Audit Report

OIG-14-037

Audit of the Office of D.C. Pensions' Fiscal Years 2013 and 2012 Financial Statements

June 2, 2014

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 2013 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 2013 Annual Report, see its website at:

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

For Treasury's Web Accessibility and Section 508 Compliance policy page, see:

Site Policies and Notices re: Accessibility-Section 508 of The Rehabilitation Act

In addition, please note that the following Notes contain data relating to September 30, 2014 and 2013 that is 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:

Note 3: amortized cost of Investments, Net (page 61);
Note 4: the components of Accounts Receivable, Net,
Note 5: the components of ADP Software, Net, and
Note 6: the components of Equipment, Net (page 62).

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

June 2, 2014

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

FROM: Michael Fitzgerald
Director, Financial Audit

SUBJECT: Audit of the Office of D.C. Pensions' Fiscal Years 2013 and 2012 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2013 and 2012. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2013 and 2012 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards and applicable provisions of Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The following reports, prepared by KPMG, 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 found that the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles. However, KPMG identified a material weakness related to ODCP's review controls over its actuarial pension liability. In addition, KPMG identified a significant deficiency related to supervisory review and monitoring controls over annuitant benefit payments. KPMG found no instances of reportable noncompliance with laws and regulations tested.

KPMG also issued a management letter dated May 28, 2014 discussing certain matters involving internal control over financial reporting 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'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 is responsible for the attached auditors' reports dated May 28, 2014, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG 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 Audit, at (202) 927-5407.

Attachment

DEPARTMENT OF THE TREASURY
OFFICE OF D.C. PENSIONS

FISCAL YEAR 2013 ANNUAL REPORT

DISTRICT OF COLUMBIA PENSIONS PROGRAM

MESSAGE FROM THE DIRECTOR

May 2014

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2013 Annual Report, which provides highlights of the significant accomplishments achieved by the program for this year and 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, 2013, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling $4.1 billion. During FY 2013, the Office of D.C. Pensions processed $649 million in benefit payments to 13,991 annuitants and refunds of employee contributions totaling $0.3 million were made to former active employees or their beneficiaries.

During the fiscal year, the Office of D.C. Pensions efficiently managed financial resources by confirming the proper annuitants receive benefit payments, automating aspects of the Student Certification process thereby strengthening internal controls over the benefit payment process, and by increasing the number of benefit payments made via Electronic Fund Transfer to 98.4%. Also, during FY 2013, the Office of D.C. Pensions completed the Reconciliation of District Benefit Payments. On June 20, 2013, the Office delivered a reimbursement request in the amount of approximately $30.9 million to District government officials and the total payment was received on March 31, 2014.

An independent public accounting firm rendered an unmodified opinion on the FY 2013 financial statements of the Office of D.C. Pensions, making this the 15th consecutive year of unmodified opinions. This was accomplished through our partnership with the District of Columbia Retirement Board, the Bureau of the Fiscal Service, and other Department of the Treasury and District entities.

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

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

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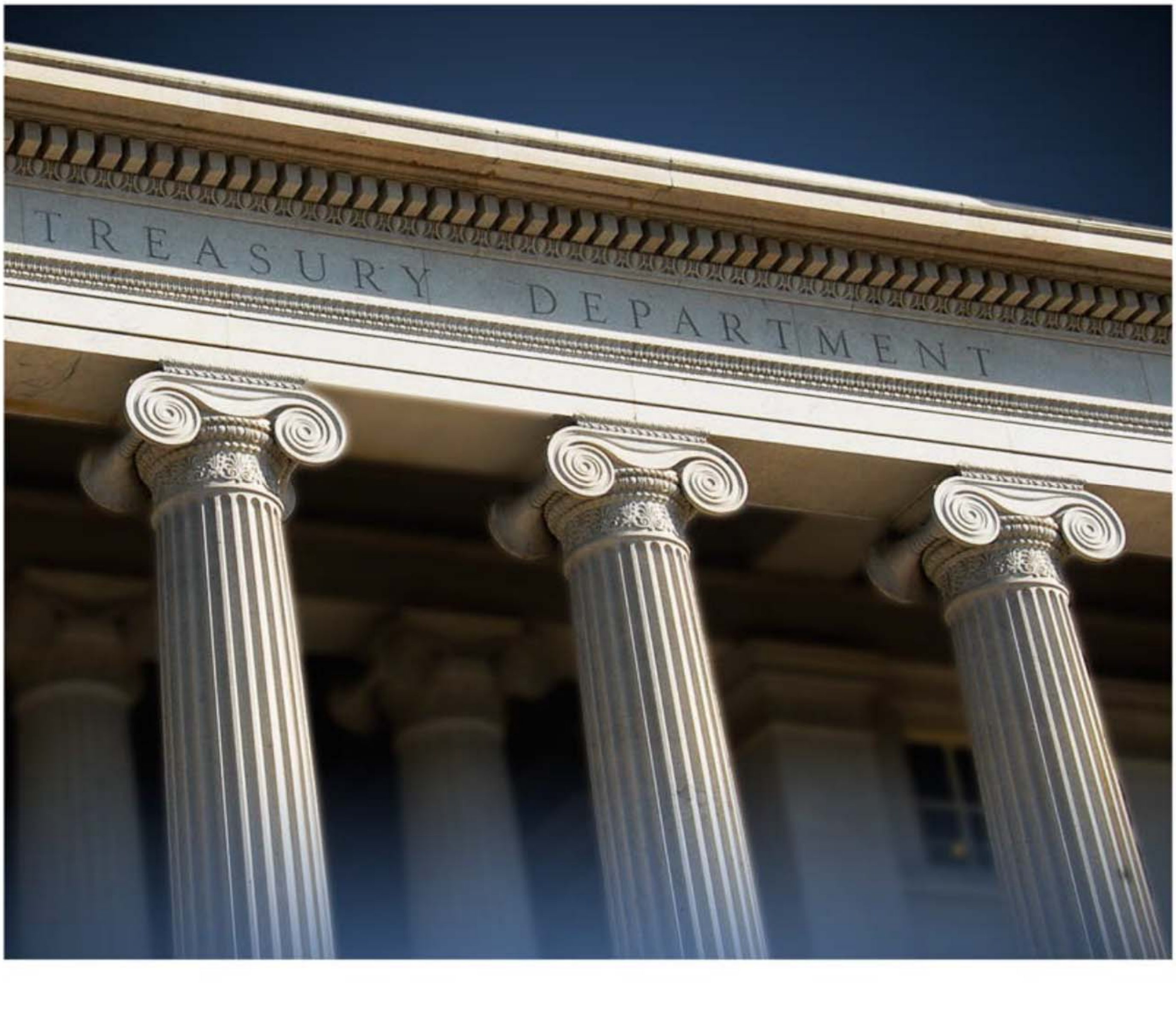
PART 1

MANAGEMENT'S DISCUSSION AND ANALYSIS



DEPARTMENT OF THE TREASURY
ODCP
OFFICE OF D.C. PENSIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2013

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

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

I. Introduction

A. Statutory Basis and Responsibilities

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

The Secretary’s responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, the Department of the Treasury’s (Treasury) Office of D.C. Pensions (the

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

Office) engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and program management. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

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

B. Organizational Structure and Staffing

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO). The DASHR/CHCO reports to the Assistant Secretary for Management, Chief Financial Officer, and Chief Performance Officer (ASM/CFO/CPO). The ASM/CFO/CPO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office structure consists of three key functional areas: benefits and systems administration, finance and resource administration, and program management.

- <u>Benefits and Systems Administration</u>: 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 $649 million in Federal and District benefit payments were made to 13,991 annuitants as of September 30, 2013.

- <u>Finance and Resource Administration</u>: The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. The Office provides oversight for investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately $3.6 billion as of September 30, 2013. The Office also performs an annual actuarial valuation to determine the pension liability of the retirement plans and the annual contributions from the Treasury General Fund to the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- <u>Program Management</u>: The Office plans and executes its responsibilities through program management activities which include planning and project management, quality management and risk management. The Office also produces, analyzes and acts upon performance management information to continually improve operations. As of September 30, 2013, the D.C. Federal Pensions Fund and the Judicial Retirement Fund paid for 22 Treasury positions. In addition, the Office provides funds to other Treasury offices providing support critical to accomplishing the Office's mission.

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

II. Executive Summary

During fiscal year (FY) 2013, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Fiscal Service (BFS), 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.

During FY 2013, the Reconciliation Project of District Benefit Payments was completed, and the District was issued a request for payment to the Treasury in the amount of $30.9 million. The project reconciled amounts paid between the District and Treasury for benefit payments incurred from October 1, 1997, through December 31, 2007. The Office met regularly with the DCRB and the District regarding the methodologies, procedures, data, agreements and timing for conducting reconciliation activities. An external audit was conducted early in FY 2013. The payment was received on March 31, 2014, completing the Reconciliation of District Benefit Payments Project.

The Office continued to oversee the Annuitant Verification Project, which has become operational in DCRB. Reports in STAR were updated and additional reviews were adopted to minimize the potential for improper payments to annuitants. The Office also continued its efforts to increase participation in Electronic Funds Transfer (EFT) by encouraging annuitants receiving paper checks to enroll in direct deposit. As a result of the initiative, the participation rate increased from 96.8% to 98.4%.

The STAR Operational Process Improvements and Enhancements Project was successfully completed in FY 2012 and weekly stakeholders' meetings continued through FY 2013. The SharePoint documentation library structures and views were improved. This application streamlined the STAR Change Control Board process to enhance collaboration and provided a centralized location for storing artifacts has been successfully used throughout FY 2013.

For the 15th consecutive year, the Office received an unmodified audit opinion. However, during FY 2013, the Office discovered an error had occurred in the calculation used to support the Actuarial Pension Liability reported in the previously issued consolidated financial statements as of September 30, 2010, 2011, and 2012. To correct this error, the Office restated its Consolidated Balance Sheet as of September 30, 2012, and its Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the period ended September 30, 2012, within the accompanying FY 2013 comparative financial statements. The Office reflected the cumulative effect of the error attributable to fiscal years FY 2010 and FY 2011 as an adjustment to the beginning balance of the Cumulative Results of Operations in the Consolidated Statement of Changes in Net Position for the period ended September 30, 2012.

In FY 2013, the Office's Program Management Group, which was designed to support long-term strategic focus areas including program oversight, quality management and performance management, continued to meet. The Office collaborated on strategic focus areas with program stakeholders throughout the District of Columbia Pensions Program. The following sections of the Management's Discussion and Analysis provide more details about the FY 2013 program results and plans for future years.

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

The Office of D.C. Pensions (the Office) has three Strategic Goals that contribute to the achievement of one of the five Department of the Treasury's (Treasury) Strategic Goals: Manage the Government's Finances in a Fiscally Responsible Manner.

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

2. **Office Strategic Goal: Management and Organizational Excellence**
   Office Outcomes:
   - Program is effectively managed

3. **Office Strategic Goal: Effective Quality Assurance Program**
   Office Outcomes:
   - Program creates continuous improvement

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

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

Fiscal Years 2013-2016					**Fiscal Year 2013**
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**
Manage the Government's Finances in a Fiscally Responsible Manner	Continuously improve our operations and processes to generate efficiency savings	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 September 1, 2013 payment date Target: 5% or less Actual: 1.16%
					STAR is available to users Target: 99% or more Actual: 99.8%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	Investment strategy developed timely Target: September 21, 2013 Actual: September 26, 2013
					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%
					Annual Contribution from General Fund received into the D.C. Federal Pension & Judicial Retirement Funds Target: September 30, 2013 Actual: October 2, 2013

Fiscal Years 2013-2016					Fiscal Year 2013
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**
Manage the Government's Finances in a Fiscally Responsible Manner (continued)	Continuously improve our operations and processes to generate efficiency savings (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: 98%
					Vendor payments made timely Target: 100% Actual: 99%
				Pension funds meet future needs	Actuarial calculation of FY13 annual contribution from General Fund prepared timely Target: November 16, 2012 Actual: October 26, 2012
		Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Office employees received timely FY12 annual performance plans and reviews Target: 100% Actual: 100%
					Financial Statement Audit Opinion received from an independent external auditor Target: Unmodified opinion Actual: Unmodified opinion

Fiscal Years 2013-2016					Fiscal Year 2013
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**
Manage the Government's Finances in a Fiscally Responsible Manner (continued)	Continuously improve our operations and processes to generate efficiency savings (continued)	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	FY12 Annual Report and Financial Statements prepared timely Target: December 14, 2012 Actual: December 7, 2012
					Open financial management material weaknesses as of September 30, 2013 Target: 0 Actual: 1
					FY12 Actuarial valuation completed timely Target: November 16, 2012 Actual: October 26, 2012
		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: 75% (See footnote #1)

Footnotes:

1) For the Quality Plan Performance Measure: Due to OPIE, a new IT service level agreement has been established with our service provider. However, the IT Quality Plan is under development.

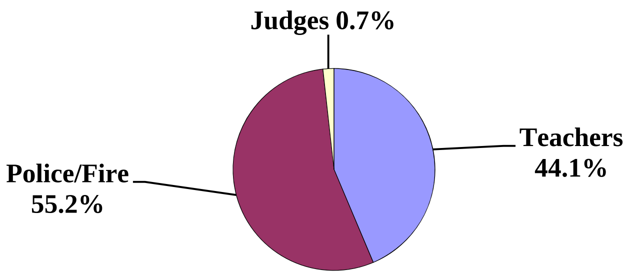
A. *Benefit payments are accurate and timely*

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 13,991 annuitants, as of September 30, 2013, 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, 6,175; police officers and firefighters, 7,725; and judges, 91.



In FY 2013, the monthly Federal and District benefit payments averaged $54.1 million, which is $1.6 million higher than the previous year. All payroll files were submitted on time ensuring timely payment of annuitant benefits on the first business day of the month. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia's Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan, while the Office performed benefits administration for the Judges' Retirement Plan.

General operations focus largely on transaction processing and customer service activities. On a monthly basis, activities include processing new retirements and/or survivor benefits, terminating those no longer eligible and updating annuitants' personal and benefits information. The table below summarizes the average customer service activities. Equally important to transaction processing is customer service. The DCRB customer service team performed a wide range of activities, including resolving annuitant inquiries.

FY 2013 Average Monthly Processing in Key Areas	
Customer Service Activity	**Monthly Volume**
New Retirements	29
Beneficiaries/Estates	28
Purchase of Service	13
Direct Deposit Changes	63
New Survivors	8
Qualified Domestic Relations Orders (QDRO)	1
Refunds	38
Tax Changes	161

In FY 2013, the average monthly support from the customer service team included:

- Answering Calls – 1,182 per month
- Servicing Walk-ins – 88 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 98.4%, resulting in a 1.6% increase from the previous year. The table below illustrates the EFT participation rates for annuitants by retirement plan.

Percentage of EFT Participation		
Annuitants	**2013**	**2012**
Police/Fire	97.7%	96.2%
Teachers	98.3%	97.4%
Judges	100.0%	100.0%

In FY 2013, 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 retirement plan information for active and retired police officers, firefighters, and teachers*);
- Special correspondence *(which provide annuitants with additional information about the retirement plans such as EFT enrollments)*; and
- Communications materials and updated Summary Plan Descriptions for the Teachers' Retirement Plan and the Police Officers' and Firefighters' Retirement Plans were distributed to plan participants and uploaded to the DCRB website.

<u>Annuitant Satisfaction</u>

In FY 2013, DCRB continued to reach out to annuitants for feedback regarding customer satisfaction. The annuitant survey 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. In August, DCRB introduced a new survey format to expand on the question areas and the categories of recipients receiving the survey. Additionally, an on-line response was provided as an option to the paper response. The overall responses from the annuitants indicated that DCRB staff provided excellent service.

Annuitant Payroll Operations

Treasury's Bureau of the Fiscal Service (BFS), Administrative Resource Center (ARC), Pension Payroll (ARC Pension Payroll) provides a variety of services to the Office including annuitant payroll operations, mail management, split benefits reconciliation and reporting, quality reporting, as well as managing payroll projects.

ARC Pension Payroll utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that support benefits administration and payroll operations, to process monthly benefit payments. ARC Pension Payroll works closely with DCRB to process monthly benefit payments and associated insurance carrier payments. ARC Pension Payroll is responsible for reconciling the payroll reports generated from STAR to ensure the annuitant payroll is processed correctly. In FY 2013, ARC Pension Payroll staff made 168,121 benefit payments totaling approximately $649 million for a monthly average of $54.1 million.

ARC Pension Payroll 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 2013, ARC Pension Payroll issued 168,431 earnings statements and letters to 2,195 annuitants.

ARC Pension Payroll 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). ARC Pension Payroll 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.

ARC Pension Payroll provides support to assist with projects. This includes mail merges for letters, tracking of data or statistics, status reports, researching databases, supporting DCRB with findings, and mailing documents. In FY 2013, ARC Pension Payroll provided support with the Annuitant Verification Project, Survivor/Student Notification Project, Do Not Pay Implementation, Post 1956 Military Service Project, Student Eligibility Review, and the Electronic Funds Transfer Project. ARC Pension Payroll also provides assistance with the annual audit.

Benefit Administration Projects

Electronic Funds Transfer (EFT) Project

In FY 2013, the Office continued to focus on the 2013 BFS, Financial Management Services (FMS) EFT initiative which required, by March 2013, certain recipients to receive Federal benefit payments by direct deposit, either to a bank account or to a Direct Express Debit Master Card. The Office was not able to implement the use of the Direct Express Debit Master Card due to systems limitations at BFS/FMS. However, the Office still realized an increase in EFT participation during FY 2013. The rate of EFT participation increased from 96.8% to 98.4%. The participation increased due to several initiatives such as targeted mailings, earnings statement messages, and individual outreach. In FY 2014, the Office will continue to encourage annuitants to participate in direct deposit.

Student Eligibility Review

In FY 2013, the Office, ARC Pension Payroll, and DCRB reviewed the student status of child survivors and STAR was updated as appropriate for missing certifications and incorrect data pertaining to student status. Additionally, ARC Pension Payroll initiated debt collection activities in cases where expired student certifications were identified. Also, in FY 2013, STAR was enhanced to aid with monitoring the status of child survivors. In 2014, the Office will continue to work with ARC Pension Payroll and DCRB to monitor this population of annuitants.

Summary Plan Descriptions (SPD)

In FY 2013, an updated SPD for the District of Columbia Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan were completed and published. The SPD was designed to provide plan members with accurate and easy to understand information about the retirement plans. This project was led by DCRB with assistance from the Office and several other District stakeholders. The updated SPD includes information on statutory changes to the plans.

Work to update the District of Columbia Judges' Retirement Plan SPD began during FY 2013, as well. The Office collaborated with other District stakeholders to provide plan members with updated information about the retirement plan. The updated SPD will be published and distributed in FY 2014.

Benefit Correction Projects

During FY 2013, 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 2014, the Office plans to procure a benefits contractor to assist with benefits projects. This will allow the Office to have maximum flexibility to execute various projects simultaneously. Some of the key areas identified for future focus include: 80% Maximum Annuity Calculations, Lookback Cost of Living Adjustments (COLA), and Term-Vested Payment Review.

In FY 2013, the Office addressed the Teachers' Survivor COLA, the Child Survivor COLA, Partial Month Police Officers' and Firefighters' Survivors Payments, and Post 1956 Military Service projects.

Teachers' Survivor COLA

In partnership with DCRB, the Office reviewed and researched approximately 75 teacher survivors to determine if they received a duplicate COLA. Of the 75 researched, three were identified to have received a duplicate COLA. Where applicable, the annuities were recalculated to correct the benefit payments prospectively.

Child Survivor COLA

In FY 2013, the Office recalculated 31 child survivors whose annuities were not updated with COLAs since 2007. The annuities were adjusted to the correct benefit payment prospectively and any underpayment amounts were paid to eligible child survivors.

Partial Month Police Officers' and Firefighters' Survivors' Payments

In FY 2011, the determination was made to pay the final partial month payment to eligible beneficiaries of survivors of the Police Officers' and Firefighters' Retirement Plan for survivors who died after April 27, 2011. In FY 2013, DCRB began making payments to the beneficiaries who were identified to receive such a payment. ODCP continues to monitor DCRB's progress of making the retroactive payments to eligible beneficiaries as they are identified.

Post 1956 Military Service

The District of Columbia Retirement Equity Act that was signed into law on November 22, 2003 permits D.C. Police Officer's and Firefighters' Retirement Plan members to purchase eligible Post 1956 Military Service for purposes of calculating their retirement benefit. In FY 2013, the Office worked with the DCRB and ARC Pension Payroll to contact annuitants who had not purchased Post 1956 Military Service to determine if they were eligible for Social Security. ARC Pension Payroll mailed personalized letters to individuals impacted by this Act. DCRB continues to review the documentation provided by annuitants to determine if an adjustment to the benefits payments are warranted.

b. System to Administer Retirement (STAR)

<u>Background and History</u>

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 was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.

- Release 2 was implemented in September 2003 to serve teachers, police officers, and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 was deployed in August of 2005 for Teachers, Police, and Firefighters whose initial retirement was processed in STAR after August 1, 2005 (and their survivors). This release also converted Teachers, Police, and Firefighters who retired after July 1, 1997, and before August 1, 2005, and whose initial retirement processing took place in the District's legacy system, the Pension Administration and Payroll System (PAPS).
- Release 4 started the implementation of the split benefit calculation to enable STAR to calculate the federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. This release also included an upgrade of Oracle/PeopleSoft from version 8.0 to 8.9.
- Release 5 was implemented in November 2007 and completed the implementation of the split benefit calculation. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. In addition, STAR calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in PAPS.
- Release 6 was implemented in May 2012 and upgraded the Oracle/PeopleSoft version 8.9 to version 9.1. The upgrade leveraged existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations. One of the major de-customizations included the utilization of the delivered "person model" method for tracking a person in the system. In addition, newly delivered functionality included a "Smart Hire" template, which reduces both data entry errors and the time to enter a new annuitant. The efforts to de-customize STAR will result in significant reductions to the total cost of ownership.

STAR Long-Term Architectural Plan

The Office maintains a STAR Long-Term Architecture Plan (LTAP) designed to ensure the system architecture continues to meet business goals and objectives. The STAR LTAP also provides information for planning and budgeting for system enhancements.

In FY 2013, the STAR LTAP was unchanged. 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.

STAR Technical Production Support and Hosting

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

In prior years, STAR availability measurement was collected for only the production system used by the end-user. In FY2013, STAR availability was expanded to include the development system used by ISS to develop and test change requests, system patches and fixes, and data fixes. In FY 2013, STAR was available to the user population 99.8% of the time.

STAR System Security

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

In FY 2013, the Office began preparations for changes required by OMB mandate and NIST Special Publication 800-137. Agencies are now expected to conduct ongoing authorization of information systems through the implementation of continuous monitoring programs.

During FY 2013, the Office successfully mitigated nine vulnerability (all low) Plan of Actions and Milestones (POA&M) items identified during the FY 2012 System Test & Evaluation (ST&E). In addition, five new vulnerability (three low and two medium) POA&M items were identified during the FY 2013 C&A. A corrective action approach has been established and the Office plans to implement its mitigation strategies in FY 2013.

During the FY 2013 C&A, the Office worked with the Bureau of the Fiscal Service (BFS) to divide the Information System Security Officer (ISSO) role between BFS and the Office. The BFS appointed a representative to be the ISSO for the infrastructure level of the STAR, which includes items outside of the STAR boundary line that the BFS is responsible to maintain as a part of their General Support System (GSS); the Office appointed a representative to be the ISSO for the application level of the STAR, which includes items within the STAR boundary line that the Office is responsible for maintaining.

The Office established a STAR Contingency Plan to address potential disruptions in service and a STAR Disaster Recovery Plan which outlines the procedures for handling any major catastrophe. As required by NIST 800-53, the Office annually conducts contingency site tests to verify the accuracy and integrity of the data and functionality of the contingency system. In FY 2013, the Office utilized a tabletop exercise to test the procedures and roles and responsibilities outlined in the Contingency Plan and executed an anonymous STAR port scan to test the procedures and roles and responsibilities outlined in the Incident Response Plan. Lessons learned items identified from the exercises were used to update various STAR security documentation.

Federal Information Security Management Act (FISMA) Audit

During FY 2013, the Office was selected by the Treasury, Office of the Inspector General to participate in the Department-wide FISMA performance audit. The objective of the audit was to determine if the Department's information security program and practices for its non-IRS bureaus' unclassified systems were generally consistent with the FISMA legislation and related information security policies, standards, and guidelines.

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 2012, the OPIE project formally introduced a revised STAR Change Control Plan, which implemented a Quarterly Release paradigm for STAR. The new Quarterly Release model allowed for improved oversight and management of technical changes to the STAR system, and allowed for more efficient and thorough software testing due to the bundling of changes in discrete releases. OPIE project participants continued to refine development processes and documentation templates post-implementation of the Quarterly Release, as well as improved the SharePoint documentation library structures and views. The final major effort within the OPIE project is the implementation of automated software testing tools: Application Lifecycle Management (ALM) and Unified Functional Testing (UFT). The tools will assist the production support team in their quarterly system and regression testing efforts.

The OPIE project successfully concluded at the end of FY 2012. The ODCP IT focus currently centers on operations and maintenance (O&M) of STAR and further refinement of methods for effective oversight and management of the system. To ensure the adoption of established OPIE practices as well as continued process refinement, a weekly meeting with stakeholders has been established to address STAR IT process issues. In addition, a STAR IT Quality Plan will be introduced in FY 2014 in an effort to more effectively monitor the quality of STAR support services through performance metrics.

Change Control Board

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

During FY 2013, the Office continued with the revised CCB process. The prior year reclassification of STAR change ticket categories, which more clearly differentiates between changes to existing system requirements with operational maintenance items, has been successful. The Office also implemented 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

<u>Warrants</u>

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 and par amounts consistent with the expected payment dates and payout amounts of the pension liabilities. In FY 2013, $495.9 million was deposited into the D.C. Federal Pensions Fund and $9.4 million was deposited into the Judicial Retirement Fund. In FY 2012, $482.4 million was deposited into the D.C. Federal Pension Fund and $9.6 million into the Judicial Retirement Fund.

Interest

In FY 2013, the Treasury deposited $131.9 million in interest cash payments in the D.C. Federal Pension Fund and $4.5 million in interest cash payments in the Judicial Retirement Fund. The Office recognized interest earned of $73.7 million in the D.C. Federal Pension Fund and $3.8 million of interest earned in the Judicial Retirement Fund. The rate of return in FY 2013 for the Office's pension funds was 2.32% for the D.C. Federal Pension Fund and 2.98% for the Judicial Retirement Fund.

In FY 2012, the Treasury deposited $130.7 million in interest cash payments in the D.C. Federal Pension Fund and $4.7 million in interest cash payments in the Judicial Retirement Fund. The Office recognized interest earned of $94.2 million in the D.C. Federal Pension Fund and $4.1 million of interest earned in the Judicial Retirement Fund. The rate of return in FY 2012 for the Office's pension funds was 2.8% for the D.C. Federal Pension Fund and 3.2% 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 2013 totaled approximately $617,000. In FY 2012, active judges' contributions to the retirement fund totaled $577,000.

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 2013 and FY 2012, respectively.

Fund Deposits by Fiscal Year (in millions)

Fund	Type of Deposit	2013	2012
D.C. Federal Pension Fund	Warrant	$495.9	$482.4
	Interest	$131.9	$130.7
	Contributions	$0.0	$0.0
Judicial Retirement Fund	Warrant	$9.4	$9.6
	Interest	$4.5	$4.7
	Contributions	$0.6	$0.6
Total	**Warrants**	**$505.3**	**$492.0**
	Interest	**$136.4**	**$135.4**
	Contributions	**$0.6**	**$0.6**

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 System to Administer Retirement (STAR) Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month. The FY 2013 and FY 2012 reimbursements for District benefit payments totaled $98.8 million and $86.0 million, respectively.

Refunds Reconciliation Project

An MOU with DCRB provides that the District reimburse Treasury for that portion of refunds paid by Treasury prior to February 1, 2005, which represent contributions withheld from an employee's salary or deposits after June 30, 1997. One hundred and thirty-eight refund cases from FY 1999 and FY 1998 have not been reconciled because data is not available to determine federal and District liability. In FY 2014, a methodology will be developed and agreed upon by the Office and the District/DCRB to reconcile and process the remaining cases. Receivables of $386,000 and $200,000 have been established for the remaining FY 1999 and FY 1998 refund cases, respectively.

Debt Management

During FY 2013, the Office pursued debt prevention and collection efforts working with Treasury's Bureau of Fiscal Service, Administrative Resource Center (ARC) Pension Payroll (ARC Pension Payroll), which manages the debt collection process for the Office. The Office worked with ARC Pension Payroll and the Office of General Counsel to pursue debt prevention efforts and ensured that approximately $1.0 million was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. In addition, during the fiscal year, $298,487 was collected through offsets, lump sum payments or installment payments. Also in FY 2013, the Office worked closely with DCRB and ARC Pension Payroll to reduce the number of open debt cases.

The Debt Collection Improvement Act (DCIA) of 1996 requires agencies to transfer to Treasury non-tax debt that is over 180 days delinquent. The FY 2013 agreement with the BFS, Financial Management Service's (FMS) Cross-Servicing Program allows 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, 2013, ARC Pension Payroll referred nine debt cases totaling $63,217 to BFS/FMS for collection.

During FY 2014, the Office will continue to collaborate with stakeholders to streamline its debt management practices and meet with stakeholders periodically to outline improvements in debt prevention and collection.

STAR Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administration costs incurred by the Office when administering District and Federal benefit payments. The methodology takes into consideration the number of 100% federal annuitants, 100% District annuitants, and split annuitants. 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 2013 actual expenses. Pursuant to the agreement, DCRB reimbursed the Office approximately $1.0 million for the Office's expenses in developing and operating STAR to administer District benefit payments. In FY 2012, DCRB reimbursed the Office approximately $1.0 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 Fiscal Service invests the assets of the pension funds based on investment guidance from the Office. The Office follows a "ladder" approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2013, the cash balances in the two funds available for contingencies were targeted to remain above $93 million, which represent approximately two months of federal obligations. The balance in the Fund Balance with Treasury as of September 30, 2013, was $514 million. This significant increase in Fund Balance with Treasury from FY 2012 to FY 2013 is primarily attributable to monies collected ($505 million in annual appropriations received and $8 million for the District's share of the monthly annuity payroll) that were not invested as of September 30, 2013, due to a timing difference. Typically, the Office invests the cash balance in one-day certificates, except for an un-invested balance of $500,000 at month end, to cover unanticipated withdrawals on the last day of the month. In FY 2013, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to November 2018 and for securities in the Judicial Retirement Fund to February 2023.

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, 2013, as was the case in 2012. The following table reflects the net investments breakdown by fund.

Net Investments as of September 30, 2013 and 2012 (in millions)		
Fund	**2013**	**2012**
D.C. Federal Pension Fund	$3,430.2	$3,907.2
Judicial Retirement Fund	133.9	140.4
Total	**$3,564.1**	**$4,047.6**

e. Payments

Annuity Benefit Payments

Pension benefit payments issued by the Office totaled $638.8 million and $10.4 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for FY 2013. The Office issued $619.4 million and $10.1 million, respectively, for FY 2012. DCRB then reimbursed the D.C. Federal Pension Fund $98.8 million for benefit payments made by Treasury on the District's behalf. After the DCRB reimbursement, Federal benefit payments totaled $550.4 million from the D.C. Federal Pension Fund for FY 2013 and $543.5 million for FY 2012.

Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests payment from Treasury for the federal portion. During FY 2013, refunds of employee contributions of nearly $0.3 million were issued to plan participants from the D.C. Federal Pension Fund. For FY 2012, refunds of employee contributions of nearly $0.4 million were issued to plan participants from the D.C. Federal Pension Fund. In addition, one contribution refund was made to a beneficiary of a plan participant in the Judicial Retirement Fund during FY 2013.

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 2013, administrative expenses were approximately $11.1 million for the D.C. Federal Pension Fund and $0.8 million for the Judicial Retirement Fund, for a total of $11.9 million. In FY 2012, administrative expenses were approximately $12.8 million for the D.C. Federal Pension Fund and $0.8 million for the Judicial Retirement Fund, for a total of $13.6 million. The $1.7 million decrease in administrative expenses from FY 2013 from FY 2012 in the D.C. Federal Pension Fund was primarily due to a decrease in contractual services, amortization, and depreciation.

In FY 2013, the Office was subject to the Sequestration Transparency Act of 2012 (Public Law 112-155-August 7, 2012) required the President to submit to Congress a detailed report on the sequestration required to be ordered by certain sections of the Balanced Budget and Emergency Deficit Control Act (2 U.S.C 901a) for fiscal year 2013. The Office of Management and Budget issued this report and identified the District of Columbia Federal Pension Fund and the District of Columbia Judicial Retirement and Survivors Annuity Fund as budget authority subject to sequestration. Although reductions due to sequestration had no impact on payments to annuitants, the Office did absorb these reductions in FY 2013 in the area of administrative expenses by delaying approved hiring actions (leaving vacancies unfilled), and delaying the award of planned contract actions (postponing planned projects). The table below summarizes these reductions:

Fund	Payment Type	Sequestration Impact
District of Columbia Federal Pension Fund	Annuitant Benefit Payments	$0.00
	Administrative Expenses	$867,572
District of Columbia Judicial Retirement and Survivors Annuity Fund	Annuitant Benefit Payments	$0.00
	Administrative Expenses	$58,064
Total Reduction of the FY 2013 Budget Authority due to sequestration		$925,636

The Office's major administrative expenses consisted of DCRB benefit administration, the Office's staff salaries, and benefits, and contractors engaged 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 D.C. Federal Pension Fund and the Judicial Retirement Fund on a five-year schedule. The following table reflects administrative expenses by fund.

Administrative Expenses by Fiscal Year (in millions)			
Fund	**2013**	**2012**	**Difference**
D.C. Federal Pension Fund	$11.1	$12.8	($1.70)
Judicial Retirement Fund	0.8	0.8	-
Total	**$11.9**	**$13.6**	**($1.70)**

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 2013, the President signed into law *the Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). This law revises portions of IPERA and further enhances the accuracy and integrity of Federal payments. The following changes resulted from the revised law: 1) Expanded payment recapture audits to include all types of payments (including federal employee payments, i.e. salaries and expenses); 2) Extension of 2.5% threshold of improper payment measurement through FY 2013; and 3) introduced the *Do Not Pay* initiative.

Also, in FY 2013, the Office conducted a review of all types of payments to determine necessary efforts to recapture erroneous payments. The Office reported results from ongoing benefit payment quality reviews, as well. Payments were reviewed and no high risk payment types identified. The following initiatives were conducted as a result of complying with IPERIA requirements:

Do Not Pay Implementation

Do Not Pay (DNP) affords the Office access to data that could help eliminate improper payments by aiding in identifying and preventing waste, fraud, and abuse. In FY 2013, ARC Pension Payroll submitted weekly annuitant payroll files to DNP to identify erroneous payments. In FY 2013, DNP reviewed the Office payment files against multiple databases. Matches identified by DNP were reviewed by ARC Pension Payroll and findings were forwarded to DCRB for corrective action.

In FY 2014, the Office will continue to work with Treasury's Office of the Deputy Chief Financial Officer (DCFO) to comply with IPERIA.

<u>Prompt Payment Act and Electronic Payments</u>

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

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the BFS/FMS encourage federal agencies to use electronic payments. In FY 2013, the Office paid 100% of the 96 payments, which include invoices and travel reimbursements, by electronic funds transfer. All 96 payments were processed electronically, of which 25% were paid by credit card. In FY 2012, of the 146 electronic payments made, 17% were made by credit card.

<u>Benefit Administration Expense Reimbursements</u>

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 2013 actual expenses. Pursuant to the agreement, the Office will reimburse DCRB approximately $2.3 million for FY 2013 expenses incurred in administering Federal benefit payments. The Office reimbursed DCRB $2.2 million in FY 2012 for expenses incurred in administering Federal benefit payments.

f. Financial Operations

Accounting Support

Pursuant to a reimbursable services agreement, Treasury's Bureau of the Fiscal Service, Administrative Resource Center (ARC) Accounting Services provides accounting support services that include processing accounting transactions such as commercial invoices, purchase cards, obligations, accruals, and revenue transactions. Transaction processing consists of a full range of accounting transactions necessary to maintain a complete general ledger, including budgetary transactions, accounts payable, accounts receivable, and fixed assets. ARC Fiscal Accounting uses Oracle Federal Financial (Oracle) as the core financial management system to record and process financial transactions. The Office's transactions are entered into Oracle both manually and via custom interfaces from ancillary systems such as PRISM and GovTrip. ARC Fiscal Accounting also provides a report writer package called Discoverer, which allows the Office to generate various accounting reports to monitor obligations and expenditures.

Accounting entries that are recorded in the Oracle accounting system are supported by Treasury's BFS, FMS Treasury Financial Manual (TFM) to ensure compliance with standard general ledger reporting requirements. ARC Fiscal Accounting also prepares the Office's financial statements and other useful financial management reports.

g. Actuarial Valuation

In FY 2013, Bolton Partners performed the annual actuarial valuation for the Office as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office. The actuarial liability, as of October 1, 2013, 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, 2013, the Federal Government's total liability for Federal benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately $9.0 billion. Of the $9.0 billion actuarial liability, approximately $4.0 billion is funded by assets in the D.C. Federal Pension Fund and $5.0 billion is unfunded.

Bolton Partners determined an actuarial total liability of $192.7 million for the Judges' Retirement Plan as of October 1, 2013. Of the $192.7 million actuarial liability, approximately $143.9 million is funded by assets in the Judicial Retirement Fund and $48.8 million is unfunded.

In FY 2013, an error was discovered in the discounting method used in the FY 2012 actuarial valuation, and previously issued consolidated financial statements as of September 30, 2010, 2011, and 2012. As a result, Bolton Partners issued a revised FY 2012 actuarial valuation with revised actuarial total liabilities, actuarial unfunded liabilities, and pension expense components for the two funds. The FY 2012 Financial Statements and Notes have been restated to reflect these revised numbers.

h. Reconciliation of District Benefit Payments Project

Pursuant to the Interim Benefits Administration MOU between the Office and the District, once split functionality was established in STAR, the Office was required to conduct a reconciliation of the amounts related to past federal and District benefit payments, investments and administrative expenses.

The primary goal of the Reconciliation Project was to calculate District benefit payments for plan members who received retirement benefits during the period from October 1, 1997, and December 31, 2007, based on the final Split Benefit Regulations and to reconcile these payments with amounts actually paid by the District to Treasury during this period. The reconciliation of District benefit payments identified amounts owed to Treasury by the District for benefit payments during the period between October 1, 1997, and December 31, 2007.

In FY 2013, the Office concluded the reconciliation and issued the Treasury Reconciliation Report (TRR). The TRR stated that the amount of approximately $31.5 million was due from the District to Treasury for the reconciliation of District benefit payments. Based on the findings of an audit of the TRR, the Office adjusted the amount due and in June 2013 requested payment from the District for approximately $30.9 million. The Office established a receivable for the funds in June 2013, and payment in the total amount was received by Treasury on March 31, 2014.

C. Program is effectively managed and creates continuous improvement

1. Program Results

a. Long-Term Strategic Planning

During FY 2013, the Office of D.C. Pensions (the Office) continued 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. The

Office organized and participated in joint short- and long-term planning activities with the District of Columbia Retirement Board (DCRB) and Bureau of the Fiscal Service (BFS), Administrative Resource Center (ARC), where appropriate, in order to maximize coordination of activities for FY 2013 and FY 2014. This collaborative planning approach minimizes the possibility of redundancies or oversights and improves processing efficiencies. In FY 2014, the Multi-Year Plan will be updated to reflect the upcoming two year cycle.

In FY 2014, the Office will focus on benefits administration projects related to error corrections and quality assurance, in addition to working with DCRB to support their implementation of new business processes.

b. Program Management

In FY 2013, the Program Management Group (PMG) was expanded to include the Service Lead for Retirement Services (such as Benefits Administration) and the Service Lead for Technical Services (such as Information Technology, Annuitant Payroll, and Financial management). The PMG focused on quality and risk management, and performance reporting activities. The new performance measurement reporting tool, which includes historical and current performance data, was utilized to improve communications and decision making.

c. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with DCRB for benefit administration and with ARC for the System To Administer Retirement (STAR) administration and hosting, annuitant payroll operations, and financial management services. In FY 2013, 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

<u>Benefits Administration</u>

As part of the Office's Quality Program, quality plans were established to review benefit administration activities such as new annuitant calculations, which include new retirees, survivors, beneficiaries, and Qualified Domestic Relation Orders (QDROs). The benefits administration quality plans are periodically reviewed and revised to ensure benefits processing errors are identified. In FY 2013, the Office completed quality reviews for annuitant payments through the September 1, 2013 pay date. The Office realized a decrease in the monetary error rate during FY 2013. In FY 2014, 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 DCRB to assess training needs for the staff. DCRB has developed training to strengthen the knowledge base governing the rules and regulations.

Payroll Processing

The Office's Quality Program includes reviews of payroll processing functions. The program reviews preliminary and final payroll statistics, large annuitant payments, and third-party reporting. In addition to the aforementioned reports, each month the Office monitors death verification, Do Not Pay (DNP) notifications, the split discrepancy, outstanding issues, and stale dated checks and payment reclamations. 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 2013, the Office continued to include system administration activities and the review of user accounts in its Quality Program. The quality plan tracks system availability, number and type of open production trouble tickets and completion time of trouble tickets. As part of the quality review, user accounts are reviewed semi-annually to ensure that users have the least amount of access privileges necessary to perform their duties. 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 2013, the Office tracked, collected, and reported performance data in an effort to continue to promote transparency, and improve decision making using the performance measurement reporting tool developed and deployed in FY 2012. The tool includes historical performance data (since FY 2008) in the areas of benefit administration quality reviews, payroll statistics, debt collection, federal refund requests, and information technology. The performance measures are reported and reviewed during the Office's monthly quality review meeting. The performance data is utilized to make improvements in program management areas, such as operational planning and resource needs assessments.

f. District of Columbia Retirement Board Performance Reporting

DCRB continued to collect performance data and prepared quarterly performance reports during FY 2013. 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. DCRB also provides data on a monthly basis which is used to support the Office's program performance reporting.

g. STAR End-User Forum

The STAR end-user forum is a platform for DCRB 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 2014 to identify areas for improvement.

h. Risk Management Program

In FY 2013, the Office revised the Risk Management Program. The revisions included updating the risk management plan, redefining program risks as well as revising the risk management objectives and developing new roles and responsibilities for the program.

i. Split Benefit Regulations

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 initially paid by Treasury, but funded by both Treasury and 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 amended 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 were published in the Federal Register on October 19, 2012, with an effective date of November 19, 2012. These regulations maintain consistency with the general principles established in the original regulations.

j. Internal Control over Financial Reporting

The Office used the FY 2013 Guidance and Implementation Plan provided by Treasury's Office of the Deputy Chief Financial Officer (DCFO) to conduct a review of internal controls over financial reporting as required by OMB Circular A-123, *Management's Responsibility for Internal Controls, Appendix A, Internal Control Over Financial Reporting*. ARC Fiscal Accounting staff members and the Office conducted internal control tests or relied on the BFS/ARC Statement on Standards for Attestation Engagements No. 16 (SSAE 16) review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting as of June 30, 2013, 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. However, the independent auditor's review of the Office's internal control review noted opportunities to strengthen internal controls and improve segregation of duties and documentation. 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.

During the performance of the audit of the Office's FY 2013 financial statements, the auditors identified a material weakness in the design or operation of internal controls over financial reporting related to the third party actuary's calculation of the discounted pension benefit payments. A corrective action plan is underway.

k. Financial Statement Audit Opinion

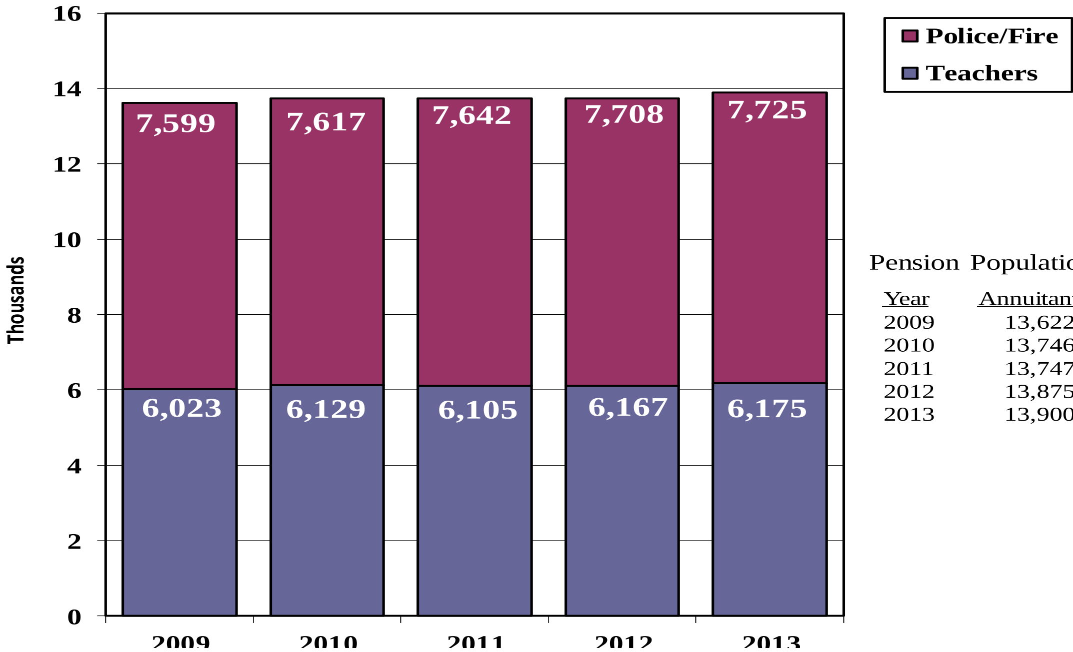
KPMG LLP (KPMG), an independent public accounting firm, rendered an unmodified opinion on the Office's FY 2013 financial statements. This is the 15th consecutive year that the Office's financial statements have received an unmodified opinion.

KPMG noted a material weakness in the Office internal controls over financial reporting. Also, results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 14-02, *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, 2013)*

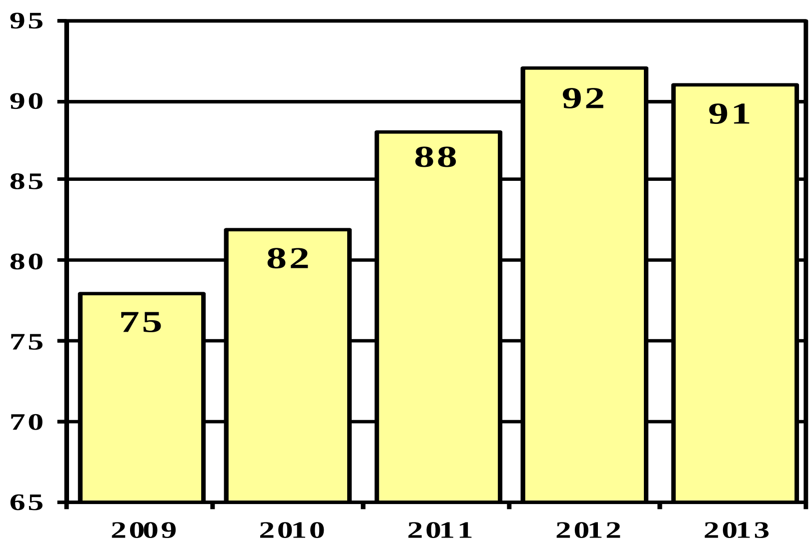
**Police Officers' and Firefighters',
and Teachers' Retirement Plans**



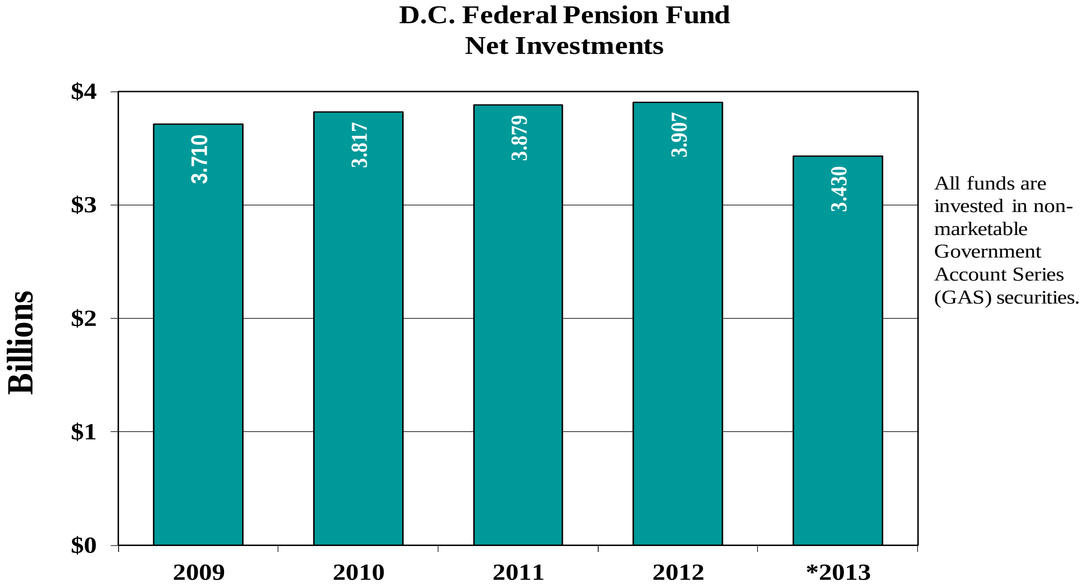
Pension Population

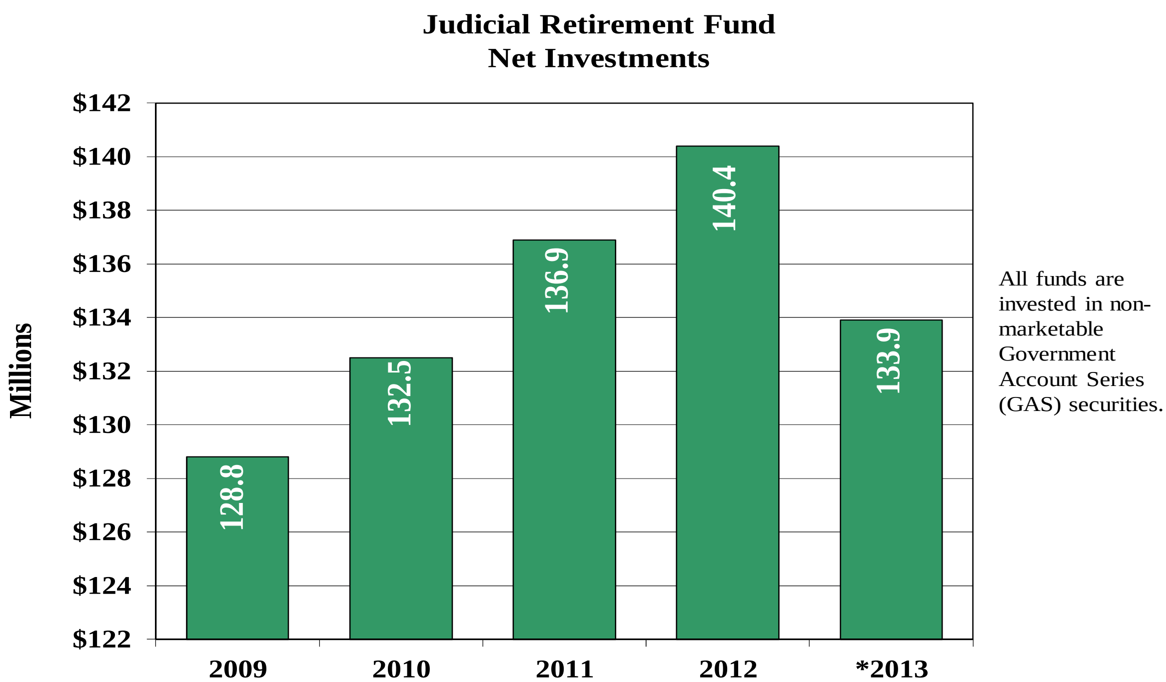
Year	Annuitants
2009	13,622
2010	13,746
2011	13,747
2012	13,875
2013	13,900

Judges' Retirement Plan



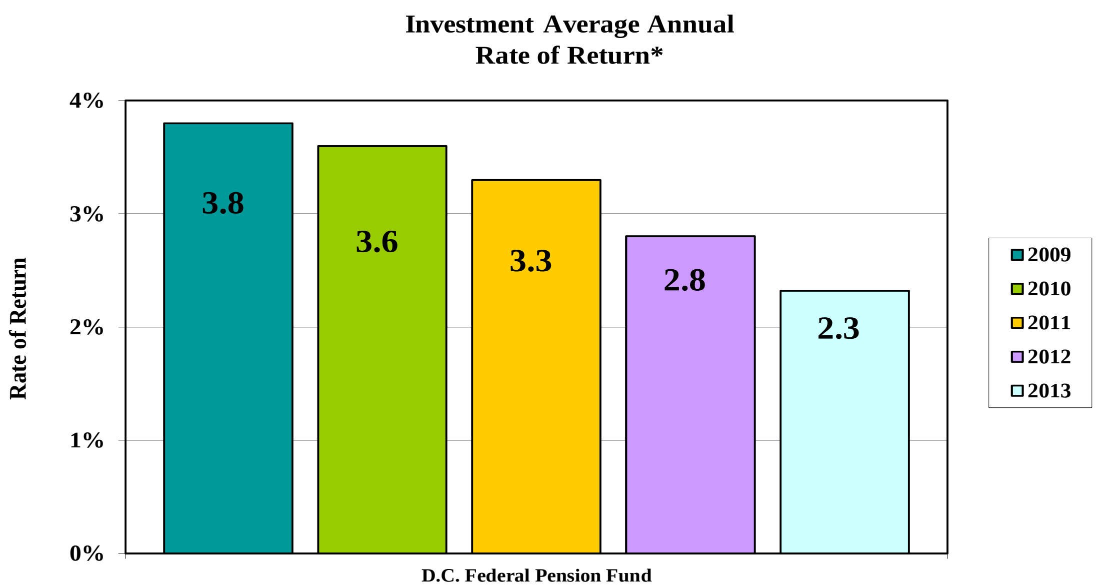
B. *Investments* *(as of September 30, 2013)*



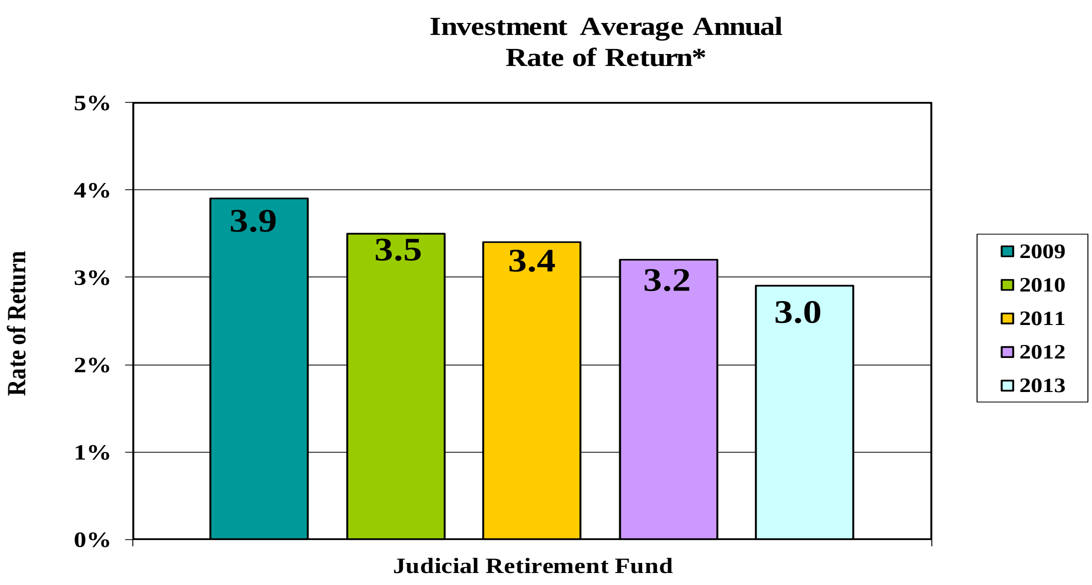


*The decrease in Net Investments from FY 2012 to FY 2013 is primarily attributable to monies collected ($505 million in annual appropriations received and $8 million for the District's share of the monthly annuity payroll) that were not invested as of September 30, 2013 due to a timing difference.

B. ***Investments*** *(as of September 30, 2013) continued*

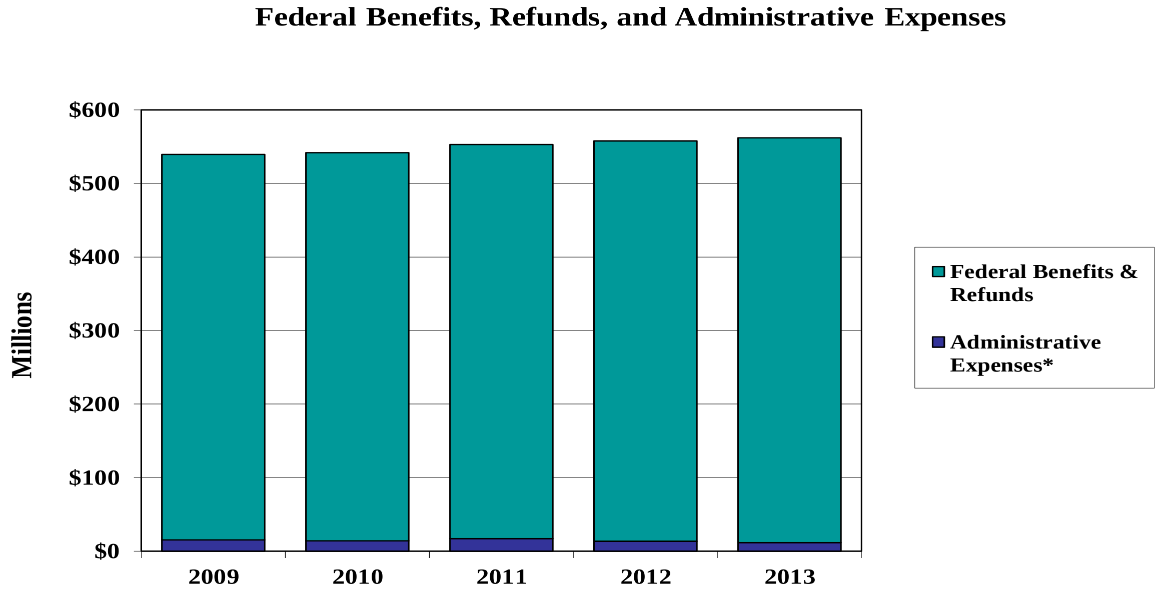


*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.



*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, 2013)*



*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 %
2009	$524M	$15.3M	97%	3%
2010	$528M	$14.0M	97%	3%
2011	$536M	$17.0M	97%	3%
2012	$544M	$13.6M	97%	3%
2013	$550M	$11.9M	98%	2%

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

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.

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PART 2

INDEPENDENT AUDITORS' REPORTS

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

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, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1p and 11 to the consolidated financial statements, the 2012 consolidated financial statements have been restated to correct a material misstatement. As a result, our previously issued independent auditors' reports on the 2010, 2011 and 2012 consolidated financial statements dated December 6, 2010, December 5, 2011, and December 12, 2012, have been withdrawn. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A) and the Combining Statement of Budgetary Resources be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the MD&A because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Combining Statement of Budgetary Resources presented on page 72 in Part 4: Supplementary Schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The Combining Statement of Budgetary Resources has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Budgetary Resources is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The September 30, 2013 and 2012 consolidating information presented on pages 69 to 71, and page 73 in Part 4: Supplementary Schedules and the Other Information included in Part 5 are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the basic consolidated financial statements.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The Other Information included in Part 5 has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014 on our consideration of the ODCP's internal control over financial reporting, which includes a description of the material weakness in internal control over financial reporting that failed to prevent or detect the misstatement, referred to in the Emphasis of Matter Paragraph, and the actions management is taking to address the deficiency, and our report dated May 28, 2014 on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ODCP's internal control over financial reporting and compliance.

KPMG LLP

May 28, 2014

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

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, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 28, 2014. That report recognized that the 2012 consolidated financial statements have been restated to correct a misstatement.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2013, we considered the ODCP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibits I and II, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency, respectively.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II collectively to be a significant deficiency.

ODCP's Responses to Findings

The ODCP's responses to the significant deficiency and material weakness identified in our audit are described in Exhibits I and II. The ODCP's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

KPMG LLP

May 28, 2014

U.S. Department of the Treasury
Office of D.C. Pensions
Independent Auditors' Report on Internal Control over Financial Reporting
Schedule of Findings
Material Weakness

ODCP's Review Controls over Actuarial Pension Liability Should be Improved

ODCP is required by statute to engage the services of a third party actuary to develop the actuarial pension liability as of each fiscal year end. The actuarial valuations for the fiscal years (FY) ended September 30, 2010 through 2012 were prepared by ODCP's former actuaries under a contract that expired in FY 2012. In FY 2013, the IRS Office of Treasury Procurement Services (OTPS) issued a solicitation for actuarial services for ODCP for the actuarial valuation as of September 30, 2013 and awarded the contract to different actuaries. During the FY 2013 audit of the ODCP's financial statements, ODCP management made KPMG aware that the current actuaries determined that there was an error in the calculation of the September 30, 2012 actuarial pension liability as a result of an error in the discounting of the projected benefit payments which was used to arrive at the present value as of September 30, 2012.

In FY 2010, ODCP was required to implement the provisions of Statement of Federal Financial Accounting Standards 33 (SFFAS 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*. One of the requirements of implementing this standard was to change the discount rates that ODCP was using to discount projected benefit payments from forward rates based on experience up to year 5 and based on assumptions for year 6 and thereafter to specific spot rates for each year based on the 10 year average historical rates on zero coupon bonds of the same duration as the projected cash flows. Upon implementation of this standard, the former actuaries used the correct interest rates, but failed to apply them to the cash flows correctly. This had the effect of discounting a portion of the projected benefit streams for each year after year 1 at interest rates lower than the average historical rate for that particular year.

Upon further investigation, ODCP management also determined that this same erroneous methodology was used in the former actuaries' calculation of the actuarial pension liability as of September 30, 2010 and 2011. These miscalculations resulted in overstatements of the actuarial pension liability and the related expense in the ODCP financial statements as of and for the years ended September 30, 2010, 2011, and 2012. As of September 30, 2012, the overstatement was $848 million. As a result, the ODCP FY 2012 financial statements were restated.

ODCP did not have controls designed, implemented or operating effectively to prevent, detect, or correct the error described above.

Statement of Federal Financial Accounting Standards 33 (SFFAS 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* requires:

> "Discount rates as of the reporting date for present value measurements of pension, ORB, and OPEB liabilities should be based on interest rates on **marketable Treasury securities** with maturities consistent with the cash flows being discounted. The discount rates should be matched with the expected timing of the associated expected cash flow. Thus, cash flows projected in each period should have a discount rate associated with them. However, one discount rate may be used for all projected future cash flows if the resulting present value is not materially different than the

resulting present value using multiple rates. A change to or from multiple rates from or to a single rate should be disclosed.

The discount rates as of the reporting date should reflect average historical rates on marketable Treasury securities rather than giving undue weight to the current or very recent past experience of such rates. Historical experience should be the basis for expectations about future trends in marketable Treasury securities. The discount rate, the underlying inflation rate, and the other economic assumptions should be consistent with one another.

In developing average historical Treasury rates, a minimum of five historical rates as of the reporting date (e.g., at the current and four prior fiscal year ends) should be used for each maturity. The historical rates used to calculate the average should be sequential (e.g., 2003-2007). For example, for an average historical Treasury rate to be used as the discount rate as of the end of fiscal year 2007 for a payment due in 10 years (i.e., in fiscal 2017), a minimum of the five most recent fiscal year-end historical rates on 10-year Treasury securities should be used. Thus, the rate on 10-year Treasury securities as of the end of fiscal year 2007 would be one of the five historical rates used in the average, the rate on 10-year Treasury securities as of the end of fiscal year 2006 would be another rate, etc., until, at a minimum, the rates on 10- year Treasury securities as of the end of fiscal years 2003 through 2007 would be included in the average.

The number of historical rates used in the calculation of the average as explained in paragraph 30, e.g., five fiscal year-end rates, should be consistent from period to period. The entity's accounting policy disclosures should include its policy regarding consistency from one reporting period to the next.

In the determination of the historical Treasury rates used, for cash flows that are projected to occur in future years for which Treasury securities are or were not available or that are expected beyond the maturities at which Treasury securities are available, e.g., beyond the 30-year security, the preparer should incorporate into the determination of the discount rate interest rates interpolated or extrapolated from historical Treasury rates."

Recommendation:

We recommend that ODCP strengthen its internal controls over the actuarial pension liability by developing procedures which formalize and detail the review process for accepting the enrolled actuary's contract deliverables.

Management's Response:

ODCP will develop procedures which formalize and detail the review process for accepting the enrolled actuary's contract deliverables.

U.S. Department of the Treasury
Office of D.C. Pensions
Independent Auditors' Report on Internal Control over Financial Reporting
Schedule of Findings
Significant Deficiency

DCRB Supervisory Review Controls and ODCP Monitoring Controls over Annuitant Benefit Payments need Improvement (Repeat Condition)

The District of Columbia Retirement Board (DCRB) and ODCP continued to make progress to resolve weaknesses identified in the previous year relating to processing annuitant benefit payments in FY 2013. However, more improvement is still required to prevent and detect errors in processing annuitant transactions in the System to Administration Retirement (STAR).

During our FY 2013 audit, we again identified weaknesses in the controls over processing annuitant benefit payments by DCRB for the Police & Firefighters and Teacher retirement plans that we consider collectively to be a significant deficiency. Specifically, during our testing of 79 new annuitant payments amounting to $1.8 million and 20 off-cycle payments processed in STAR amounting to $226,716, we noted that the DCRB second reviewers or ODCP monitoring controls failed to identify the following errors made by the DCRB analyst:

- For nine of the 79 new annuitants tested, we noted:
  - One incorrect classification of an annuitant as a Firefighter instead of as a Police Officer.
  - One incorrect classification of the annuitant as a survivor of a retired Metro Police Office instead of a retired Metro Police Officer.
  - One instance where the STAR split-benefit allocation percentage between the District of Columbia and Federal government was incorrectly calculated for the beneficiary of a retired teacher survivor; however the error of $96,593 was detected and corrected by ODCP during the monthly reconciliation review, so the liability was not overstated.
  - Five new annuitants were overpaid. Total overpayment was approximately $1,089.
  - One new annuitant was underpaid by approximately $3,310.

  We noted that the two classification errors referenced above did not affect the annuitant's payment calculation and were subsequently corrected by ODCP and DCRB.

- For one of the 20 off-cycle payments tested, one annuitant was underpaid by approximately $466.

The primary cause of these errors is that the analysts did not perform adequate self-review of their work. Additionally, the second reviewer at DCRB did not perform an adequate level of review over data inputs for new annuitants processed in STAR.

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.

Federal Register Vol. 77, No.203 31 CFR Part 29, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans*: Treasury has responsibility for payment of benefits based on service accrued as of June 30, 1997, under the retirement plans for District of Columbia teachers, police officers, and firefighters. Benefits for service after that date, and certain other benefits, are funded by the District of Columbia.

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."

The Standards also provides examples of control activities, which include "reviews by management at the functional or activity level."

Recommendation:

We continue to recommend that the ODCP conduct further training with the DCRB analysts and second reviewers so they fully understand their roles and responsibilities associated with the benefit payment process.

Management's Response:

Further training will be conducted with DCRB analysts and second reviewers emphasizing roles and responsibilities associated with the benefit payment process.

KPMG LLP
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1801 K Street, NW
Washington, DC 20006

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, 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. 14-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 28, 2014. That report recognized that the 2012 consolidated financial statements have been restated to correct a misstatement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ODCP's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

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

KPMG LLP

May 28, 2014

PART 3

FINANCIAL STATEMENTS AND NOTES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2013 and September 30, 2012
(in thousands)

		2013		Restated 2012
Assets:				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$	514,544	$	500
Investments, Net (Note 3)		3,564,139		4,047,649
Interest Receivable		35,118		35,175
Advances to Others		41		53
Total Intragovernmental		4,113,842		4,083,377
Accounts Receivable, Net (Note 4)		33,495		9,109
ADP Software, Net (Note 5)		17		224
Equipment, Net (Note 6)		-		-
Total Assets	$	4,147,354	$	4,092,710
Liabilities:				
Liabilities Covered by Budgetary Resources				
Intragovernmental				
Accounts Payable	$	47	$	57
Accrued Payroll and Benefits		12		34
Total Intragovernmental		59		91
Accounts Payable		2,403		3,241
Accrued Pension Benefits Payable		54,471		53,340
Actuarial Pension Liability (Notes 1j, 9)		3,789,526		3,705,529
Accrued Payroll and Benefits		227		354
Total Liabilities Covered by Budgetary Resources		3,846,686		3,762,555
Liabilities Not Covered by Budgetary Resources				
Actuarial Pension Liability (Notes 1j, 9, 11)		5,374,237		5,505,145
Total Liabilities		9,220,923		9,267,700
Net Position:				
Cumulative Results of Operations (Note 11)		(5,073,569)		(5,174,990)
Total Net Position		(5,073,569)		(5,174,990)
Total Liabilities and Net Position	$	4,147,354	$	4,092,710

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, 2013 and September 30, 2012
(in thousands)

		2013		Restated 2012
Program Costs (Note 7)				
Administrative Expenses (Note 8)	$	11,864	$	13,635
Pension Expense before Actuarial Assumption Changes (Note 9, 11)		137,182		297,241
Less: Earned Revenues (Note 7)				
Interest Earned		77,530		98,282
Benefit Program Revenue		30,894		-
Employee Contributions		617		577
Net Expense Before Loss from Actuarial Assumption Changes		40,005		212,017
Loss on Actuarial Assumption Changes, Net (Note 9, 11)		364,031		602,159
Net Cost of Operations	$	404,036	$	814,176

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, 2013 and September 30, 2012
(in thousands)

	2013	Restated 2012
Cumulative Results of Operations:		
Net Position - Beginning of Year	$ (5,174,990)	$ (5,668,324)
Correction of Error (Note 11)	-	815,318
Beginning Balances, as Restated (Note 11)	$ (5,174,990)	$ (4,853,006)
Budgetary Financing Sources:		
Appropriations Used	505,330	492,040
Other Financing Sources (Nonexchange):		
Imputed Financing	127	152
Total Financing Sources	505,457	492,192
Net Cost of Operations (Note 11)	(404,036)	(814,176)
Net Change	101,421	(321,984)
Cumulative Results of Operations (Note 11)	$ (5,073,569)	$ (5,174,990)
Unexpended Appropriations:		
Beginning Balance	$ -	$ -
Budgetary Financing Sources:		
Appropriations Received	505,330	492,040
Appropriations Used	(505,330)	(492,040)
Total Budgetary Financing Sources	-	-
Total Unexpended Appropriations	-	-
Net Position (Note 11)	$ (5,073,569)	$ (5,174,990)

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, 2013 and September 30, 2012
(in thousands)

		2013		2012
Budgetary Resources				
Unobligated Balance Brought Forward, October 1	$	-	$	-
Recoveries of Prior Year Unpaid Obligations		4,345		5,407
Unobligated Balance from Prior Year Budget Authority, Net		4,345		5,407
Appropriations (Discretionary and Mandatory)		1,057,762		1,056,818
Spending Authority from Offsetting Collections		3		10
Total Budgetary Resources	$	1,062,110	$	1,062,235
Status of Budgetary Resources				
Obligations Incurred	$	1,062,110	$	1,062,235
Total Budgetary Resources	$	1,062,110	$	1,062,235
Change in Obligated Balance				
Unpaid Obligations, Brought Forward, October 1	$	62,683	$	60,918
Obligations Incurred		1,062,110		1,062,235
Outlays (Gross)		(1,058,333)		(1,055,063)
Recoveries of Prior Year Unpaid Obligations		(4,345)		(5,407)
Unpaid Obligations, End of Year (Gross)		62,115		62,683
Obligated Balance, End of Year	$	62,115	$	62,683
Budget Authority and Outlays, Net				
Budget Authority, Gross (Discretionary and Mandatory)	$	1,057,765	$	1,056,828
Actual Offsetting Collections (Discretionary and Mandatory)		(3)		(10)
Budget Authority, Net (Discretionary and Mandatory)	$	1,057,762	$	1,056,818
Outlays, Gross (Discretionary and Mandatory)	$	1,058,333	$	1,055,063
Actual Offsetting Collections (Discretionary and Mandatory)		(3)		(10)
Outlays, Net (Discretionary and Mandatory)		1,058,330		1,055,053
Distributed Offsetting Receipts		(631,807)		(544,052)
Agency Outlays, Net (Discretionary and Mandatory)	$	426,523	$	511,001

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

1) Summary of Significant Accounting Policies

a. Reporting Entity

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

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

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

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

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

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred 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 Fiscal Service (BFS). 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 2013 and FY 2012 were $495.9 million and $482.4 million, respectively.

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 2013 and FY 2012 were $9.4 million and $9.6 million, respectively.

b. 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, and the related notes, 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 accordance 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.

c. Fund Balance with Treasury

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

d. Investments, Net

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund in GAS, market-based ("MK") securities — special non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by 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.

e. Advances to Others

The carrying amount of advances and prepayments to the Department of the Treasury's Working Capital Fund approximate fair value as they represent the amounts expected to be paid for certain common administrative services such as telecommunications and information technology services.

f. Accounts Receivable, Net

Accounts receivable consist primarily of:

- 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
- Amounts due from the D.C. Government for the District's estimated share of refunds paid by the Office in prior years
- 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
- Amounts due from annuitants and survivors as the result of benefit overpayments

In FY 2013, the Department of the Treasury completed the reconciliation of estimated District Benefit Payments received by Treasury for the District's portion of annuitant benefit payments made between October 1, 1997 and December 31, 2007 with the amount of total District Benefit Payments the District should have paid to Treasury. As of September 30, 2013, the amount due from the District is approximately $30.9 million, of which $9.4 million relates to police officer and firefighter benefits and $21.5 million relates to teacher benefits. The payment for the amount due from the District was received on March 31, 2014.

g. 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.

h. 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.

i. Accrued Pension Benefits Payable

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

j. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Individual Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The economic assumptions (rate of return, inflation, and salary increases) are based upon the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. To calculate the actuarial pension liabilities as of October 1, 2013, 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, 2013, were an annual rate of investment return of 1.86% in FY 2014, gradually increasing to 4.37% by FY 2033 and then gradually increasing to 4.41% by FY 2043; an annual inflation and cost-of-living adjustment of 2.56% for judges, and 2.53% for teachers, and 2.43% for police officers and firefighters; and salary increases at an annual rate of 2.34% for judges, and 3.90% for teachers, 3.40% for police officers, and 3.08% for firefighters.

The assumptions used to calculate the pension liabilities as of October 1, 2012, were an annual rate of investment return of 2.02% in FY 2013, gradually increasing to 4.70% by FY 2033 and then gradually decreasing to 4.69% by FY 2038; an annual inflation and cost-of-living adjustment of 2.53% for judges and 2.55% for teacher, police officers and firefighters; and salary increases at an annual rate of 1.50% for judges, and 4.25% for teachers, police officers, and firefighters.

The economic assumptions used by the Office for the teachers, police officers and firefighters, and judges plans differ from those used by the OPM for the following reasons: (i) the annual rate of salary increase assumptions are based on different plan member experience; (ii) the annual rate of inflation and cost-of-living adjustment assumptions are based on different statutory requirements (applicable Consumer Price Index and period of calculation); and (iii) for the annual rate of investment return assumption, OPM and the Office use the same underlying yield curve but, unlike the Office, OPM converts to a single equivalent rate.

k. 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 transferred out to the D.C. Federal Pension Fund and the Judicial Retirement Fund to be invested in non-marketable GAS securities. In accordance with 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, 2013 and 2012 were $505.3 million and $492 million, respectively.

l. Treasury Employee Retirement Plans

The D.C. Federal Pension Fund and Judicial Retirement Fund pay the salaries and benefits of Treasury employees who support the Office as reasonable and necessary expenses incurred in carrying out the Secretary's responsibilities under the Act. These salaries and benefits are split 90% and 10% between the D.C. Federal Pension Fund and the Judicial Retirement Fund, respectively.

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

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the D.C. Federal Pension Fund and the Judicial Retirement Fund make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

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

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

m. President's Budget

The FY 2013 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President's Budget for FY 2015 and there were no differences for budgetary resources, status of budgetary resources, and net outlays. The President's Budget for FY 2015, which includes the Office's budget within the Other Independent Agencies' budget appendix is available at the following website:

- http://www.whitehouse.gov/omb/budget/overview

The FY 2012 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President's Budget for FY 2014 and there were no differences for budgetary resources, status of budgetary resources, and net outlays.

n. Revenue and Financing Sources

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

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

Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084, Public Law 108-489. Sources of revenue or other financing sources for the years ended September 30, 2013, and 2012 were annual appropriations, employee contributions, and interest earnings from investments.

o. 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.

p. Restatement

Restatements are made in accordance with SFFAS No. 21, "*Reporting Corrections of Errors and Changes in Accounting Principles*." Specifically, restatements will only be made for material prior period errors to: (1) the current period financial statements; and (2) the prior period financial statements presented for comparison. For detailed information on the restatement made to the FY 2012 financial statements, refer to *Note 11 Restatement*.

2) Fund Balance with Treasury

Fund Balance with Treasury and the Status of Fund Balance with Treasury as of September 30, 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Fund Balances		
Trust Fund	$ 9,479	$ 118
Special Fund	505,065	382
Total Fund Balance with Treasury	$ 514,544	$ 500

	2013	2012
Status of Fund Balance with Treasury:		
Obligated Balance Not Yet Disbursed	$ 62,115	$ 62,683
Adjustments for:		
Budget Authority Unavailable for Obligation	3,790,452	3,705,529
Adjustment for Amounts Invested in Treasury Security Investments	(3,338,023)	(3,767,712)
Total	$ 514,544	$ 500

The adjustments in the table above are required to reconcile the budgetary status to the non-budgetary Fund Balance with Treasury as reported on the Consolidated Balance Sheets, including:

- Adjustment for Budget Authority Unavailable for Obligation – budget authority that is unavailable for obligation reduced the budgetary resources.
- Adjustment for Amounts Invested in Treasury Security Investments – budgetary resources that include Treasury security investments; however, the funds have been moved from the Fund Balance with Treasury asset account to the Investments account.

During FY 2013, the Office corrected the presentation of the Status of Fund Balance with Treasury as of September 30, 2012, to conform with the required presentation in U.S. generally accepted accounting principles.

3) Investment, Net

Investments, Net as of September 30, 2013 and 2012 consisted of the following (in thousands):

2013		Cost	Unamortized Premium, Net	Investments, Net	Market Value
Intragovernmental Securities					
Non-Marketable Par Value	$	100,185	-	100,185	100,185
Non-Marketable Market-based		3,239,705	224,249	3,463,954	3,520,724
Total	$	3,339,890	224,249	3,564,139	3,620,909

2012		Cost	Unamortized Premium, Net	Investments, Net	Market Value
Intragovernmental Securities					
Non-Marketable Par Value	$	297,483	-	297,483	297,483
Non-Marketable Market-based		3,481,743	268,423	3,750,166	3,890,773
Total	$	3,779,226	268,423	4,047,649	4,188,256

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, 2013 and 2012, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in these figures are a net unrealized gain of $56.8 million as of September 30, 2013, and a net unrealized gain of $140.6 million as of September 30, 2012.

The amortized cost of Investments, Net as of September 30, 2013 and 2012, by maturity date, are as follows (in thousands):

		2013		2012
Less than or Equal to 1 Year	$	615,787	$	436,276
More than 1 Year and Less than or Equal to 5 Years		2,639,640		2,633,217
More than 5 Years and Less than or Equal to 10 Years		208,528		680,673
Total	$	3,463,954	$	3,750,166

4) Accounts Receivable, Net

The components of Accounts Receivable, Net as of September 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Accounts Receivable, Gross	$ 33,592	$ 9,216
Allowance for Loss on Accounts Receivable	(97)	(107)
Accounts Receivable, Net	$ 33,495	$ 9,109

5) ADP Software, Net

The components of ADP Software, Net as of September 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
ADP Software	$ 40,129	$ 40,129
Accumulated Amortization	(40,112)	(39,905)
ADP Software, Net	$ 17	$ 224

6) Equipment, Net

The components of Equipment, Net as of September 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
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, 2013 and 2012 (Restated) are as follows (in thousands):

		2013		Restated 2012
Program Costs				
Intragovernmental Costs	$	4,913	$	4,911
Public Costs		144,133		305,965
Total Program Costs	$	149,046	$	310,876
Program Revenue				
Intragovernmental Earned Revenue		(77,530)		(98,282)
Public Earned Revenue		(31,511)		(577)
Total Program Revenue	$	(109,041)	$	(98,859)
Net Expense Before Loss from Actuarial Assumption Changes		40,005		212,017
Loss on Actuarial Assumption Changes, Net		364,031		602,159
Net Cost of Operations	$	404,036	$	814,176

8) Administrative Expenses

Administrative Expenses for the years ended September 30, 2013 and 2012 are as follows (in thousands):

		2013		2012
Intragovernmental Expenses				
Salaries and Related Benefits	$	627	$	683
Contractual Services		4,287		3,678
Rent		(3)		547
Other		2		3
Total Intragovernmental Expenses	$	4,913	$	4,911
Public Expenses				
Salaries and Related Benefits	$	2,296	$	2,620
Contractual Services		4,272		4,947
Noncapitalized Equipment/Software		-		1
Amortization/Depreciation		208		1,130
Other		175		26
Total Public Expenses	$	6,951	$	8,724
Total Administrative Expenses	$	11,864	$	13,635

9) Pension Expense

Pension expense for the plan years ended September 30, 2013, and 2012 (Restated), includes the following components (in thousands):

	2013	Restated 2012
Beginning Liability Balance	$ 9,210,674	$ 8,855,500
Pension Expense:		
Normal Cost	5,000	4,533
Interest on Pension Liability During the Period	181,610	196,894
Actuarial (Gains) Losses During the Period:		
From Experience	(49,428)	95,814
From Discount Rate Assumption Change	498,802	475,058
From Other Assumption Changes	(136,356)	127,101
From Method Change	1,585	-
Total Pension Expense	501,213	899,400
Less Amounts Paid and Accrued	(548,124)	(544,226)
Ending Liability Balance	$ 9,163,763	$ 9,210,674

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

	2013	Restated 2012
Pension Expense before Actuarial Assumption Changes:		
Normal Cost	$ 5,000	$ 4,533
Interest on Pension Liability During the Period	181,610	196,894
Actuarial (Gain) Loss During the Period from Experience	(49,428)	95,814
Total Pension Expense before Actuarial Assumption Changes	$ 137,182	$ 297,241
Loss on Actuarial Assumption Changes, Net		
Actuarial (Gains) Losses During the Period:		
From Discount Rate Assumption Change	$ 498,802	$ 475,058
From Other Assumption Changes	(136,356)	127,101
From Method Change	1,585	-
Total Loss on Actuarial Assumption Changes, Net	$ 364,031	$ 602,159
Total Pension Expense	$ 501,213	$ 899,400

Federal Benefit Payments

Federal pension benefits paid and accrued during the plan years were $537.9 million and $10.2 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2013, and $534.1 million and $10.1 million, respectively, for 2012. For FY 2013 and FY 2012, approximately $0.28 million and $0.35 million, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund.

Actuarial Gains and Losses

In FY 2013, there was a net liability actuarial loss in both funds. There was a liability actuarial loss of $498.8 million due to new discount rate assumptions, a liability actuarial gain of $136.4 million due to new pay and cost-of-living assumptions, a liability actuarial gain of $49.4 million due to experience, and a liability actuarial loss of $1.6 million due to method change. The net result was a total liability actuarial loss of $314.6 million for both funds.

In FY 2012 (Restated), there was a net liability actuarial loss in both funds. There was a liability actuarial loss of $475.1 million due to new discount rate assumptions, a liability actuarial loss of $127.1 million due to new pay and cost-of-living assumptions, and a liability actuarial loss of $95.8 million due to experience. The net result was a total liability actuarial loss of $698 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, 2013, and 2012 (Restated), the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	2013	Restated 2012
Budgetary Resources Obligated		
Obligations Incurred	$ 1,062,110	$ 1,062,235
Less: Spending Authority from Offsetting Collections and Recoveries	4,348	5,417
Obligations Net of Offsetting Collections and Recoveries	1,057,762	1,056,818
Less: Offsetting Receipts	631,807	544,052
Net Obligations	425,955	512,766
Imputed Financing from Costs Absorbed by Others	127	152
Total Resources Used to Finance Activities	426,082	512,918
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	(716)	(12)
Resources That Fund Expenses Recognized in Prior Periods	24,386	8,214
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(1)	(1)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	23,669	8,201
Total Resources Used to Finance Net Cost of Operations	402,413	504,717
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	(46,911)	355,176
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(46,911)	355,176
Components not Requiring or Generating Resources		
Depreciation and Amortization	75,917	51,280
Other	(27,383)	(96,997)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	48,534	(45,717)
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	1,623	309,459
Net Cost of Operations	$ 404,036	$ 814,176

11) Restatement

During FY 2013, the Office discovered an error had occurred in the calculation used to support Actuarial Pension Liability reported in the previously issued consolidated financial statements as of September 30, 2010, 2011, and 2012. The error involved applying an incorrect present value discounting method to calculate liabilities impacting actuarial gains/losses in ODCP's actuarial valuation reports for the periods FY 2010 through FY 2012. To correct this error, the Office restated its Consolidated Balance Sheet as of September 30, 2012 and its Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the period ended September 30, 2012 within the FY 2013 comparative financial statements. The Office reflected the cumulative effect of the error attributable to fiscal years FY 2010 and FY 2011 as an adjustment to the beginning balance of the Cumulative Results of Operations in the Consolidated Statement of Changes in Net Position for the period ended September 30, 2012.

A summary of the effect of the restatement is shown below:

	2012, as Previously Reported	***Correction of Error***	***2012, as Restated***
Consolidated Balance Sheet			
Liabilities Not Covered by Budgetary Resources			
Actuarial Pension Liability	*$ 6,353,764*	*$ (848,619)*	*$ 5,505,145*
Total Liabilities	*10,116,319*	*(848,619)*	*9,267,700*
Cumulative Results of Operations	*(6,023,609)*	*848,619*	*(5,174,990)*
Total Net Position	*(6,023,609)*	*848,619*	*(5,174,990)*
Consolidated Statement of Net Cost			
Pension Expense before Actuarial Assumption Changes	*$ 242,437*	*$ 54,804*	*$ 297,241*
Net Expense Before Loss from Actuarial Assumption Changes	*157,213*	*54,804*	*212,017*
Loss on Actuarial Assumption Changes, Net	*690,264*	*(88,105)*	*602,159*
Net Cost of Operations	*847,477*	*(33,301)*	*814,176*
Consolidated Statement of Changes in Net Position			
Correction of Error	*$ -*	*$ 815,318*	*$ 815,318*
Beginning Balances, as Restated	*(5,668,324)*	*815,318*	*(4,853,006)*
Net Cost of Operations	*(847,477)*	*33,301*	*(814,176)*
Net Change	*(355,285)*	*33,301*	*(321,984)*
Cumulative Results of Operations	*(6,023,609)*	*848,619*	*(5,174,990)*
Net Position	*(6,023,609)*	*848,619*	*(5,174,990)*

PART 4

SUPPLEMENTARY SCHEDULES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2013 and September 30, 2012
(in thousands)

	2013			Restated 2012		
	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:						
Intragovernmental						
Fund Balance With Treasury	$ 9,479	505,065	514,544	$ 118	382	500
Investments, Net	133,931	3,430,208	3,564,139	140,408	3,907,241	4,047,649
Interest Receivable	566	34,552	35,118	603	34,572	35,175
Advances to Others	4	37	41	5	48	53
Total Intragovernmental	143,980	3,969,862	4,113,842	141,134	3,942,243	4,083,377
Accounts Receivable	7	33,488	33,495	-	9,109	9,109
ADP Software, Net	-	17	17	-	224	224
Equipment, Net	-	-	-	-	-	-
Total Assets	$ 143,987	4,003,367	4,147,354	$ 141,134	3,951,576	4,092,710
Liabilities:						
Liabilities Covered By Budgetary Resources						
Intragovernmental						
Accounts Payable	$ 4	43	47	$ 6	51	57
Accrued Payroll and Benefits	1	11	12	3	31	34
Total Intragovernmental	5	54	59	9	82	91
Accounts Payable	2	2,401	2,403	15	3,226	3,241
Accrued Pension Benefits Payable	872	53,599	54,471	845	52,495	53,340
Actuarial Pension Liability	138,034	3,651,492	3,789,526	134,125	3,571,404	3,705,529
Accrued Payroll and Benefits	20	207	227	42	312	354
Total Liabilities Covered By Budgetary Resources	138,933	3,707,753	3,846,686	135,036	3,627,519	3,762,555
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	53,848	5,320,389	5,374,237	51,287	5,453,858	5,505,145
Total Liabilities	192,781	9,028,142	9,220,923	186,323	9,081,377	9,267,700
Net Position:						
Cumulative Results of Operations	(48,794)	(5,024,775)	(5,073,569)	(45,189)	(5,129,801)	(5,174,990)
Total Net Position	(48,794)	(5,024,775)	(5,073,569)	(45,189)	(5,129,801)	(5,174,990)
Total Liabilities and Net Position	$ 143,987	4,003,367	4,147,354	$ 141,134	3,951,576	4,092,710

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, 2013 and September 30, 2012
(in thousands)

	2013			Restated 2012		
	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						
Administrative Expenses	$ 750	11,114	11,864	$ 798	12,837	13,635
Pension Expense before Actuarial Assumption Changes	7,277	129,905	137,182	12,008	285,233	297,241
Less: Earned Revenues						
Interest Earned	3,826	73,704	77,530	4,091	94,191	98,282
Benefit Program Revenue	-	30,894	30,894	-	-	-
Employee Contributions	617	-	617	577	-	577
Net Expense Before Loss from Actuarial Assumption Changes	3,584	36,421	40,005	8,138	203,879	212,017
Loss on Actuarial Assumption Changes, Net	9,464	354,567	364,031	10,430	591,729	602,159
Net Cost of Operations	$ 13,048	390,988	404,036	$ 18,568	795,608	814,176

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, 2013 and September 30, 2012
(in thousands)

	2013			Restated 2012		
	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
Cumulative Results of Operations:						
Net Position - Beginning of Year	$ (45,189)	(5,129,801)	(5,174,990)	$ (53,106)	(5,615,218)	(5,668,324)
Correction of Error	-	-	-	16,830	798,488	815,318
Beginning Balances, as Restated	(45,189)	(5,129,801)	(5,174,990)	(36,276)	(4,816,730)	(4,853,006)
Budgetary Financing Sources:						
Appropriations Used	9,430	495,900	505,330	9,640	482,400	492,040
Other Financing Sources (Nonexchange): Imputed Financing	13	114	127	15	137	152
Total Financing Sources	9,443	496,014	505,457	9,655	482,537	492,192
Net Cost of Operations	(13,048)	(390,988)	(404,036)	(18,568)	(795,608)	(814,176)
Net Change	(3,605)	105,026	101,421	(8,913)	(313,071)	(321,984)
Cumulative Results of Operations	$ (48,794)	(5,024,775)	(5,073,569)	$ (45,189)	(5,129,801)	(5,174,990)
Unexpended Appropriations:						
Beginning Balance	$ -	-	-	$ -	-	-
Budgetary Financing Sources:						
Appropriations Received	9,430	495,900	505,330	9,640	482,400	492,040
Appropriations Used	(9,430)	(495,900)	(505,330)	(9,640)	(482,400)	(492,040)
Total Budgetary Financing Sources	-	-	-	-	-	-
Total Unexpended Appropriations	-	-	-	-	-	-
Net Position	$ (48,794)	(5,024,775)	(5,073,569)	$ (45,189)	(5,129,801)	(5,174,990)

See accompanying independent auditors' report.

Department of the Treasury

Departmental Offices

Office of D.C. Pensions

Combining Statement of Budgetary Resources

For the Years Ended September 30, 2013 and September 30, 2012

(in thousands)

	2013			2012		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated D.C. Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated D.C. Pension Funds Total
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$ -	-	-	$ -	-	-
Recoveries of Prior Year Unpaid Obligations	79	4,266	4,345	81	5,326	5,407
Unobligated Balance from Prior Year Budget Authority, Net	79	4,266	4,345	81	5,326	5,407
Appropriations (Discretionary and Mandatory)	20,441	1,037,321	1,057,762	20,493	1,036,325	1,056,818
Spending Authority from Offsetting Collections	-	3	3	-	10	10
Total Budgetary Resources	$ 20,520	1,041,590	1,062,110	$ 20,574	1,041,661	1,062,235
Status of Budgetary Resources						
Obligations Incurred	$ 20,520	1,041,590	1,062,110	$ 20,574	1,041,661	1,062,235
Total Budgetary Resources	$ 20,520	1,041,590	1,062,110	$ 20,574	1,041,661	1,062,235
Change in Obligated Balance						
Unpaid Obligations, Brought Forward, October 1	$ 1,112	61,571	62,683	$ 1,049	59,869	60,918
Obligations Incurred	20,520	1,041,590	1,062,110	20,574	1,041,661	1,062,235
Outlays (Gross)	(20,455)	(1,037,878)	(1,058,333)	(20,430)	(1,034,633)	(1,055,063)
Recoveries of Prior Year Unpaid Obligations	(79)	(4,266)	(4,345)	(81)	(5,326)	(5,407)
Unpaid Obligations, End of Year (Gross)	1,098	61,017	62,115	1,112	61,571	62,683
Obligated Balance, End of Year	$ 1,098	61,017	62,115	$ 1,112	61,571	62,683
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	$ 20,441	1,037,324	1,057,765	$ 20,493	1,036,335	1,056,828
Actual Offsetting Collections (Discretionary and Mandatory)	-	(3)	(3)	-	(10)	(10)
Budget Authority, Net (Discretionary and Mandatory)	$ 20,441	1,037,321	1,057,762	$ 20,493	1,036,325	1,056,818
Outlays, Gross (Discretionary and Mandatory)	$ 20,455	1,037,878	1,058,333	$ 20,430	1,034,633	1,055,063
Actual Offsetting Collections (Discretionary and Mandatory)	-	(3)	(3)	-	(10)	(10)
Outlays, Net (Discretionary and Mandatory)	20,455	1,037,875	1,058,330	20,430	1,034,623	1,055,053
Distributed Offsetting Receipts	(9,430)	(622,377)	(631,807)	(9,640)	(534,412)	(544,052)
Agency Outlays, Net (Discretionary and Mandatory)	**$** 11,025	415,498	426,523	**$** 10,790	500,211	511,001

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Schedule of Pension Expense - by Fund
For the Years Ended September 30, 2013 and September 30, 2012
(in thousands)

	2013			Restated 2012		
	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	$ 185,413	9,025,261	9,210,674	$ 173,023	8,682,477	8,855,500
Pension Expense:						
Normal Cost	5,000	-	5,000	4,533	-	4,533
Interest on Pension Liability During the Period	3,665	177,945	181,610	3,855	193,039	196,894
Actuarial (Gains) Losses During the Period:						
From Experience	(1,388)	(48,040)	(49,428)	3,620	92,194	95,814
From Discount Rate Assumption Change	9,064	489,738	498,802	8,207	466,851	475,058
From Other Assumption Changes	(1,185)	(135,171)	(136,356)	2,223	124,878	127,101
From Method Change	1,585	-	1,585	-	-	-
Total Pension Expense	16,741	484,472	501,213	22,438	876,962	899,400
Less Amounts Paid and Accrued	(10,272)	(537,852)	(548,124)	(10,048)	(534,178)	(544,226)
Ending Liability Balance	$ 191,882	8,971,881	9,163,763	$ 185,413	9,025,261	9,210,674

See accompanying independent auditors' report.

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PART 5

OTHER INFORMATION (UNAUDITED)

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Schedule of Spending (Unaudited)
For the Years Ended September 30, 2013 and September 30, 2012
(in thousands)

	2013			2012		
	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
What Money is Available to Spend?						
Total Resources	$ 20,520	1,041,590	1,062,110	$ 20,574	1,041,661	1,062,235
Less Amount Not Agreed to be Spent	-	-	-	-	-	-
Less Amount Not Available to be Spent	-	-	-	-	-	-
Total Amounts Agreed to be Spent	**$** 20,520	1,041,590	1,062,110	**$** 20,574	1,041,661	1,062,235
How was the Money Spent?						
Personnel Compensation	$ 266	2,147	2,413	$ 302	2,362	2,664
Personnel Benefits	61	535	596	73	628	701
Travel and transportation of persons	-	1	1	1	8	9
Rent, Communications, and utilities	-	-	-	60	539	599
Printing and reproduction	-	2	2	-	2	2
Other contractual services	488	11,232	11,720	450	13,543	13,993
Supplies and materials	1	4	5	-	3	4
Equipment	-	-	-	-	1	1
Insurance claims and indemnities	10,274	531,769	542,043	10,047	542,150	552,197
Other (i.e. unvouchered, undistributed)	9,430	495,900	505,330	9,640	482,425	492,065
Total Amounts Agreed to be Spent	**$** 20,520	1,041,590	1,062,110	**$** 20,574	1,041,661	1,062,235
Who did the Money go to?						
Federal	$ 9,868	500,446	510,314	$ 10,111	486,886	496,997
Non-Federal	10,652	541,144	551,796	10,463	554,775	565,238
Total Amounts Agreed to be Spent	**$** 20,520	1,041,590	1,062,110	**$** 20,574	1,041,661	1,062,235

See accompanying independent auditors' report.

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