



Audit Report



OIG-13-039

Audit of the Office of D.C. Pensions' Treasury Reconciliation Report for the Period October 1, 1997 through December 31, 2007

May 29, 2013

Office of Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 29, 2013

OFFICE OF
INSPECTOR GENERAL

**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' Treasury Reconciliation Report for the Period October 1, 1997 through December 31, 2007

We are pleased to transmit the attached audited Office of D.C. Pension's (ODCP) Treasury Reconciliation Report. Under a contract issued by ODCP, Lani Eko & Company, CPAs, PLLC (Lani Eko), an independent certified public accounting firm, performed an audit of the Treasury Reconciliation Report for the period October 1, 1997, through December 31, 2007. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

In its audit, Lani Eko found that the Treasury Reconciliation Report presented fairly, in all material respects, the total District benefit payments, the amounts paid by D.C. Retirement Board (DCRB) for estimated District benefit payments, and the amount due from DCRB to Treasury for District benefit payments for the period October 1, 1997, through December 31, 2007, in conformity with the cash basis of accounting and requirements of the Balanced Budget Act of 1997, as amended and as applicable; governing agreements between the ODCP, the District of Columbia government, and the DCRB; and Department of the Treasury regulations published in 31 CFR Part 29, Subpart C—Split Benefits. Lani Eko did not identify any matters in internal control over financial reporting that were considered material weaknesses. Further, Lani Eko found no instances of reportable noncompliance with laws and regulations tested.

The Treasury Reconciliation Report reported that the total amount due from DCRB to Treasury for District Benefit Payments for the period October 1, 1997, through December 31, 2007, is approximately \$31 million. We recommend that ODCP take action to collect the amount due from DCRB within 1 year in accordance with the governing agreements between ODCP, the District of Columbia government and the DCRB. Please be advised that this report and the related recommendation and questioned cost will be tracked in the Department's Joint Audit Management Enterprise System (JAMES).

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Lani Eko is responsible for the attached auditor's report dated April 19, 2013, and the conclusions expressed in the report. We do not express an opinion on ODCP's Treasury Reconciliation Report or conclusions about the effectiveness of internal control or compliance with laws and regulations.

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

TREASURY AUDITOR'S REPORT
OF THE
TREASURY RECONCILIATION REPORT
U.S. Department of the Treasury
Office of D.C. Pensions

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LANI EKO & COMPANY, CPAs, PLLC
110 S. Union Street, Suite 101
Alexandria, VA 22314

Phone: (703) 647-7444
Fax: (866) 665-7269
www.laniekocpas.com

INDEPENDENT AUDITOR'S REPORT

To the Director,
U.S. Department of the Treasury's
Office of D.C. Pensions:

We have audited the accompanying Treasury Reconciliation Report (hereinafter referred to as the special-purpose financial statement) for the period October 1, 1997 through December 31, 2007. This special-purpose financial statement is the responsibility of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) management. Our responsibility is to express an opinion on this special-purpose financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statement and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 3, the accompanying special-purpose financial statement has been prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles generally accepted in the United States, for the purpose of complying with the requirements of the Balanced Budget Act of 1997, as amended and as applicable; governing agreements between the ODCP, the District of Columbia government, and the District of Columbia (D.C.) Retirement Board; and the U.S. Department of the Treasury's regulations published in Subpart C of 31 CFR Part 29, Split Benefits (Split Benefit Regulations), and is not intended to be a complete presentation of the ODCP's financial position as of December 31, 2007 or its activities for the period of October 1, 1997 through December 31, 2007.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the total District benefit payments, the amounts paid by D.C. Retirement Board for estimated District benefit payments, and the amount due from D.C. Retirement Board to Treasury for District benefit payments for the period October 1, 1997 through December 31, 2007, in conformity with the basis of accounting described in Note 3, and requirements of the Balanced Budget Act of 1997, as amended and as applicable; governing agreements between the ODCP, the District of Columbia government, and the D.C. Retirement Board; and Split Benefit Regulations.

Management is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the special-purpose financial statement, we also considered the ODCP's internal control over financial reporting related to the special-purpose financial statement by obtaining an understanding of the ODCP's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting related to the special-purpose financial statement. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting related to the special-purpose financial statement.

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 for the special-purpose financial statement was for the limited purpose described above and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for special-purpose financial statement that we consider to be material weaknesses, as defined above.

Management is responsible for complying with laws, regulations and agreements (including the Balanced Budget Act of 1997, as amended and as applicable; Subpart C of 31 CFR Part 29 and governing agreements between the ODCP, the District of Columbia government, and the D.C. Retirement Board) applicable to the special-purpose financial statement. As part of obtaining reasonable assurance about whether the special-purpose financial statement is free of

material misstatement, we performed tests of ODCP's compliance with certain provisions of laws, regulations, and agreements, noncompliance with which could have a direct and material effect on the determination of the special-purpose financial statement amounts. 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 under *Government Auditing Standards*.

This report is intended solely for the information and use of the ODCP's management, the District of Columbia government, the D.C. Retirement Board, the U.S. Department of the Treasury and the U.S. Department of the Treasury's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Lani Eko & Company, CPAs, PLLC

April 19, 2013
Alexandria, Virginia

Department of the Treasury

Office of D.C. Pensions



TREASURY RECONCILIATION REPORT

Report on the Final Determination of Total District Benefit Payments, Amounts Paid by the D.C. Retirement Board for Estimated District Benefit Payments, and Amount Due from the D.C. Retirement Board to Treasury for District Benefit Payments under the D.C. Teachers' Retirement Plan and D.C. Police Officers' and Firefighters' Retirement Plan for the Period starting on October 1, 1997 and ending on December 31, 2007 (also referred to as the Reconciliation Period)

	D.C. Police Officers' and Firefighters' Retirement <u>Fund</u>	D.C. Teachers' Retirement <u>Fund</u>	<u>TOTAL</u>
Total District Benefit Payments (Note 4)	\$77,859,281.12	\$97,970,179.60	\$175,829,460.72
Less: Amounts paid by D.C. Retirement Board for Estimated District Benefit Payments (Note 5)	<u>(\$68,182,205.80)</u>	<u>(\$76,183,426.67)</u>	<u>(\$144,365,632.47)</u>
Amount due from D.C. Retirement Board to Treasury for District Benefit Payments (Note 6)	<u>\$9,677,075.32</u>	<u>\$21,786,752.93</u>	<u>\$31,463,828.25</u>

The accompanying notes are an integral part of the Treasury Reconciliation Report.

**Notes to the Treasury Reconciliation Report
For the period starting on October 1, 1997 and ending on December 31, 2007**

(1) Governing Agreements

Amendment No. 1 to the First Amended and Restated Memorandum of Understanding Concerning Interim Administration of Retirement Programs dated September 28, 2000 (“2000 MOU”).

Memorandum of Understanding Concerning Interim Benefit Administration of Retirement Programs dated September 26, 2005 (“2005 MOU”).

Letter of Agreement amending the 2005 MOU dated February 7, 2007 (“2007 Amendment Letter”).

Letter of Agreement amending the 2005 MOU dated July 18, 2008 (“2008 Amendment Letter”).

Letter of Agreement amending the 2005 MOU dated August 30, 2012 (“2012 Amendment Letter”).

(2) Reporting Entity and Background

Under provisions in Title XI of the Balanced Budget Act (BBA) of 1997 (Pub L. 105-33, 111 Stat. 211), as amended, the Secretary of the Treasury (“the Secretary”) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia retirement plans: the D.C. Police Officers’ and Firefighters’ Retirement Plan, the Teachers’ Retirement Plan, and the Judges’ Retirement Plan. Specifically, effective October 1, 1997 (“Effective Date”), the Secretary is responsible for administering and funding the retirement benefits earned by District teachers, police officers, and firefighters based upon service accrued through June 30, 1997 (“Freeze Date”), and retirement benefits earned by District judges, regardless of when service accrued. Generally, the District is responsible for administering and funding the retirement benefits for service occurring after the Freeze Date.

The Office of D.C. Pensions (ODCP), within the Department of the Treasury, was established to manage and oversee the D.C. Pensions program and ensure timely and accurate benefit payments associated with the District of Columbia retirement plans listed above. The Secretary’s authority under the Balanced Budget Act, as amended, has been delegated to ODCP.

Treasury regulations published in Subpart C of 31 CFR Part 29 – Split Benefits (“Split Benefit Regulations”), provide the methodology for calculating the Federal and District liability for Benefit Payments for individuals with service spanning the period both before and after the Freeze Date. Applying the methodology to calculate Federal and District Benefit Payments is commonly referred to as determining “the split”. Treasury utilized the methodology set forth in the Split Benefit Regulations to make the final determination of District Benefit Payments for the period starting on October 1, 1997 and ending on December 31, 2007.

The Split Benefit Regulations were originally published in December 2000 as a final rule in the Federal Register under 31 CFR Part 29, "Federal Benefit Payments under Certain District of Columbia Retirement Plans." In March 2001, the effective date of Subpart C of the regulations dealing with Split Benefit determinations was postponed indefinitely pending the development and implementation of a system to calculate the split benefit portion of the total payment. Until such system was implemented, the Department of the Treasury, the District of Columbia, and the D.C. Retirement Board agreed that Treasury would pay all benefits regardless of when the service was accrued and that the D.C. Retirement Board would estimate the District's share of benefit payments on an annual and then monthly basis and reimburse Treasury accordingly (See the 2000 and 2005 MOUs and the 2007 Amendment Letter). The parties also agreed that once the aforementioned system was implemented and the final Split Benefit Regulations were promulgated, Treasury would reconcile the District Benefit Payments, as calculated according to the Split Benefit Regulations, with the estimated District Benefit Payments actually paid by the D.C. Retirement Board. The process for this reconciliation is set forth in section 10.5 of the 2000 MOU, which provides for the issuance of an audited Treasury Reconciliation Report providing this information. The reconciliation period was established in the 2012 Amendment Letter.

Treasury developed the System to Administer Retirement (STAR) to calculate and pay Total Benefit Payments to annuitants and determine the split of these payments. Initial releases of STAR included functionality to calculate and pay Total Benefit Payments, but it was not until November 2007 that the release of STAR was implemented which included functionality to calculate the split. In the 2008 Amendment Letter, the parties agreed to use STAR to determine the amount of each party's share of the Total Benefit Payments. Starting with the January 1, 2008 annuitant payroll, the D.C. Retirement Board began reimbursing the Treasury for District Benefit Payments based on actual amounts determined by STAR, and not based on estimates.

Treasury published the final Split Benefit Regulations on October 19, 2012. The regulations became effective on November 19, 2012.

(3) Summary of Significant Accounting Policies

Basis of Accounting

This Report was prepared pursuant to section 10.5 of the 2000 MOU, between the Department of the Treasury, Office of D.C. Pensions, the District of Columbia, and the District of Columbia Retirement Board. The agreements require that a final determination of District Benefit Payments be made for the period starting on October 1, 1997 and ending on December 31, 2007 (as agreed to by all parties per the 2012 Amendment Letter) based on amounts paid to annuitants and reconciled with actual amounts paid by the D.C. Retirement Board to Treasury. The reconciliation covers the period beginning with the effective date of the Balanced Budget Act, and ending on December 31, 2007 when STAR was fully implemented. The Report was prepared using the cash basis of accounting to meet the terms of the agreements.

(4) Total District Benefit Payments Amount

The final Split Benefit Regulations provide the methodology for determining the initial Federal Benefit Payment and Federal Split Percentage for each annuitant included in the reconciliation. The Federal Split Percentage is the ratio of the initial Federal Benefit Payment to the initial Total Benefit Payment, and was applied to the Total Benefit Payments issued to each annuitant during the relevant period. District Benefit Payments for each annuitant for the period from October 1, 1997 through December 31, 2007 are derived by subtracting the Federal Benefit Payments from each annuitant's Total Benefit Payments. The individual District Benefit Payments are aggregated for the entire annuitant population to arrive at the total District Benefit Payments. The table below presents the sum of all individual annuitant benefit payments by plan and payment type.

Computation of District Benefit Payments	Total by Plan Type	Total by Plan Type	Total for both Plans
	Police/Firefighters	Teachers	
PAPS	\$ 202,930,607.98	\$ 252,863,417.31	\$ 455,794,025.29
STAR	\$ 139,781,400.61	\$ 196,097,893.14	\$ 335,879,293.75
Other Payment System	\$ 50,000.00	\$ 195,776.63	\$ 245,776.63
Total Benefit Payments (a.)	\$ 342,762,008.59	\$ 449,157,087.08	\$ 791,919,095.67
Less: Adjustments (b.)	\$ 10,711.47	\$ 44,254.14	\$ 54,965.61
Total Benefit Payments, net (c.)	\$ 342,751,297.12	\$ 449,112,832.94	\$ 791,864,130.06
Less: Federal Benefit Payments (d.)	\$ 264,892,016.00	\$ 351,142,653.34	\$ 616,034,669.34
District Benefit Payments (e.)	\$ 77,859,281.12	\$ 97,970,179.60	\$ 175,829,460.72

(a.) *Total Benefit Payments* –The Total Benefit Payments subject to reconciliation represent the actual amount paid for retirement benefits during the time period October 1, 1997 through December 31, 2007, to police officer, firefighter, and teacher annuitants whose benefits are based in whole or in part on service accrued after June 30, 1997. Total Benefit Payments based entirely on service accrued on or before June 30, 1997 and Total Benefit Payments to judge annuitants are 100% Federal Benefit Payments and are excluded from the reconciliation. During the reconciliation period, benefit payments were calculated by one of three separate payment systems: Pension Administration and Payroll System (PAPS), STAR, or Other Payment System.

- 1) PAPS was used to issue benefit payments to all annuitants from October 1, 1997 through September 30, 2003, and to certain annuitants from October 1, 2003 through August 31, 2005. 1099-R records were used to identify total payments issued to each annuitant.
- 2) STAR was used to make benefit payments to certain annuitants from October 1, 2003 through August 31, 2005, and to all annuitants from September 1, 2005 through December 31, 2007. Payment files were generated from STAR to identify total payments issued to each annuitant.
- 3) The Other Payment System was used to issue beneficiary payments that could not be issued from PAPS from October 1, 1997 through August 31, 2005. Payment vouchers were used to

identify payments issued to each beneficiary of a retiree where the benefit was based in whole or in part on service accrued after June 30, 1997. Voucher records were available for the period from October 1, 1998 through August 31, 2005. For the period from October 1, 1997 through September 30, 1998, some voucher records were not available, and in such cases, the assumption is that all beneficiary payments were based on service accrued on or before June 30, 1997, and are therefore, 100% Federal Benefit Payments not subject to reconciliation.

(b.) Adjustments (to Total Benefit Payments) – Certain adjustments were made to the Total Benefit Payments to account for the following:

- 1) **Reclaimed Overpayments** are monies recovered from annuitants' financial institution accounts by the Financial Management Service (a Department of the Treasury bureau) and recovered in the year subsequent to the year the payment was made. Payments returned in a subsequent year reduced the Total Benefit Payments subject to reconciliation.
- 2) **Debt Collected for D.C. Partial Survivor Election Project (Post 1997)** occurred when a teacher's survivor election and corresponding benefit reduction happened after the member retired; therefore, the member was required to pay for benefit reductions retroactive to the member's Benefit Commencement Date. These collections reduced the Total Benefit Payments subject to reconciliation.

(c.) Total Benefit Payments, net – The Total Benefit Payments made to annuitants net of the adjustments described in (b.) above.

(d.) Federal Benefit Payments – Federal Benefit Payments are the responsibility of the Federal Government, and represent the portion of the retirement benefit that is associated with service accrued on or before June 30, 1997. This amount was calculated by applying the Federal Split Percentage to Total Benefit Payments on an annuitant-by-annuitant basis. The calculation of the Federal Split Percentage is based on the Split Benefit Regulations.

(e.) District Benefit Payments – The District Benefit Payments are the responsibility of the District, and represent the portion of the retirement benefit that is associated with service accrued after June 30, 1997. It is derived by subtracting the Federal Benefit Payment from the Total Benefit Payment on an annuitant-by-annuitant basis, and then aggregating for all annuitants.

(5) Amounts Paid by D.C. Retirement Board for Estimated District Benefit Payments

These are amounts paid by the D.C. Retirement Board to Treasury for estimated District Benefit Payments for the period from October 1, 1997 through December 31, 2007. The amounts paid to Treasury as estimated District Benefit Payments were based on estimates made by the D.C. Retirement Board actuary and reported in the annual D.C. Retirement Board actuarial valuation reports. These payments were made by the D.C. Retirement Board initially on an annual basis and beginning in July 2007, on a monthly basis. In addition, monthly payments were made by the District from 2001 to 2005 for increased District Benefit Payments, which resulted from D.C. legislative changes enacted after the Freeze Date.

(6) Amount due from D.C. Retirement Board for District Benefit Payments

This amount represents the difference between the total amount of District Benefit Payments as determined in Note 4(e) and the total amounts paid by the D.C. Retirement Board for estimated District Benefit Payments as determined in Note 5 for the period from October 1, 1997 through December 31, 2007. The difference represents the amount due from the assets of the D.C. Teachers' Retirement Fund and D.C. Police Officers' and Firefighters' Retirement Fund to the D.C. Teachers, Police Officers, and Firefighters Federal Pension Fund (referred to as the "D.C. Federal Pension Fund").

Report issued by:

United States Department of the Treasury



Signed:

Date: 4/19/13

Name: Nancy A. Ostrowski

Title: Director, Office of D.C. Pensions