefit payments totaled $73.3 million and $65.5 million, respectively.

Refunds Reconciliation Project

The First Amended Memorandum of Understanding (MOU) between the parties, dated September 28, 2000, required Treasury to pay the total amount of refunds of employee contributions during the interim benefits period. On February 1, 2005, Treasury entered into a MOU with the DCRB and the District of Columbia's Office of Pay and Retirement Services (OPRS) concerning refunds of employee contributions under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Under this agreement, DCRB agreed to fund refunds of employee contributions paid on and after February 1, 2005, in accordance with the respective statutory responsibilities (i.e., refunds of contributions deducted from employee salary on or before June 30, 1997, are a federal liability and refunds of contributions deducted after June 30, 1997, are a District liability).

In addition to agreeing to fund amounts paid on and after February 1, 2005, the District agreed to reimburse Treasury for that portion of refunds paid by Treasury prior to February 1, 2005, that represents contributions withheld from an employee's salary or deposits after June 30, 1997. The remaining 138 refund cases from FY 1999 and all refund cases from FY 1998 have not been reconciled, because data is not available to determine federal and District liability. In FY 2012 a different methodology will be developed and must be agreed upon to reconcile and process the remaining cases.

More than $17 million have been collected for refunds paid in FY 1999 through FY 2005. Receivables of $386,000 and $200,000 have been established for the remaining FY 1999 and FY 1998 refund cases, respectively.

The table below summarizes the Treasury and District share of refunds.

Refund Reconciliation Project by Fiscal Year (in millions)								
	2005[1]	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**[2]	**1998**[3]
Treasury	$0.5	$1.8	$1.2	$2.7	$2.3	$2.9	$1.9	$5.6
District	1.4	4.7	3.2	3.7	2.3	1.6	1.0	0.2
Total	**$1.9**	**$6.5**	**$4.4**	**$6.4**	**$4.6**	**$4.5**	**$2.9**	**$5.8**

[1] FY 2005 includes refunds paid from October 1, 2004, through February 15, 2005.
[2] Includes estimated amount of $0.4 million that has not been collected.
[3] The $0.2 million represents the estimated amount for refunds that has not been collected.

Debt Management

During FY 2011, the Office pursued debt prevention and collection efforts working with Treasury's Bureau of the Public Debt, Administrative Resource Center (BPD/ARC), which manages the debt collection process for the Office. In FY 2011, the Office worked with BPD/ARC to pursue debt prevention efforts and ensured that a total of $807,299 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. During the fiscal year, $142,103 was collected through offsets, lump sum payments or installment payments as a result of debt collection efforts.

The Debt Collection Improvement Act of 1996 requires agencies to transfer to Treasury non-tax debt that is over 180 days delinquent. The FY 2011 agreement with the Financial Management Service's (FMS) Cross-Servicing Program allows FMS to initiate collection processes by issuing demand letters, conducting telephone follow-up, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment and referring debts to private collection agencies. As of September 30, 2011, BPD/ARC referred five debt cases totaling $18,603 to FMS for collection on behalf of the Office. In addition, the Office continued to review and streamline its debt management practices and met with stakeholders periodically to outline improvements in debt prevention and collection areas.

During 2011, ODCP, BPD/ARC and DCRB worked together to develop a Fast Track Approach through which annuitants make voluntary payments to resolve recent overpayments. With this approach, up to100% of the annuitants normal gross monthly payment could be collected within a six month period. An analyst contacts the annuitant who has been overpaid and offers them an opportunity to make repayment arrangements before the case is submitted for formal debt collection. This approach has been well received as it is flexible for annuitants and results in more timely correction of overpayments.

During FY 2012, the Office will continue to collaborate with stakeholders to further enhance the debt management program. The primary goal is to improve the program by further clarifying roles and responsibilities for debt collection, as well as minimize erroneous payments that could result in debt to the Federal government.

STAR Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administration costs incurred by both entities in administering District and Federal benefit payments. The methodology takes into consideration the number of 100% federal annuitants, 100% District annuitants, and split annuitants. In addition, DCRB is responsible for 100% of STAR development costs associated with new District legislation. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2011 actual expenses. Pursuant to the agreement, DCRB will reimburse the Office approximately $0.9 million for the Office’s expenses in developing and operating STAR to administer District benefit payments. In FY 2010, DCRB reimbursed the Office $0.6 million for administrative expenses associated with the operation of STAR.

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 Bureau of the Public Debt (BPD) 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 2011, the cash balance available for contingencies was targeted to remain above $93 million, which represents approximately two months of federal obligations. The Office invested 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 2011, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to May 2017 and for securities in the Judicial Retirement Fund to February 2021.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Net investments totaled approximately $4.0 billion as of September 30, 2011, as was the case in 2010. The following table reflects the net investments breakdown by fund.

Net Investments as of September 30, 2011 and 2010 (in millions)		
Fund	**2011**	**2010**
D.C. Federal Pension Fund	$3,878.6	$3,817.7
Judicial Retirement Fund	136.9	132.5
Total	**$4,015.5**	**$3,950.2**

e. Payments

Annuity Benefit Payments

Pension benefit payments issued by the Office totaled $600 million and $9.1 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for FY 2011. The Office issued $582.5 million and $8.4 million, respectively, for FY 2010. DCRB then reimbursed the D.C. Federal Pension Fund for benefit payments made by Treasury on the District's behalf. After the DCRB reimbursement, Federal benefit payments totaled $526.7 million from the D.C. Federal Pension Fund for FY 2011 and $517 million for FY 2010.

Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests payment from Treasury for the federal portion. During FY 2011, contribution refunds of nearly $0.5 million were issued to plan participants from the D.C. Federal Pension Fund. For FY 2010, contribution refunds of more than $0.4 million were issued to plan participants from the D.C. Federal Pension Fund. No contribution refunds were made to plan participants in the Judicial Retirement Fund during FY 2011 or FY 2010.

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.

In FY 2011, administrative expenses were approximately $16.2 million for the D.C. Federal Pension Fund and $0.8 million for the Judicial Retirement Fund, for a total of

$17.0 million. In FY 2010, administrative expenses were approximately $13.2 million for the D.C. Federal Pension Fund and $0.8 million for the Judicial Retirement Fund, for a total of $14.0 million. A $3 million variance in administrative expenses was realized in FY 2011 from FY 2010 in the D.C. Federal Pension Fund due to an increase in contractual services and system maintenance costs incurred.

The major administrative expenses resulted from reimbursement of DCRB benefit administration and support function expenses, the Office's staff salaries and benefits, and contractors engaged by the Office to provide IT systems 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 Judicial Retirement Fund and the D.C. Federal Pension Fund on a five-year schedule. The following table reflects administrative expenses by fund.

Administrative Expenses by Fiscal Year (in millions)			
Fund	**2011**	**2010**	**Difference**
D.C. Federal Pension Fund	$16.2	$13.2	$3.0
Judicial Retirement Fund	0.8	0.8	-
Total	**$17.0**	**$14.0**	**$3.0**

Improper Payments Elimination and Recovery Act

On July 22, 2010, the President signed into law the Improper Payments Elimination and Recovery Act (IPERA), which amends the Improper Payments Information Act (IPIA), repeals the Recovery Auditing Act and significantly increases agency payment recapture efforts. During FY 2011, there were no high risk payment types identified during the review. In FY 2012, the Office will continue to work with the Treasury's Office of the Deputy Chief Financial Officer (DCFO) in implementing the requirements of IPERA.

Prompt Payment Act and Electronic 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 99% of the 141 invoices received within the timeframes required by the Prompt Payment Act.

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage federal agencies to use electronic payments.
In FY 2011, the Office paid 100% of the 177 payments, which include invoices and travel reimbursements, by electronic funds transfer. All 177 payments were processed electronically, of which 14% were paid by credit card. In FY 2010 of the 200 electronic payments made, 12% were made by credit card.

Benefit Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating costs incurred by DCRB in administering District and Federal benefit payments. 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; and (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 Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2011 actual expenses. Pursuant to the agreement, the Office will reimburse DCRB approximately $2.3 million for FY 2011 expenses incurred in administering Federal benefit payments. The Office reimbursed DCRB approximately $2.3 million in FY 2010 for expenses incurred in administering Federal benefit payments.

f. Financial Operations

Accounting Support

Pursuant to a reimbursable services agreement, BPD/ARC 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. BPD/ARC 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 GovTrip. BPD/ARC 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 Financial Management Service's (FMS) Treasury Financial Manual (TFM) to ensure compliance with standard general ledger reporting requirements. BPD/ARC also prepares the Office's financial statements and other useful financial management reports.

3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality scorecard maintained by Treasury's Office of Accounting and Internal Control.

g. Actuarial Valuation

In FY 2011, EFI Actuaries (EFI) performed the annual actuarial valuation as required by the Act for the Office. 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, 2011, was determined using the demographic rates from the FY 2009 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*.

As estimated by the actuary, as of October 1, 2011, the Federal Government's total liability for Federal benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately $9.6 billion. Of the $9.6 billion actuarial liability, approximately $3.9 billion is funded by assets in the D.C. Federal Pension Fund and $5.7 billion is unfunded.

EFI determined an actuarial total liability of $190.6 million for the Judges' Retirement Plan as of October 1, 2011. Of the $190.6 million actuarial liability, approximately $137.5 million is funded by assets in the Judicial Retirement Fund and $53.1 million is unfunded.

h. Reconciliation Project

Title XI of the Balanced Budget Act of 1997, as amended, states that the period of interim District administration of benefits (interim benefits period) began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. The interim benefits period is ongoing. With respect to the retirement plans for teachers, police officers, and firefighters, Treasury is not able to end the interim benefits period until STAR is enhanced to calculate the split between federal and District liability for post-September 30, 1997, benefit payments and a reconciliation of transactions during the interim benefits period is conducted.

The split calculation functionality in STAR was completed in November 2007. With the ability to calculate the federal and District share of benefits, the Office began work on the Reconciliation Project. The purpose of the Reconciliation Project is among other goals, to perform an accounting and final reconciliation of the amounts related to federal and District liabilities during the interim benefits period. The Reconciliation Project period begins on October 1, 1997, and ends on December 31, 2007, the date on which STAR was used to determine the split between federal and District liability for benefit payments.

Pursuant to the current Interim Benefits Administration MOU between Treasury and the District, the primary goal of the Reconciliation Project is to calculate District benefit payments for plan members who retired during the interim benefits period based on the final Benefit Regulations and to reconcile these payments with amounts actually paid by the District to Treasury during the interim benefits period. The reconciliation of District benefit payments will identify any amounts owed to Treasury by the District for benefit payments, and conversely owed to the District by Treasury, during the period between October 1, 1997 and December 31, 2007.

In FY 2011, the Office continued to work with DCRB and the District regarding the methodologies, procedures, and timing for conducting reconciliation activities. In addition to reviewing benefit payments, the Office reviewed other financial transactions that occurred during the interim benefits period and transmitted the data to the District and DCRB for review. The transmission included the data used to calculate the valuation of assets during each month of the Interim Investment Period and supporting documentation for administrative expenses requested and received by the District and/or DCRB and Treasury during the Interim District Benefits Period through December 31, 2009. If the parties agree with the Office's assessment that no reimbursement is required for these items, the Final Reconciliation activities for administrative expenses and investments will be complete.

In FY 2012, the Office will finalize Benefit Regulations, seek to complete the Reconciliation Project, and continue to evaluate activities required for ending the interim benefits period for the Teachers', Police Officers', and Firefighters' Retirement Plans.

C. Program is effectively managed and creates continuous improvement

1. Program Results

a. Organizational Structure

During FY 2011, the Office of D.C. Pensions (the Office) continued to provide operational oversight of its many service providers. BPD/ARC has realigned its accounting support and payroll model in order to provide seamless and integrated services. The BPD Technical Team, which supports STAR, has also been realigned. During this time of transition, the Office continues to focus on evaluating business practices and processes.

b. Long-Term Strategic Planning

During FY 2011, the Office began to implement activities associated with achieving goals outlined in the program's future focus areas identified in FY 2010. In FY 2010, the Office completed a Multi-Year Plan for FY 2011 through FY 2013, which identified five future focus areas. An implementation approach was developed to assist in the sequencing of activities needed to implement the plan.

In FY 2011, the Office also created a Program Management Group (PMG) designed to develop and implement program management practices in areas such as activity planning, performance measurement, and reporting. The Office began collaboration efforts with program stakeholders to assess organizational change readiness and to determine the implementation capacity for change.

In FY 2012, the Office will continue to implement the key future focus areas, particularly in three areas: program management, STAR enhancements, and benefits administration improvements. The Office plans further collaboration and planning with service providers and will continue joint efforts to improve STAR and benefits administration processing.

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 the Treasury's Bureau of the Public Debt (BPD), Administrative Resources Center (ARC) for system administration and hosting for STAR and annuity payroll operations. In FY 2011, the SLAs were reviewed and modified to more accurately define responsibilities, required services, and reporting requirements for service providers and to ensure the Office in 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, and beneficiaries as well as Qualified Domestic Relation Orders (QDROs). The benefits administration quality plans are periodically reviewed and revised to ensure benefits processing errors are identified. In FY 2011, the Office completed quality reviews for annuitant payments through the June 1, 2011, pay date. The Office realized a decrease in the monetary error rate during the first eight months of FY 2011. In FY 2012, the Office will address audit recommendations and focus its reviews on areas identified during the annual financial statement audit.

In addition, 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 benefits administrator to assess training needs for the staff. Subsequently, targeted training was provided to analysts and customer service staff as needed to improve benefit administration.

Payroll Processing

The Quality Program includes reviews of payroll processing functions. The program includes reviews of preliminary and final payroll statistics, large annuitant payments, and third-party reporting. In addition to the aforementioned reports, each month the Office monitors check registers, death verification reports and payment reclamations. In FY 2011, no problems were noted during the review of these payroll processing functions. In addition, the Office reviews the split reimbursement summary report and meets with stakeholders monthly to discuss split activity. These reviews ensure that the split benefits are reported in a timely and accurate manner.

System Administration

During FY 2011, 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 monitored to ensure that users are granted the appropriate access privileges. This information is 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 2011 the Office aimed to more efficiently track, collect, and report performance data, promote transparency, and improve decision making. A Benefits Administration snapshot was created to track critical performance and quality measures on a monthly basis. A new performance reporting tool was developed and will be deployed in FY 2012. Performance data will be utilized to make improvements in program management areas, such as operational planning and resource needs assessments. The performance measures will be periodically reported and reviewed to ensure that Office strategic outcomes are continuously achieved.

f. District of Columbia Retirement Board Performance Reporting

DCRB continued to collect performance data and prepares quarterly performance reports during FY 2011. The performance reports track the volume, timeliness, and quality of the pension and payroll processing services as well as customer satisfaction. In addition, DCRB continues to analyze the performance reports to identify trends to identify opportunities for improvement or to determine if corrective actions are necessary.

g. STAR End-User Forum

The STAR end-user forum is a platform for DCRB and BPD/ARC to present and discuss benefit administration program enhancement ideas aimed at improving benefits processing and customer service. The forum is used as a training vehicle by which users can be informed of new benefit administration processes, as well as reinforce processes already established. 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 meet periodically in FY 2012 to identify areas for improvement.

h. Federal Benefit Payments Regulations

<u>Split Benefit Regulations</u>

In FY 2010, the Office completed drafting proposed amendments to Part 29, Subpart C of Title 31 of the Code of Federal Regulations, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans - Split Benefits* ("Split Benefit Regulations"). Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Office has responsibility for payment of benefits based on service accrued as of June 30, 1997, under the retirement plans for District of Columbia teachers and police officers and firefighters.

Under the Act, some annuitants receive both Federal and District benefit payments as a portion of their total retirement benefit based on service before or after June 30, 1997. Benefits partially paid by Treasury and partially paid by the District of Columbia are referred to as split benefits. The Split Benefit Regulations establish general principles that are applied to determine the amount of service creditable for Federal benefit payments and include examples in which the general principles are applied to a variety of benefit calculation scenarios.

The Split Benefit Regulations were originally published in FY 2000, but the effective date was delayed until after STAR was fully implemented. With the major development of STAR completed, the Office is amending the Split Benefit Regulations to establish additional rules to simplify calculations and provide additional examples of benefit calculation scenarios. In FY 2011, the Office published proposed regulations for comment. The final Split Benefit Regulations will be published in early FY 2012, and will maintain consistency with the general principles established in the original regulations.

Debt Regulations

The Office has been preparing to update the regulations in Part 29, Subpart E of Title 31 of the Code of Federal Regulations, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans – Debt Collection and Waivers of Collection* ("Debt Regulations"), which are specific to the retirement plans for District of Columbia judges, teachers, and police officers and firefighters. The amended regulations are expected to further clarify the debt management process.

The Debt Regulations were originally published in FY 2001. The Office conducted a complete review of debt processing procedures and is amending the Debt Regulations to streamline the debt management program to more effectively manage and expeditiously collect debt. The proposed amended regulations will be published during FY 2012.

i. Internal Control over Financial Reporting

The Office used the FY 2011 Guidance and Implementation Plan provided by Treasury's Office of the Deputy Chief Financial Officer 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*. BPD/ARC staff members and the Office conducted internal control tests or relied on the BPD/ARC Statement on Standards for Attestation Engagements No. 16 (SSAE 16) review, previously referred to as Statement on Auditing Standards No. 70. (SAS 70).

The Office conducted its assessment of the effectiveness of internal controls over financial reporting as of June 30, 2011, 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. Based on the results of this evaluation, the Office provided unqualified assurance that its internal controls over financial reporting were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. 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. In addition, the Office had no material weaknesses in the design or operation of internal controls over financial reporting identified in FY 2010 that required corrective actions in FY 2011.

During FY 2011, the Office was selected by the Treasury's Office of the Deputy Chief Financial Officer (DCFO) for a review of the Office's internal control test plans. DCFO concluded that these test plans were executed in accordance to the guidance provided by the DCFO.

j. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office's FY 2011 financial statements. This is the 13th consecutive year that the Office's financial statements have received an unqualified opinion.

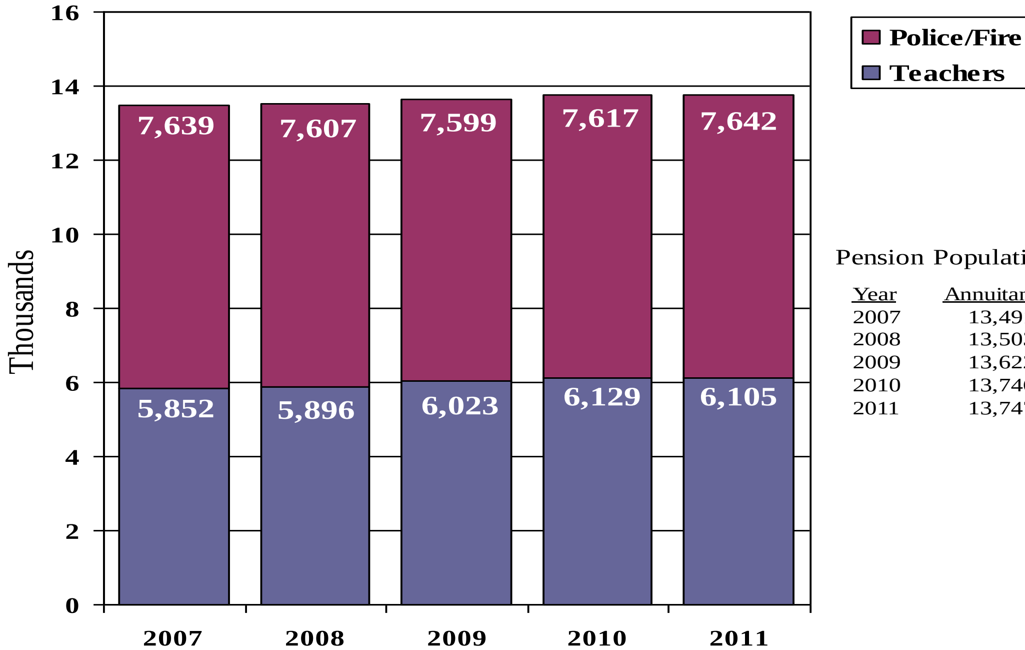
KPMG identified the following deficiencies in internal control over financial reporting that it considered collectively to be a significant deficiency in internal control over financial reporting: 1) improve DCRB supervisory review controls and ODCP monitoring controls over adding or modifying annuitant benefit payments in STAR; and 2) Improve STAR configuration and change management controls. 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 (see the accompanying Independent Auditors' Report on Internal Control over Financial Reporting).

The results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

IV. Five-Year History of the District of Columbia Pensions Program

A. Annuitants *(as of September 30, 2011)*

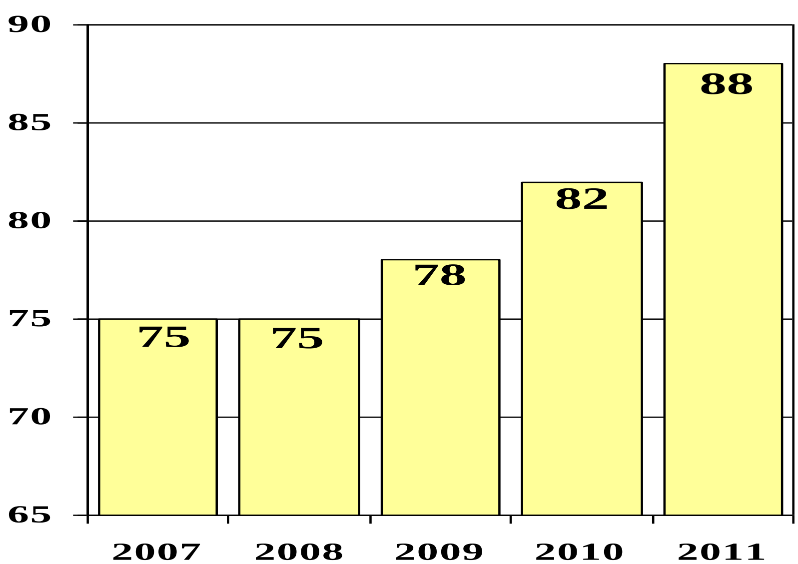
Police Officers' and Firefighters', and Teachers' Retirement Plans



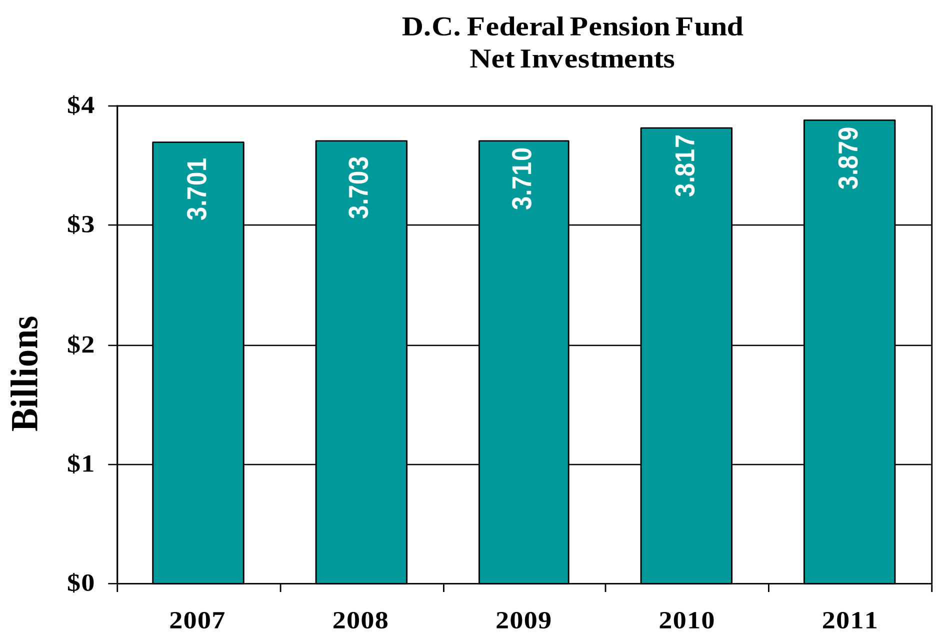
Pension Population

Year	Annuitants
2007	13,491
2008	13,503
2009	13,622
2010	13,746
2011	13,747

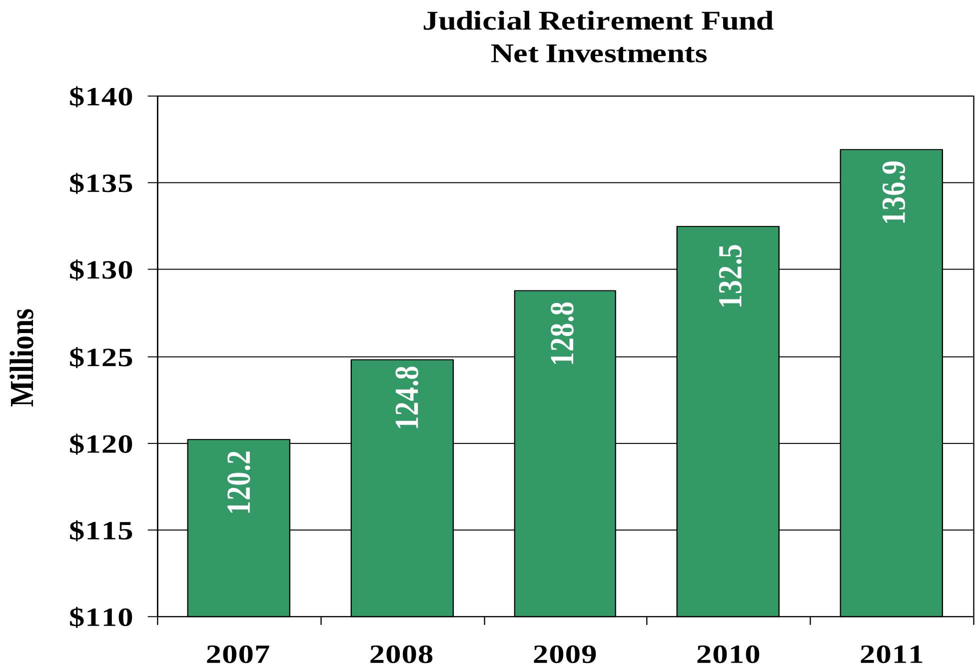
Judges' Retirement Plan



B. Investments *(as of September 30, 2011)*

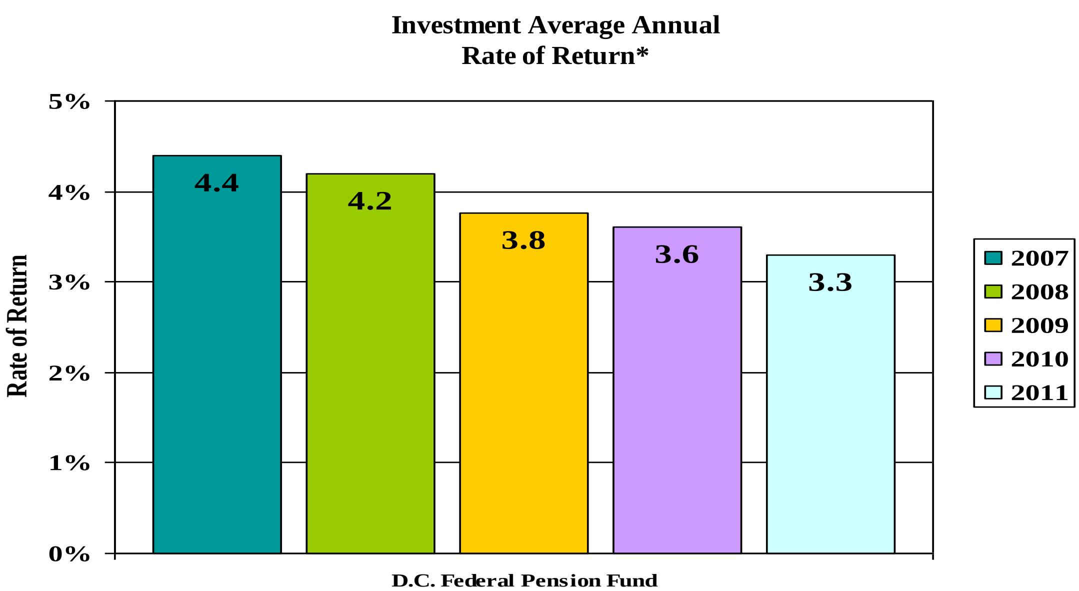


All funds are invested in non-marketable Government Account Series (GAS) securities.

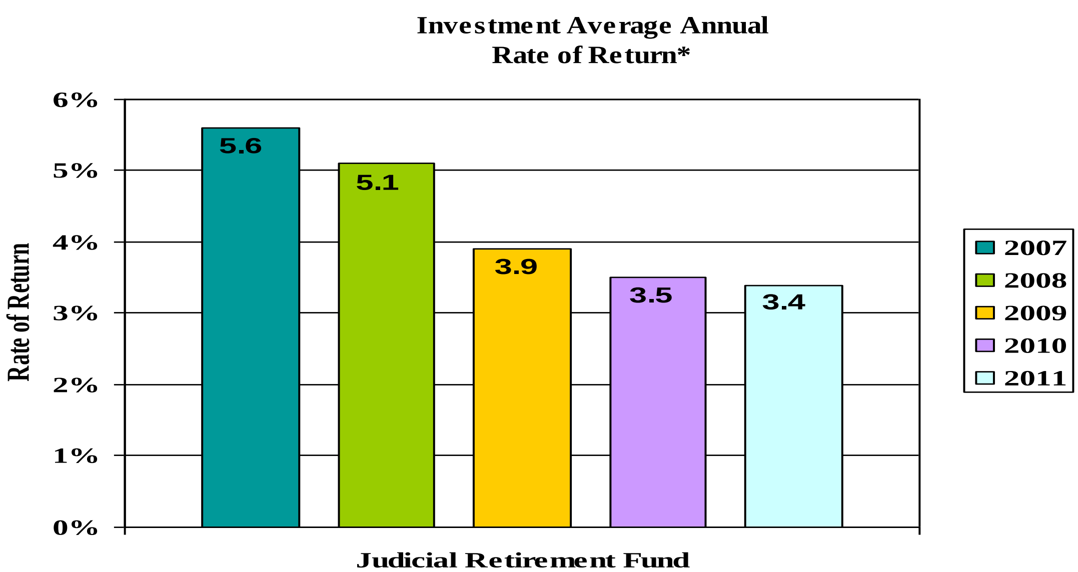


All funds are invested in non-marketable Government Account Series (GAS) securities.

B. *Investments* *(as of September 30, 2011) continued*

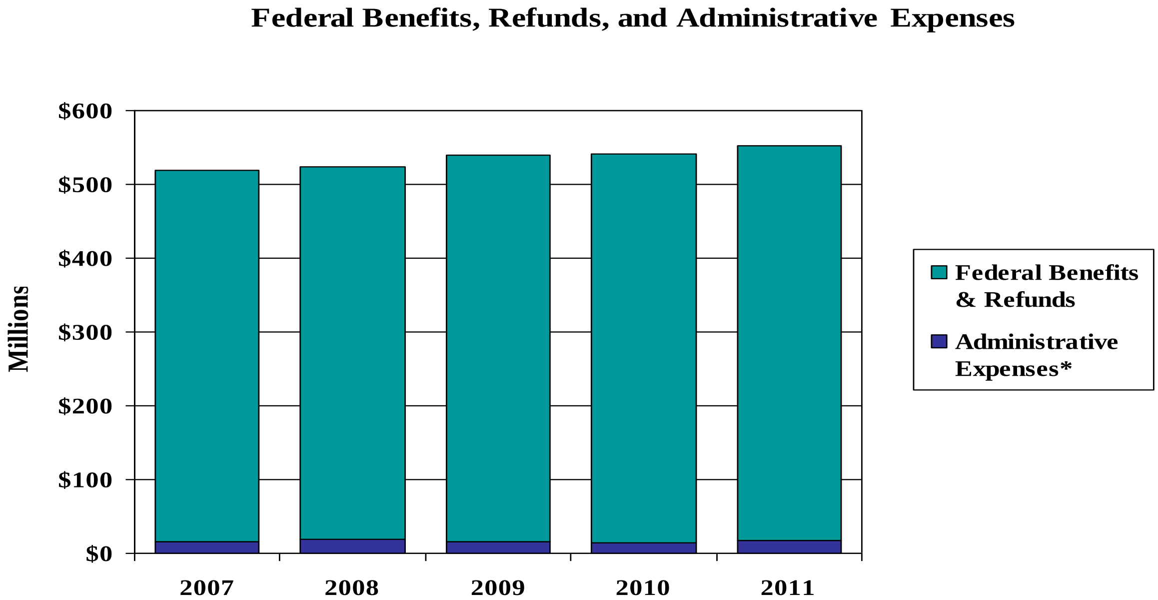


*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.



*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

C. Payments by Category *(as of September 30, 2011)*



*Administrative expenses include, but are not limited to, (a) expenses paid to the District for administration of Federal benefits, (b) expenses for ODCP salaries, and (c) expenses associated with contractor support. It does not include reimbursement from the District for STAR-related administrative expenses incurred by ODCP in support of District benefits.

Federal Benefits, Refunds, and Administrative Expenses

Fiscal Year	Federal Benefits/ Refunds Paid	Administrative Expenses*	Federal Benefits/ Refunds %	Administrative Expenses %
2007	$504M	$15.7M	97%	3%
2008	$506M	$18.4M	96%	4%
2009	$524M	$15.3M	97%	3%
2010	$528M	$14.0M	97%	3%
2011	$536M	$17.0M	97%	3%

*Administrative expenses include, but are not limited to, (a) expenses paid to the District for administration of Federal benefits, (b) expenses for ODCP salaries, and (c) expenses associated with contractor support. It does not include reimbursement from the District for STAR-related administrative expenses incurred by ODCP in support of District benefits.

V. Limitation of the Financial Statements

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

While the statements have been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

PART 2:
Independent Auditors' Reports

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2011 and 2010 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2011 and 2010 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2011 and 2010 consolidating information presented in the *Supplementary Schedules* in Part 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the ODCP's two funds individually. The September 30, 2011 and 2010 *Supplementary Schedules* have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

KPMG

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 5, 2011, on our consideration of the ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 5, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2011 and 2010 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 5, 2011.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the ODCP's internal control over financial reporting by obtaining an understanding of the design effectiveness of the ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting. 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.

Exhibit II presents the status of the prior year deficiencies in internal controls over financial reporting that were considered collectively to be a significant deficiency.

We noted certain additional matters that we have reported to management of the ODCP in a separate letter dated December 5, 2011.

The ODCP's response to our findings is presented in Exhibit I. We did not audit the ODCP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the ODCP's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2011

Exhibit I

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2011 and 2010

Significant Deficiency in Internal Control over Financial Reporting

The following summarizes the control deficiencies which collectively we consider to be a significant deficiency in internal control over financial reporting.

DCRB Supervisory Review Controls and ODCP Monitoring Controls over Adding or Modifying Annuitant Benefit Payments in the System to Administer Retirement (STAR) need Improvement

We conducted the following testing of annuitant payments processed by the District of Columbia Retirement Board (DCRB) for the Police & Firefighters and Teacher retirement plans:

- 85 new annuitant benefit payments
- 32 annuitant payments that changed outside the normal Cost of Living Adjustment increase, and
- 15 off cycle payments

During our testing, we noted 15 instances where the DCRB second review or the ODCP monitoring controls failed to identify errors made by the DCRB examiner processing the annuitants' payments resulting in actual gross overpayments and underpayments to fiscal year (FY) 2011 annuitants of $6,234 and $10,415, respectively.

These errors were subsequently corrected or are in process of being corrected by ODCP and DCRB.

The primary cause of these errors is analysts not performing adequate self-review of their work. Additionally, the second reviewer at DCRB did not perform an adequate level of review over data inputs for annuitants added or modified into STAR. In addition, ODCP's Quality Review or other ODCP monitoring controls, which is based on a sampling of new annuitants did not identify some of the errors made by the DCRB examiner in processing the new annuitants.

The Memorandum of Understanding (MOU) between ODCP and DCRB – *Considering Benefit Administration of Retirement Programs* dated September 26, 2005, specifies the obligations of the DCRB. Specifically, MOU section 4.1(g) requires DCRB to enforce all terms of the District Retirement Programs and the Replacement Plan to ensure accurate payments of Federal Benefit Payments and District Payments.

Additionally, OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that …iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (GAO/AIMD-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."

We recommend that the ODCP: (1) continue training the DCRB analysts and second reviewers so they fully understand their role and responsibilities associated with the benefit payment process; (2) take appropriate steps to ensure corrections are made to the inaccurate payments identified by reviewers; and (3) provide additional training to Quality Reviewers.

STAR Configuration and Change Management Controls need Improvement

During our testing of 85 new annuitant benefit payments processed by the DCRB for Police & Firefighters and Teachers retirement plans, we noted 7 instances where the STAR split benefit allocation percentage between Federal and District of Columbia was incorrectly calculated due to either:

- Proposed changes to STAR not being properly migrated from the test environment to the production environment, or
- STAR not being properly configured to prevent inadvertent deletion of data by the end-user, which is used to calculate the split benefit allocation by STAR

Additionally, the errors in the split benefit calculations were not identified by ODCP's quality review team as verifying the accuracy of the split-benefit calculation is not currently a part of the ODCP quality review procedures. Also, the inadvertent deletion of data within STAR could have been avoided if the DCRB end-user had followed the STAR Procedure Manual.

Miscalculations in the split between the District and the Federal liability resulted in over and under allocations to the Federal government of approximately $11,548 and $11,793, respectively for FY2011 new annuitants.

The errors resulting from the improper migration of the Problem Trouble Tickets (PTTs) have been corrected. The procedures to prevent improper migration of PTTs and modification to prevent inadvertent deletion of data impacting the split benefit allocation are in process of being resolved by ODCP.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that …iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (GAO/AIMD-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."

We recommend that ODCP: (1) incorporate the Federal / District split calculation in its Quality Review; (2) improve the controls over migration of code changes into STAR to ensure they do not have unintended consequences; (3) conduct periodic training on the STAR Procedures Manual with the end-users of STAR; and (4) modify STAR to prevent the capability of inadvertently deleting data used to calculate the split benefit allocation.

Management's Response:

Improve DCRB Supervisory Review Controls and ODCP Monitoring Controls over Adding or Modifying Annuitant Benefit Payments in the System to Administer Retirement (STAR):

1. ODCP will conduct refresher training on the roles and responsibilities of DCRB second reviewers and analysts as it pertains to the benefit payment process.
2. ODCP will follow-up with DCRB to confirm / verify corrections are made.
3. DCRB updated its Benefits Process & Quality Assurance overview document (published May 24, 2011) to include language that states: Every new case must receive a second review by one of the Reviewers prior to the close of the pension processing.
4. Training will be conducted at DCRB to stress the importance of documenting all second level reviews in the annuitant case files.

Exhibit I

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2011 and 2010

Significant Deficiency in Internal Control over Financial Reporting

Improve STAR Configuration and Change Management Controls

1. Production support will review a subset of new cases on a monthly basis to determine if STAR is correctly calculating the split information based on the information entered by the analyst. (See FY2012 IT Quality Assurance Program Plan)
2. The PTTs will not be closed until final validation is complete.
3. An improved migration process is being tested / demonstrated for the current migrations and is being documented in the Application Management Plan.
4. ODCP will conduct training on the STAR Procedures Manual with the end-users of STAR.
5. Configuration Item Change Request has been submitted to prevent the capability of deleting the split information.

Exhibit II

Status of Prior Year Deficiencies

Prior Year Deficiency	**Prior Year** Recommendation	Status as of September 30, 2011
Improve DCRB Supervisory Review Controls and ODCP Monitoring Controls over Adding New Annuitants to the System to Administer Retirement (STAR)	1. We recommend that the ODCP continue training the DCRB second reviewers and examiners so they fully understand their role and responsibilities of performing the second review of the benefit payment calculation. 2. We recommend that the ODCP accelerate the timing of DCRB's second level of review to occur before the annuity payment is paid to the annuitant. 3. We recommend that the ODCP incorporate a review of the Federal / District split calculation in the DCRB second level review and also in ODCP's Quality Review. 4. We recommend that the ODCP increase the percentage of annuitants tested annually by ODCP's Quality Review for higher risk new annuitant calculations, such as Qualified Domestic Relations Order (QDRO) Annuitants due to the inherent complexity of applying the judicial decree to the annuity calculation. 5. We recommend that the ODCP implement enhancements to STAR that create audit reports to capture instances where the automatic Federal / District Split has been overridden in STAR and review the manual overrides for validity.	This deficiency has been partially repeated in the current year. See Exhibit I.
Improve the Monitoring of the Death Verification Services Reports and Student Certification Reports	1. We recommend that the ODCP continue training DCRB Customer Service Representatives (CSR) and supervisors so they fully understand their roles and responsibilities of timely investigating annuitants identified on the Death Verification Services Reports and Student Verification Reports and the monitoring thereof. 2. We recommend that the ODCP monitor DCRB to verify it has taken appropriate timely action in investigating annuitants identified in the reports. 3. We recommend that the ODCP implement procedures to ensure compliance with the retirement plans.	**Closed**

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 5, 2011.

We conducted our audits 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for complying with laws, regulations, and contracts applicable to the ODCP. As part of obtaining reasonable assurance about whether the ODCP's consolidated financial statements are free of material misstatement, we performed tests of the ODCP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the ODCP. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2011

PART 3: Financial Statements and Notes

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2011 and September 30, 2010
(in thousands)

	2011	2010
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	$ 7,141	$ 6,806
Investments in GAS Securities, Net (Note 4)	4,015,504	3,950,255
Interest Receivable from GAS Securities	32,794	29,960
Advances to Others	41	39
Accounts Receivable, Net	896	1,234
ADP Software, Net (Note 5)	1,354	3,211
Equipment, Net (Note 6)	-	-
Total Assets	$ 4,057,730	$ 3,991,505
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	$ 162	$ 140
Accrued Payroll and Benefits	30	31
Accounts Payable	3,382	2,830
Accrued Pension Benefits Payable	51,346	50,272
Actuarial Pension Liability (Notes 2i, 9)	3,721,182	3,726,829
Accrued Payroll and Benefits	316	347
Total Liabilities Covered By Budgetary Resources	3,776,418	3,780,449
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability (Notes 2i, 9)	5,949,636	6,015,750
Total Liabilities	9,726,054	9,796,199
Net Position		
Cumulative Results of Operations - Earmarked	(5,668,324)	(5,804,694)
Total Net Position	(5,668,324)	(5,804,694)
Total Liabilities and Net Position	$ 4,057,730	$ 3,991,505

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011	2010
Program Costs (Note 7)		
Administrative Expenses (Note 8)	*$ 16,950*	*$ 13,953*
Pension Expense before Actuarial Assumption Changes (Note 9)	*146,964*	*342,116*
Less: Earned Revenues (Note 7)		
Interest Earned	*116,853*	*126,920*
Employee Contributions	*615*	*729*
Net Expense Before Loss from Actuarial Assumption Changes	*46,446*	*228,420*
Loss on Actuarial Assumption Changes, Net (Note 9)	*318,317*	*878,986*
Net Cost of Operations	*$ 364,763*	*$ 1,107,406*

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011 Earmarked	2010 Earmarked
Cumulative Results of Operations		
Net Position - Beginning of Year	*$ (5,804,694)*	*$ (5,224,655)*
Budgetary Financing Sources		
Appropriations Used	*500,970*	*527,190*
Other Financing Sources		
Imputed Financing Sources	*163*	*177*
Total Financing Sources	*501,133*	*527,367*
Net Cost of Operations	*(364,763)*	*(1,107,406)*
Net Change	136,370	(580,039)
Net Position - End of Year	*$ (5,668,324)*	*$ (5,804,694)*

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011	2010
Budgetary Resources		
Unobligated Balance - brought forward	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	3,974	6,676
Budget Authority:		
Appropriations	1,057,270	1,105,571
Spending Authority from Offsetting Collections:		
Earned:		
Collected	-	5,197
Temporarily Unavailable Pursuant to Public Law	(3,802)	(46,580)
Total Budgetary Resources	$ 1,057,442	$ 1,070,864
Status of Budgetary Resources		
Obligations Incurred:		
Direct	$ 1,057,442	$ 1,070,864
Total Status of Budgetary Resources	$ 1,057,442	$ 1,070,864
Change in Obligated Balance		
Unpaid obligations brought forward, Oct. 1	$ 58,440	$ 61,038
Obligations Incurred	1,057,442	1,070,864
Gross outlays	(1,050,990)	(1,066,786)
Recoveries of Prior Year Unpaid Obligations, Actual	(3,974)	(6,676)
Unpaid Obligated Balance, Net, End of Period:	60,918	58,440
Net Outlays		
Gross Outlays	$ 1,050,990	$ 1,066,786
Offsetting collections	-	(5,197)
Distributed offsetting receipts	(542,421)	(573,831)
Net Outlays	$ 508,569	$ 487,758

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Financial Statements
September 30, 2011 and September 30, 2010

1) 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 and Chief Financial Officer (ASM/CFO). ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

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

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

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act;

- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the D.C. Federal Pension Fund; and
- Reimbursement from the D.C. government 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 Public Debt (BPD). Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amounts paid into the D.C. Federal Pension Fund during FY 2011 and FY 2010 were $491.7 million and $519.2 million, respectively.

b. 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 the District of Columbia Retirement Board (DCRB) pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the 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 amounts paid into the Judicial Retirement Fund during FY 2011 and FY 2010 were $9.3 million and $7.9 million, respectively.

2) Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources, all of which are prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America for federal entities are prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated as the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The financial statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources. These financial statements present the consolidated activities and 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.

b. Fund Balance with Treasury

Fund balance with Treasury represents appropriated funds remaining as of fiscal year end from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

c. Investments

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 BPD. 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 interest method.

d. Advances to Others

Advances to Others represents the carrying amount of advances and prepayments to the Department of the Treasury's Working Capital Fund to cover anticipated expenses for the costs of goods and services, such as communications and information technology services, expected to be received or to cover certain periodic expenses before those expenses are incurred.

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 D.C.'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.

The Department of Treasury's Office of the Deputy Chief Financial Officer issued OIAC-11-01 which revised the Departmental capitalization policy. As a result, the Office increased its capitalization threshold related to Internal Use Software.

f. 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.

g. Accounts Receivable

Accounts receivable consist primarily of: (a) the amount due from the D.C. government 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, (b) amounts due from the D.C. government for the District's estimated share of refunds paid by the Office in prior years, (c) employee retirement contributions withheld from judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of each fiscal year, and (d) amounts due from annuitants and survivors as the result of benefit overpayments.

In FY 2011 the Office established an Allowance for Loss on Accounts Receivable related to benefit overpayments. Receivables due from the D.C. government and Federal agencies are considered fully collectible. In accordance with Generally Accepted Accounting Principles, the Office elected to use prior experience as the basis to calculate the allowance for loss on accounts receivable.

h. Accrued Pension Benefits Payable

Accrued pension benefits payable pertains, for the most part, 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 Aggregate 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 actuarial pension liability's economic assumptions (rate of return, inflation, and salary increases) are based upon the requirements of Statements of Federal Financial Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* (SFFAS No. 33). To calculate the pension liabilities as of October 1, 2011, the Office used a 30-year yield curve based on a 10-year history of Treasury securities to determine discount rates consistent with the requirements of SFFAS No. 33. The assumptions for inflation and salary increases are also the average of 10-year historical values. The assumptions used to calculate the pension liabilities as of October 1, 2011, were an annual rate of investment return of 2.28% in FY 2012, gradually increasing to 4.97% by FY 2032 and then gradually decreasing to 4.93% by FY 2041; an annual inflation and cost-of-living adjustment of 2.43% for judges, and 2.39% for teachers, police officers, and firefighters; and salary increases at an annual rate of 1.84% for judges, and 4.26% for teachers, police officers, and firefighters.

The assumptions used to calculate the pension liabilities as of October 1, 2010, were an annual rate of investment return of 2.79% in FY 2011, gradually increasing to 5.13% by FY 2041; an annual inflation and cost-of-living adjustment of 2.78% for judges and 2.56% for teacher, police officers and firefighters; and salary increases at an annual rate of 2.11% for judges, and 4.20% for teachers, police officers, and firefighters.

j. Appropriations Received and Used

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative expenses of the Funds. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the D.C. Federal Pension Fund to be invested in non-marketable GAS securities. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sou*rces, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position. Appropriations received and used for the years ended September 30, 2011 and 2010 were $501.0 million and $527.2 million, respectively.

k. Treasury Employee Retirement Plans

The D.C. Federal Pension Fund and Judicial Retirement Fund pay salaries and benefits of Treasury employees who work in 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 split is based upon the amount of time ODCP staff spends performing functions that support each of the funds.

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.

l. President's Budget

The Budget of the United States (also known as the "President's Budget"), with actual numbers for FY 2011, was not published at the time that these consolidated financial statements were issued. The President's Budget for FY 2013, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2012. It will be available from the United States Government Printing Office. The FY 2010 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President's Budget for FY 2012 and there were no differences for budgetary resources, status of budgetary resources, and net outlays.

Earnings on investments in U.S. securities, federal (as reported in the annual President's Budget) consists of interest collected from GAS securities less premiums and interest purchased. Interest earned from GAS Securities (as reported in the financial statements) consists of interest earned from GAS securities and the amortization of premiums and discounts.

m. Earmarked Funds

Funding Sources

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

Funding for the Judicial Retirement Fund is authorized by 111 Stat. 757, Sec. 11251, Public Law 105-33 as amended by 112 Stat. 2681-534, Sec. 804(a)(4), Public Law 105-277.

Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084, Public Law 108-489. Sources of revenue or other financing sources for the years ended September 30, 2011, and 2010 were annual appropriations, employee contributions, and interest earnings from investments.

Intra-governmental Investments in Treasury Securities

The Federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Office as evidence of its receipts. Treasury securities are an asset of the Office and a liability to the U.S. Treasury. Since the Office and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the U.S. Treasury and the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Office with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Office requires redemption of these securities to make expenditures, the Federal government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal government finances all other expenditures.

n. 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 has been recorded in the accompanying financial statements.

3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2011 and 2010, consisted of the following (in thousands):

	2011	2010
Fund balances:		
Trust fund	$ 100	$ 100
Special fund *	7,041	6,706
Total fund balance with Treasury	$ 7,141	$ 6,806

* OMB Circular A-11 defines special funds as a Federal fund account for receipts earmarked for specific purposes and the expenditure of these receipts.

	2011	2010
Status of fund balance with Treasury		
Obligated balance not yet disbursed	$ 7,141	$ 6,806
Total	$ 7,141	$ 6,806

4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2011 and 2010 consisted of the following (in thousands):

	2011			
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	$ 301,357	—	301,357	301,357
Non-marketable market-based	3,489,252	224,895	3,714,147	3,891,835
Total	$ 3,790,609	224,895	4,015,504	4,193,192

	2010			
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	$ 302,493	—	302,493	302,493
Non-marketable market-based	3,491,447	156,315	3,647,762	3,862,121
Total	$ 3,793,940	156,315	3,950,255	4,164,614

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, 2011, and 2010, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are a net unrealized gain of $177.7 million as of September 30, 2011, and a net unrealized gain of $214.3 million as of September 30, 2010.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2011, and 2010, by maturity date, are as follows (in thousands):

	2011	2010
Less than or equal to 1 year	$ 570,493	$ 574,547
More than 1 year and less than or equal to 5 years	2,395,195	2,284,845
More than 5 years and less than or equal to 10 years	748,459	788,370
Total	$ 3,714,147	$ 3,647,762

5) ADP Software, Net

The components of ADP software, net as of September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
ADP software	$ 40,129	$ 40,129
Accumulated amortization	(38,775)	(36,918)
ADP software, net	$ 1,354	$ 3,211

6) Equipment, Net

The components of equipment, net as of September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
ADP hardware	$ 500	$ 500
Accumulated depreciation	(500)	(500)
Equipment, net	$ —	$ —

7) Intra-governmental Costs and Exchange Revenue

Intra-governmental Costs and Exchange Revenue for the years ended September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Program Costs		
Intragovernmental Costs	$ 4,746	$ 4,854
Public Costs	477,485	1,230,201
Total Program Costs	482,231	1,235,055
Program Revenue		
Intragovernmental Earned Revenue	(116,853)	(126,920)
Public Earned Revenue	(615)	(729)
Total Program Revenue	(117,468)	(127,649)
Net Program Cost	$ 364,763	$ 1,107,406

8) Administrative Expenses

Administrative expenses for the years ended September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Intragovernmental Expenses		
Salaries and Related Benefits	$ 707	$ 746
Contractual Services	3,397	3,541
Rent	626	556
Noncapitalized Equipment/Software	-	3
Other	16	8
Total intragovernmental expenses	4,746	4,854
Public Expenses		
Salaries and Related Benefits	2,364	2,583
Contractual Services	7,701	3,931
Noncapitalized Equipment/Software	-	164
Amortization/Depreciation	1,856	2,402
Other	283	19
Total public expenses	12,204	9,099
Total administrative expenses	$ 16,950	$ 13,953

9) Pension Expense

Pension expense for the plan years ended September 30, 2011, and 2010, includes the following components (in thousands):

	2011	2010
Beginning Liability Balance	$ 9,742,579	$ 9,049,094
Pension Expense:		
Normal Cost	4,567	4,585
Interest on Pension Liability During the Period	265,746	398,632
Actuarial (Gains)/Losses During the Period:		
From Experience	(123,349)	(61,101)
From Discount Rate Assumption Change	472,668	1,877,655
From Other Assumption Changes	(154,350)	(998,669)
Total Pension Expense	465,282	1,221,102
Less Amounts Paid and Accrued	(537,043)	(527,617)
Ending Liability Balance	$ 9,670,818	$ 9,742,579

Federal Benefit Payments

Federal pension benefits paid and accrued during the plan years were $527.9 million and $9.1 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2011, and $519.2 million and $8.4 million, respectively, for 2010. For FY 2011 and FY 2010, approximately $0.5 million and $0.4 million, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund.

Actuarial Gains and Losses

In FY 2011, there was a net liability actuarial loss in both funds. There was a liability actuarial loss of $472.7 million due to new discount rate assumptions, a liability actuarial gain of $154 million due to new pay and cost-of-living assumptions, and a liability actuarial gain of $123 million due to experience. The net result was a total liability actuarial loss of $195 million for both funds. In FY 2010, there was a liability actuarial loss of $1.878 billion due to new discount rate assumptions, a liability actuarial gain of $999 million due to new pay and cost-of-living assumptions, and a liability actuarial gain of $61 million due to experience. The net result was a total liability actuarial loss of $818 million for both funds.

10) Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2011, and 2010, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	2011	2010
Budgetary Resources Obligated		
Obligations Incurred	$ 1,057,442	$1,070,864
Less: Spending Authority from Offsetting Collections and Adjustments	3,974	11,873
Obligations Net of Offsetting Collections and Recoveries	1,053,468	1,058,991
Less: Offsetting Receipts	542,421	573,831
Net Obligations	511,047	485,160
Imputed Financing from Costs Absorbed by Others	163	177
Total Resources Used to Finance Activities	511,209	485,337
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	862	(1,671)
Resources That Fund Expenses Recognized in Prior Periods	76,206	(5,574)
Budgetary Offsetting Collections and Receipts that don't Affect Net Cost of Operations	(1)	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	-	57
Total Resources used to Finance Items not part of the Net Cost of Operations	77,067	(7,188)
Total Resources Used to Finance Net Cost of Operations	434,142	492,525
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	4,787	693,481
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	4,787	693,481
Components not Requiring or Generating Resources		
Depreciation and Amortization	12,041	(51,020)
Other	(86,207)	(27,580)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	(74,166)	(78,600)
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	(69,379)	614,881
Net Cost of Operations	$ 364,763	$1,107,406

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PART 4:
Supplementary Schedules

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Assets						
Entity Assets						
Intra-Governmental Assets						
Fund Balance with Treasury	$ 100	7,041	7,141	$ 100	6,706	6,806
Investments in GAS Securities, Net	136,882	3,878,622	4,015,504	132,538	3,817,717	3,950,255
Interest Receivable from GAS Securities	629	32,165	32,794	642	29,318	29,960
Advances to Others	4	37	41	4	35	39
Accounts Receivable, Net	-	896	896	-	1,234	1,234
ADP Software, Net	1	1,353	1,354	5	3,206	3,211
Equipment, Net	-	-	-	-	-	-
Total Assets	$ 137,616	3,920,114	4,057,730	$ 133,289	3,858,216	3,991,505
Liabilities						
Liabilities Covered By Budgetary Resources						
Intra-Governmental						
Accounts Payable	$ 31	131	162	$ 21	119	140
Accrued Payroll and Benefits	3	27	30	3	28	31
Accounts Payable	19	3,363	3,382	20	2,810	2,830
Accrued Pension Benefits Payable	782	50,564	51,346	711	49,561	50,272
Actuarial Pension Liability	130,263	3,590,919	3,721,182	126,460	3,600,369	3,726,829
Accrued Payroll and Benefits	35	281	316	35	312	347
Total Liabilities Covered By Budgetary Resources	131,133	3,645,285	3,776,418	127,250	3,653,199	3,780,449
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	59,589	5,890,047	5,949,636	58,605	5,957,145	6,015,750
Total Liabilities	190,722	9,535,332	9,726,054	185,855	9,610,344	9,796,199
Net Position						
Cumulative Results of Operations - Earmarked	(53,106)	(5,615,218)	(5,668,324)	(52,566)	(5,752,128)	(5,804,694)
Total Net Position	(53,106)	(5,615,218)	(5,668,324)	(52,566)	(5,752,128)	(5,804,694)
Total Liabilities and Net Position	$ 137,616	3,920,114	4,057,730	$ 133,289	3,858,216	3,991,505

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Program Costs						
Administrative Expenses	$ 786	16,164	16,950	$ 748	13,205	13,953
Pension Expense before Actuarial Assumption Changes	11,298	135,666	146,964	11,045	331,071	342,116
Less: Earned Revenues						
Interest Earned	4,227	112,626	116,853	4,343	122,577	126,920
Employee Contributions	615	-	615	729	-	729
Net Expense Before Loss from Actuarial Assumption Changes	7,242	39,204	46,446	6,721	221,699	228,420
Loss on Actuarial Assumption Changes, Net	2,594	315,723	318,317	25,840	853,146	878,986
Net Cost of Operations	$ 9,836	354,927	364,763	$ 32,561	1,074,845	1,107,406

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Cumulative Results of Operations						
Net Position - Beginning of Year	$ (52,566)	(5,752,128)	(5,804,694)	$ (28,013)	(5,196,642)	(5,224,655)
Budgetary Financing Sources						
Appropriations Used	9,280	491,690	500,970	7,990	519,200	527,190
Other Financing Sources						
Imputed Financing Sources	16	147	163	18	159	177
Total Financing Sources	9,296	491,837	501,133	8,008	519,359	527,367
Net Cost of Operations	(9,836)	(354,927)	(364,763)	(32,561)	(1,074,845)	(1,107,406)
Net Change	(540)	136,910	136,370	(24,553)	(555,486)	(580,039)
Net Position - End of Year	$ (53,106)	(5,615,218)	(5,668,324)	$ (52,566)	(5,752,128)	(5,804,694)

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined DC Pension Funds Total
Budgetary Resources						
Unobligated Balance - brought forward	$ -	-	-	$ -	-	-
Recoveries of Prior Year Unpaid Obligations	120	3,854	3,974	726	5,950	6,676
Budget Authority:						
Appropriations	22,989	1,034,281	1,057,270	20,530	1,085,041	1,105,571
Spending Authority from Offsetting Collections:						
Earned:						
Collected	-	-	-	-	5,197	5,197
Temporarily Unavailable Pursuant to Public Law	(3,802)	-	(3,802)	(4,033)	(42,547)	(46,580)
Total Budgetary Resources	$ 19,307	1,038,135	1,057,442	$ 17,223	1,053,641	1,070,864
Status of Budgetary Resources						
Obligations Incurred:						
Direct	$ 19,307	1,038,135	1,057,442	$ 17,223	1,053,641	1,070,864
Total Status of Budgetary Resources	$ 19,307	1,038,135	1,057,442	$ 17,223	1,053,641	1,070,864
Change in Obligated Balance						
Unpaid obligations brought forward, Oct. 1	$ 934	57,506	58,440	$ 1,611	59,427	61,038
Obligations Incurred	19,307	1,038,135	1,057,442	17,223	1,053,641	1,070,864
Gross outlays	(19,071)	(1,031,919)	(1,050,990)	(17,174)	(1,049,612)	(1,066,786)
Recoveries of Prior Year Unpaid Obligations, Actual	(120)	(3,854)	(3,974)	(726)	(5,950)	(6,676)
Unpaid Obligated Balance, Net, End of Period:	1,050	59,868	60,918	934	57,506	58,440
Net Outlays						
Gross Outlays	$ 19,071	1,031,919	1,050,990	$ 17,174	1,049,612	1,066,786
Offsetting collections	-	-	-	-	(5,197)	(5,197)
Distributed offsetting receipts	(9,280)	(533,141)	(542,421)	(7,990)	(565,841)	(573,831)
Net Outlays	$ 9,791	498,778	508,569	$ 9,184	478,574	487,758

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Intra-governmental Balances
As of and for the years ended September 30, 2011 and September 30, 2010
(in thousands)

		2011			2010		
Department	**Intra-governmental balance description**	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
	Assets						
Treasury	Fund Balance with Treasury	$ 100	7,041	7,141	$ 100	6,706	6,806
Treasury	Investments in GAS securities, net	136,882	3,878,622	4,015,504	132,538	3,817,717	3,950,255
Treasury	Interest receivable from GAS securities	629	32,165	32,794	642	29,318	29,960
Treasury	Advances to Others	4	37	41	4	35	39
	Total intra-governmental assets	$ 137,615	3,917,865	4,055,480	$ 133,284	3,853,776	3,987,060
	Liabilities						
Treasury	Accounts Payable	$ 31	131	162	$ 21	116	137
OPM	Accounts Payable	—	—	—	—	3	3
Gen Fund	Accrued Payroll and Benefits	—	8	8	—	9	9
OPM	Accrued Payroll and Benefits	3	19	22	3	19	22
	Total intra-governmental liabilities	$ 34	158	192	$ 24	147	171
	Revenues						
Treasury	Interest earned/loss from GAS Securities, Net	$ 4,227	112,626	116,853	$ 4,343	122,577	126,920
OPM	Imputed Financing Sources	16	147	163	18	159	177
	Total intra-governmental revenues	$ 4,243	112,773	117,016	$ 4,361	122,736	127,097
	Expenses						
Treasury	Salaries and related benefits	$ 2	15	17	2	15	17
OPM	Salaries and related benefits	57	492	549	57	516	573
Gen Fund	Salaries and related benefits	16	125	141	16	140	156
Treasury	Contractual Services	316	3,081	3,397	307	3,231	3,538
OPM	Contractual Services	—	—	—	—	3	3
Treasury	Rent	63	563	626	55	501	556
GPO	Other	—	8	8	—	2	2
Treasury	Other	1	7	8	1	8	9
	Total intra-governmental expenses	$ 455	4,291	4,746	$ 438	4,416	4,854

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in GAS Securities - Net By Fund
As of September 30, 2011 and September 30, 2010
(in thousands)

	2011				2010			
	Cost	*Unamortized Premium Net*	*Investments Net*	*Market Value*	*Cost*	*Unamortized Premium Net*	*Investments Net*	*Market Value*
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 5,704	-	5,704	5,704	$ 5,278	-	5,278	5,278
Non-marketable Market-based	126,234	4,944	131,178	141,935	122,525	4,735	127,260	136,110
Total	$ 131,938	4,944	136,882	147,639	$ 127,803	4,735	132,538	141,388
D.C. Federal Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 295,653	-	295,653	295,653	$ 297,215	-	297,215	297,215
Non-marketable Market-based	3,363,018	219,951	3,582,969	3,749,900	3,368,922	151,580	3,520,502	3,726,011
Total	$ 3,658,671	219,951	3,878,622	4,045,553	$ 3,666,137	151,580	3,817,717	4,023,226

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity
As of September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
Time of Maturity	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Less than or equal to 1 year	$ 11,004	559,489	570,493	$ 12,100	562,447	574,547
More than 1 year and less than or equal to 5 years	51,681	2,343,514	2,395,195	48,981	2,235,864	2,284,845
More than 5 years and less than or equal to 10 years	68,493	679,966	748,459	66,179	722,191	788,370
Total	$ 131,178	3,582,969	3,714,147	$ 127,260	3,520,502	3,647,762

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Intragovernmental Costs and Exchange Revenue - by Fund
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	D.C. Judicial Retirement and Survivors Annuity Fund	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Program Costs						
Intragovernmental Costs	$ 455	4,291	4,746	$ 438	4,416	4,854
Public Costs	14,224	463,262	477,485	37,195	1,193,006	1,230,201
Total Program Costs	14,678	467,553	482,231	37,633	1,197,422	1,235,055
Program Revenue						
Intragovernmental Earned Revenue	(4,227)	(112,626)	(116,853)	(4,343)	(122,577)	(126,920)
Public Earned Revenue	(615)	-	(615)	(729)	-	(729)
Total Program Revenue	(4,842)	(112,626)	(117,468)	(5,072)	(122,577)	(127,649)
Net Program Cost	$ 9,836	354,927	364,763	$ 32,561	1,074,845	1,107,406

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Administrative Expenses - by Fund
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	D.C. Judicial Retirement and Survivors Annuity Fund	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Intragovernmental Expenses						
Salaries and Related Benefits	$ 75	632	707	$ 75	671	746
Contractual Services	316	3,081	3,397	307	3,234	3,541
Rent	63	563	626	55	501	556
Noncapitalized Equipment/Software	-	-	-	-	3	3
Other	1	15	16	1	7	8
Total intragovernmental expenses	455	4,291	4,746	438	4,416	4,854
Public Expenses						
Salaries and Related Benefits	264	2,100	2,364	261	2,322	2,583
Contractual Services	63	7,638	7,701	42	3,889	3,931
Noncapitalized Equipment/Software	-	-	-	2	162	164
Amortization/Depreciation	3	1,853	1,856	3	2,399	2,402
Other	1	282	283	2	17	19
Total public expenses	331	11,873	12,204	310	8,789	9,099
Total administrative expenses	$ 786	16,164	16,950	$ 748	13,205	13,953

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Pension Expense - by Fund
For the Years Ended September 30, 2011 and September 30, 2010
in thousands

	2011			2010		
	D.C. Judicial Retirement and Survivors Annuity Fund	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Beginning Liability Balance	$ 185,065	9,557,514	9,742,579	$ 156,597	8,892,497	9,049,094
Pension Expense:						
Normal Cost	4,567	-	4,567	4,585	-	4,585
Interest on Pension Liability During the Period	5,065	260,681	265,746	7,975	390,657	398,632
Actuarial (Gains) Losses During the Period:						
From Experience	1,666	(125,015)	(123,349)	(1,515)	(59,586)	(61,101)
From Discount Rate Assumption Change	9,210	463,458	472,668	33,562	1,844,093	1,877,655
From Other Assumption Changes	(6,616)	(147,734)	(154,350)	(7,722)	(990,947)	(998,669)
Total Pension Expense	13,892	451,390	465,282	36,885	1,184,217	1,221,102
Less Amounts Paid and Accrued	9,105	527,938	537,043	8,417	519,200	527,617
Ending Liability Balance	$ 189,852	9,480,966	9,670,818	$ 185,065	9,557,514	9,742,579

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Reconciliation of Net Cost of Operations to Budget - by Fund
For the Years Ended September 30, 2011 and September 30, 2010
(in thousands)

	2011			2010		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Budgetary Resources Obligated						
Obligations Incurred	$ 19,307	1,038,135	1,057,442	$ 17,223	1,053,641	1,070,864
Less: Spending Authority from Offsetting Collections and Adjustments	120	3,854	3,974	726	11,147	11,873
Obligations Net of Offsetting Collections and Recoveries	19,187	1,034,281	1,053,468	16,497	1,042,494	1,058,991
Less: Offsetting Receipts	9,280	533,141	542,421	7,990	565,841	573,831
Net Obligations	9,907	501,140	511,047	8,507	476,653	485,160
Imputed Financing from Costs Absorbed by Others	16	147	163	18	159	177
Total Resources Used to Finance Activities	9,923	501,287	511,210	8,525	476,812	485,337
Resources Used to Finance Items Not Part of the Net Cost of Operations						
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	35	827	862	(636)	(1,035)	(1,671)
Resources That Fund Expenses Recognized in Prior Periods	-	76,206	76,206	-	(5,574)	(5,574)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	-	(1)	(1)	-	-	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	-	-	-	1	56	57
Total Resources used to Finance Items not part of the Net Cost of Operations	35	77,032	77,067	(635)	(6,553)	(7,188)
Total Resources Used to Finance Net Cost of Operations	9,888	424,255	434,143	9,160	483,365	492,525
Components Requiring or Generating Resources in Future Periods						
Increase in Exchange Revenue Receivable from the Public	-	-	-	-	-	-
Future Funded Expenses	4,787	-	4,787	28,467	665,014	693,481
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	4,787	-	4,787	28,467	665,014	693,481
Components not Requiring or Generating Resources						
Depreciation and Amortization	3	12,038	12,041	3	(51,023)	(51,020)
Other	(4,842)	(81,366)	(86,208)	(5,069)	(22,511)	(27,580)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	(4,839)	(69,328)	(74,167)	(5,066)	(73,534)	(78,600)
Total Components of Net Cost of Operations that will not Require or Generate Resources in Current Periods	(52)	(69,328)	(69,380)	23,401	591,480	614,881
Net Cost of Operations	$ 9,836	354,927	364,763	$ 32,561	1,074,845	1,107,406

See accompanying independent auditors' report.