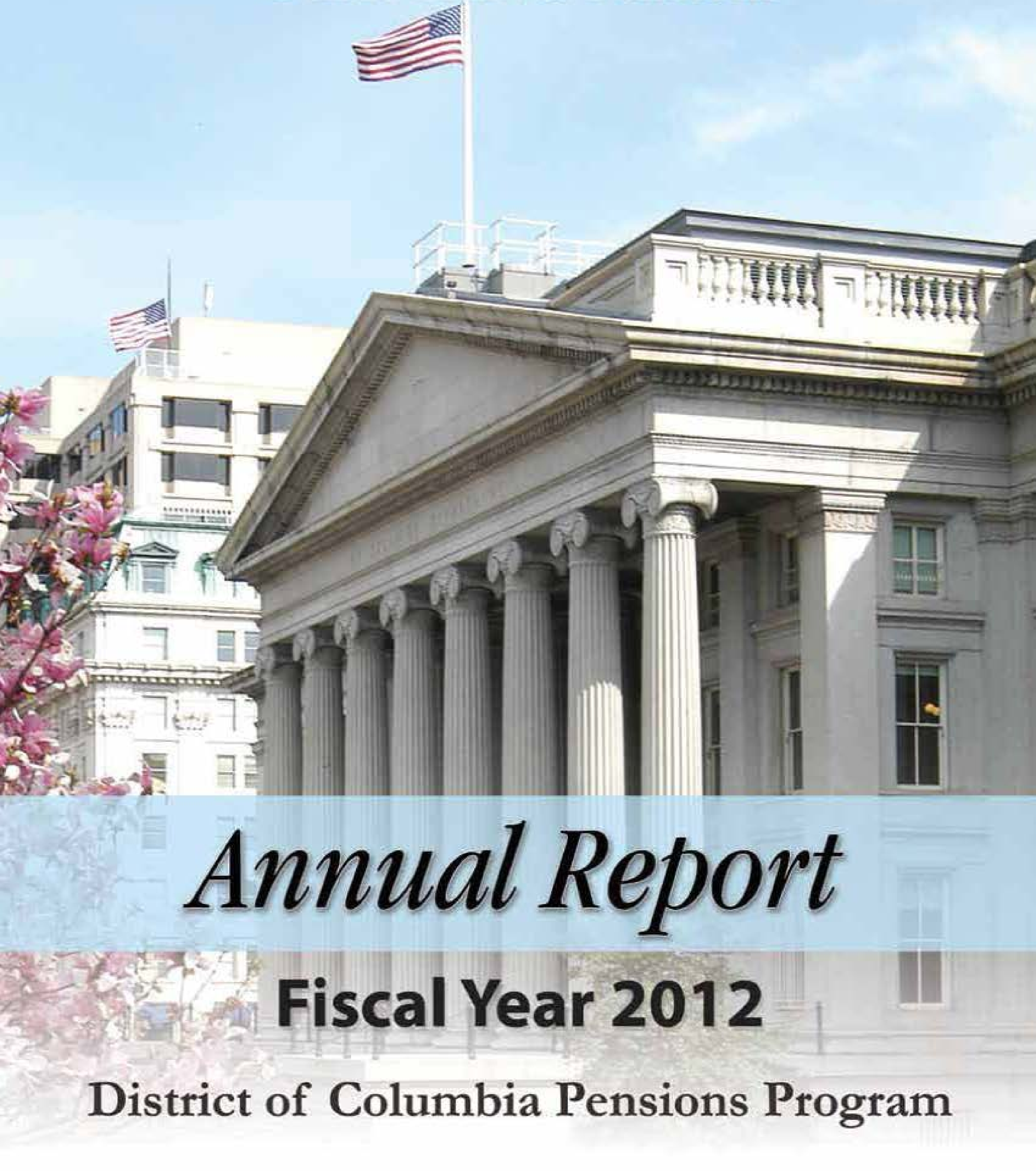
Department of the Treasury
Office of D.C. Pensions



Annual Report

Fiscal Year 2012

District of Columbia Pensions Program

MESSAGE FROM THE DIRECTOR

November 2012

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2012 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, 2012, 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 2012, the Office of D.C. Pensions processed $630 million in benefit payments to approximately 13,900 annuitants and refunds of employee contributions totaling $0.4 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 the second-level review process thereby strengthening internal controls over the benefit payment process and increasing the number of benefit payments made via Electronic Fund Transfer. The Office implemented Release 6, an application upgrade to the System to Administer Retirement (STAR) and successfully completed the STAR Operational Process Improvements and Enhancements project.

An independent public accounting firm rendered an unqualified opinion on the FY 2012 financial statements of the Office of D.C. Pensions, making this the 14th consecutive year of unqualified opinions. This was accomplished through our partnership with the District of Columbia Retirement Board, the Bureau of the Public Debt, and other Department of the Treasury and District entities. The Office has begun addressing the exceptions identified in the auditors' report and establishing corrective action plans.

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

Nancy A. Ostrowski

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

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Part 1:

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2012

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

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

I. Introduction

A. Statutory Basis and Responsibilities

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act[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 prior to July 1, 1997, and 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

[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).

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

B. Organizational Structure and Staffing

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

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

- <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 $630 million in Federal and District benefit payments were made to 13,967 annuitants as of September 30, 2012.

- <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 manages and accounts for net investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately $4.1 billion as of September 30, 2012. The Office also performs an annual actuarial valuation to determine the pension liability of the retirement programs and the annual contribution from the Treasury General Fund into the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- <u>Program Management</u>: The Office provides oversight of its responsibilities through program management which includes planning and project, quality and risk management. The Office also produces performance management information. As of September 30, 2012, 21 Treasury positions were funded from the D.C. Federal Pensions Fund and the Judicial Retirement Fund. In addition, the Office funds and receives support from other Treasury offices and the Office of General Counsel.

  Pursuant to a reimbursable services agreement, Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), performs: systems administration and hosting for the automated pension/payroll system; security support services which include Certification & Accreditation testing and FISMA compliance recommendations; accounting, and annuitant payroll services.

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

II. Executive Summary

During fiscal year (FY) 2012, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC) and other Treasury entities to execute responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

The Office continued its implementation of the Long-Term Architecture Plan for the System to Administer Retirement (STAR), designed to ensure system architecture continues to meet business objectives for the next five years. In FY 2012, the Office successfully implemented the Oracle/PeopleSoft 9.1 application upgrade (Release 6). Additionally, STAR was enhanced to automate the second-level review process for all new annuitants, and all benefit payment changes. This improvement strengthened internal controls over the benefit payment process.

The STAR Operational Process Improvements and Enhancements project was successfully completed in FY 2012. This program was launched to ensure the Office is following industry best practices. Some of the highlights included moving to a quarterly release schedule and improved testing of new items migrated into STAR. Additionally, the Change Control Board (CCB) process was revised to facilitate the quarterly release cycle activities. A new SharePoint application has streamlined the CCB process to enhance collaboration and provided a centralized location for storing artifacts.

The Office continued with the Annuitant Verification Project, where 201 annuitants were contacted to confirm that retirement benefit payments were received by the intended recipients. Additional reviews were adopted to minimize the potential for improper payments to annuitants. The Office 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, 131 annuitants enrolled in direct deposit increasing the participation rate from 96.3% to 96.8%. Also, the percentage of new annuitants electing to receive EFT continued to increase.

During FY 2012, the Office continued to work on the Reconciliation Project. This project reconciles amounts paid between the District and Treasury for benefit payments and administrative expenses between October 1, 1997, and 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. Parties have entered into agreements with the expectation that an external audit will be conducted early in FY 2013. The Reconciliation Project is on target to be completed in FY 2013.

The Office provided successful stewardship of the pension funds, high quality benefit administration services and effective use of resources through relationships with DCRB and BPD/ARC. For the 14th consecutive year, the Office received an unqualified audit opinion.

In FY 2012, 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 continued to collaborate on strategic focus areas with program stakeholders throughout the District of Columbia Pensions Program. The following sections of the Management's Discussion and Analysis provides more details about the FY 2012 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 two Treasury Strategic Goals. It also identifies the Office's Performance Measures and Results.

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

Fiscal Years 2012-2015					Fiscal Year 2012
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 August 1 payment date Target: 5% or less Actual: 3.8%
					STAR is available to users Target: 99% or more Actual: 99.9%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	Investment strategy developed timely Target: September 21, 2012 Actual: September 13, 2012
					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: 88% (See Footnote #1)
					Annual Contribution from General Fund received into the D.C. Federal Pension & Judicial Retirement Funds Target: September 30, 2012 Actual: September 14, 2012

Fiscal Years 2012-2015					Fiscal Year 2012
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: 96.8%
					Vendor payments made timely Target: 100% Actual: 99%
				Pension funds meet future needs	Actuarial calculation of annual contribution from General Fund prepared timely Target: November 16, 2011 Actual: November 1, 2011
		Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Office employees received timely annual performance plans and reviews Target: 100% Actual: 100%
					Financial Statement Audit Opinion received from an independent external auditor Target: Unqualified opinion Actual: Unqualified opinion

Fiscal Years 2012-2015					Fiscal Year 2012
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)	Annual Report and Financial Statements prepared timely Target: December 15, 2011 Actual: December 6, 2011
					Open financial management material weaknesses as of September 30 Target: 0 Actual: 0
					Actuarial valuation completed timely Target: November 16, 2011 Actual: November 1, 2011
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	Quality assurance plans developed by October 1 Target: 100% Actual: 50% (See footnote #2)

Footnotes:

1) In FY 2012, due to unanticipated expenditures from the Judicial Retirement Fund, on several occasions cash balances fell below the targeted minimum cash balance. To minimize the likelihood of this occurring in FY 2013, investments will be structured such that the projected cash balance will always exceed the targeted minimum cash balance by at least five percent. This policy will be effective February 15, 2013, the earliest date the policy can be implemented.
2) For the Quality Plan Performance Measure: Due to OPIE, a new IT service level agreement has been established with our service provider. Quality Plans to monitor this service will be developed during FY 2013.

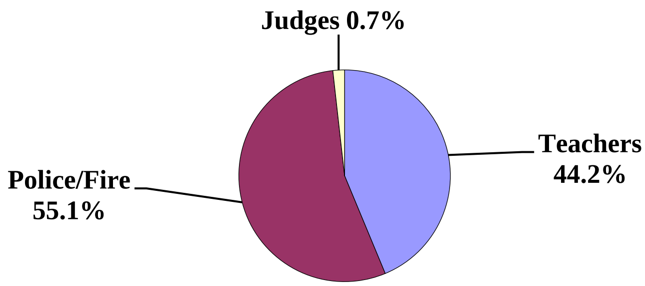
A. Benefit payments are accurate and timely

1. Program Results

a. Benefits Administration

<u>General Operations</u>

Benefits administration services were provided to 13,967 annuitants, as of September 30, 2012, 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, 6,167; police officers and firefighters, 7,708; and judges, 92.



In FY 2012, the monthly Federal and District benefit payments averaged $52.5 million, which is $1.7 million higher than the previous year. During the year, all payment 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.

FY 2012 Average Monthly Processing in Key Areas	
Customer Service Activity	**Monthly Volume**
New Retirements	30
Beneficiaries/Estates	25
Purchase of Service	2
Direct Deposit Changes	56
New Survivors	11
Qualified Domestic Relations Orders (QDRO)	2
Refunds	34
Tax Changes	144

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

In FY 2012, the average monthly support from the customer service team included:

- Answering Calls – 967 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 96.8%, resulting in a .5% increase from the previous year. The table below illustrates the EFT participation rates for annuitants by retirement plan.

Percentage of EFT Participation		
Annuitants	**2012**	**2011**
Police/Fire	96.2%	95.5%
Teachers	97.4%	97.1%
Judges	100.0%	98.9%

In FY 2012, a variety of outreach efforts provided accurate and timely information to annuitants, including:

- Letters notifying annuitants when their benefits changed
- Earning statement messages alerting annuitants to changes (*such as a cost-of-living adjustment*) or opportunities (*e.g., signing up for direct deposit*)
- DCRB newsletter (*which provides important plan information for active and retired police officers, firefighters, and teachers*)
- Special correspondence *(which provide annuitants with additional information about the plans such as EFT enrollments)*

Annuitant Satisfaction

In FY 2012, DCRB continued to reach out to annuitants for feedback regarding customer satisfaction. The annuitant survey form asked participants to rate the patience, professionalism, knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. In addition, the survey asked how satisfied the caller was with the process, their overall experience with the Member Services Center, their wait time, and their perception of the customer service representatives' ability to understand their issue and help them. Ratings range from 1 (excellent) to 5 (poor). Responses from the annuitants surveyed indicated that the services provided were excellent.

Annuitant Payroll Operations

Treasury's Bureau of the Public Debt, Administrative Resource Center, Accounting Services Branch-4 (ARC 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 projects.

ARC 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 Payroll works closely with DCRB to process monthly annuity payments and associated insurance carrier payments. ARC Payroll is responsible for reconciling the payroll reports generated from STAR to ensure the retirement payroll is processed correctly. In FY 2012, ARC Payroll staff made 167,037 benefit payments totaling approximately $630 million for a monthly average of $52.5 million.

ARC 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 2012, ARC Payroll issued 167,372 earnings statements and letters to 1,983 annuitants.

ARC 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 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 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 2012, ARC Payroll provided support with the Annuitant Verification Project, Survivor/Student Notification Project, Do Not Pay Plan, and the Electronic Funds Transfer (EFT) Project. ARC Payroll also provides assistance with the annual audit.

Special Benefit Administration Projects

Electronic Funds Transfer Project

In FY 2012, the rate of participation increased from 96.3% to 96.8%. In FY 2013, the Office will continue to focus on increasing EFT participation by working with the Financial Management Service on the 2013 EFT initiative. This initiative will require, by March 2013, certain recipients of Federal benefit payments to receive their payments by direct deposit, either to a bank account or to a Direct Express card account. The Office will mail personalized letters to individuals impacted by this initiative.

Survivor/Student Notification Project

During FY 2012, the Office worked with ARC Payroll and DCRB to contact surviving spouses, children, students, and Qualified Domestic Relations Order (QDRO) to communicate the eligibility requirements and what their obligations are in notifying DCRB of changes. As part of this project, ARC Payroll mailed letters to these individuals explaining the eligibility criteria. The project will help ensure annuitants understand their responsibilities and requirements to communicate status changes to the benefits administrator.

District Post Retirement Health Benefits Legislation

In FY 2012, the Office implemented in STAR District legislative changes that impacted retirees and survivors of the Police, Firefighters and Teachers plans. The changes increased the annuitants' share of their health benefit premium (for those annuitants who were hired on or after October 1, 1987). Additionally, the legislation introduced a graduated rate structure based on length of service at retirement.

Do Not Pay Implementation

In FY 2010, OMB issued a memorandum regarding the reduction of improper payments through the "Do Not Pay List" (M-12-11). The initiative required federal agencies to utilize government-wide databases prior to issuing benefit payments to reduce improper payments. In FY 2012, the Office submitted a Do Not Pay (DNP) Plan to the Department of the Treasury. Also in FY 2012, ARC Payroll and the Office began participating in a pilot program to help reduce improper payments and eliminate waste, fraud, and abuse. In order to ensure appropriate benefit payments, ARC Payroll currently submits monthly annuitant payroll files to DNP for matching against the government-wide database. Results are provided to DCRB for appropriate action. In FY 2012, there were nine deaths reported in DNP which were not immediately identified by other sources.

During FY 2013, the Office is planning for ARC Payroll to submit weekly annuitant payroll files to DNP to reduce the number of erroneous payments. The STAR file format will be enhanced to accommodate this business process.

Benefit Correction Projects

During FY 2012, 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 2013, 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, Cost of Living Adjustments (COLA) Lookback, Post-56 Military Service Deposit, Term-Vested payment review, and Teachers' Survivor COLA analysis.

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.

<u>STAR Release 6</u>

In FY 2012, STAR was upgraded from 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. Another major de-customization utilized the standard 1099-R process. The efforts to de-customize STAR will result in significant reductions to the total cost of ownership. In addition, newly delivered functionality included a "Smart Hire" template, which reduces both data entry errors and the time to enter a new annuitant. During the implementation, training materials were updated and the delivery method was streamlined which reduced the maintenance and administration of the training tool. Release 6 was seamlessly deployed in May 2012, as scheduled. This success is attributed to a restructured planning approach adopted by the Office in FY 2011.

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 2012, the STAR LTAP was enhanced to identify the STAR upgrade path from FY 2012 through FY 2017. This five year management plan outlines the future upgrades to the STAR application software, database and hardware in order to maintain the vendor license agreements. In addition, the plan identifies a period of time to implement maintenance processes and procedural improvements to successfully execute the Office's architecture and application roadmap.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Treasury's Bureau of the Public Debt (BPD). Since September 2003, BPD staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. In FY 2012, STAR was available to the user population 99.9% of the time. A supplemental support contract is also in place to provide assistance to BPD in both operations and maintenance activities.

STAR Interagency Security Agreement

In FY 2012, the triennial update to the STAR Interagency Security Agreement (ISA) and Memorandum of Understanding (MOU) between the Office and DCRB was accomplished. The ISA outlines the security controls and any associated risks with the interconnection of two or more IT systems for the purposes of sharing data. In FY 2012, the document was expanded to include DCRB's Filenet system, as well as STAR. Filenet is a document imaging and management system which houses images of the physical documents of annuitants and survivors whose retirements are managed by STAR. The Filenet system allows authorized personnel access to annuitant information in order to validate/verify information in STAR.

STAR System Security

The STAR system is in compliance with all relevant requirements and last renewed its triennial security Certification and Accreditation (C&A) in August of 2010. The C&A is a process that ensures that systems and major applications adhere to formal and established security requirements that are well-documented and authorized.

In FY 2013, the Office will prepare for changes required by NIST Special Publication 800-37, Revision 1. Agencies are now expected to conduct ongoing authorization of information systems through the implementation of continuous monitoring programs. The Office will conduct its next C&A in FY 2013 to fully assess the STAR system prior to beginning its continuous monitoring program schedule.

During FY 2012, the Office successfully mitigated seven (five low and two medium vulnerability items) Plan of Actions and Milestones (POA&M) identified during the FY 2011 System Test & Evaluation (ST&E). In addition, nine new low vulnerability POA&M items were identified during the FY 2012 ST&E. A corrective action approach has been established and the Office plans to implement its mitigation strategies in FY 2013.

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 2012, the Office utilized tabletop exercises to test the procedures outlined in both plans and the roles and responsibilities of the response teams. Changes were used to update various STAR security documentation.

In FY 2012, the Office implemented a self-taught replica of the Treasury Departmental Offices' security awareness training program. The program is extended to the DCRB to ensure end users meet the federal requirements from NIST Special Publication 800-50.

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 will allow for improved oversight and management of technical changes to the STAR system, and allow 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 our 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 is scheduled for a successful completion at the end of FY 2012. After the release development phase of the STAR system, the focus will be to concentrate on the proper operations and maintenance (O&M) of STAR and further refine methods for effective oversight and management of the system.

Change Control Board

The Office chartered a Change Control Board (CCB) which 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 2012, the Office implemented the revised CCB process in an effort to improve and streamline the review process for Change Requests (CR). The Office updated the CCB Charter and Plan to incorporate improved processes for the management of technical changes within STAR. This includes a reclassification of STAR change ticket categories, which more clearly differentiates between changes to existing system requirements with operational maintenance items. The Office also implemented a Quarterly Release cycle for system changes, which will align with industry practices. In late FY 2012, the Office successfully executed its first Quarterly Release as scheduled.

Of the CRs implemented in FY 2012, two CRs had major programmatic impact. The first CR added a second level review process in STAR for new annuitant payment schedules and adjustments. This change enforced the required second-level review, the goal of which is to improve the accuracy of payments. The second CR implemented the upgrade of the PeopleSoft application from version 8.9 to 9.1 in order to maintain the application maintenance agreements. While implementing the upgrade, changes were made to reduce the overall customizations and use more of the PeopleSoft delivered functionality.

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

1. Program Results

a. Pension Funds

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, the Office of D.C. Pensions (the Office) administers Federal benefit payments through two funds:

- **The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal benefit payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are: payments from the District of Columbia

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

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal benefit payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

b. Deposits

Warrants

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

In accordance with the Act, the annual payments to the funds are made in September each year and are invested in Government Account Series (GAS), non-marketable Treasury securities, with maturities and par amounts consistent with the expected payment dates and payout amounts of the pension liabilities. In FY 2012, approximately $482.4 million was deposited into the D.C. Federal Pensions Fund and approximately $9.6 million was deposited into the Judicial Retirement Fund. In FY 2011, $491.7 million was deposited into the D.C. Federal Pension Fund and $9.3 million into the Judicial Retirement Fund.

Interest

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.

In FY 2011, the Treasury deposited $132.3 million in interest cash payments in the D.C. Federal Pension Fund and $4.8 million in interest cash payments in the Judicial Retirement Fund. The Office recognized interest earned of $112.6 million in the D.C. Federal Pension Fund and $4.2 million of interest earned in the Judicial Retirement Fund. The rate of return in FY 2011 for the Office's pension funds was 3.3% for the D.C. Federal Pension Fund and 3.4% for the Judicial Retirement Fund.

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 2012 totaled approximately $577,000. In FY 2011, active judges' contributions to the retirement fund totaled $615,000.

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 2012 and FY 2011, respectively.

Fund Deposits by Fiscal Year (in millions)			
Fund	**Type of Deposit**	**2012**	**2011**
D.C. Federal Pension Fund	Warrant	$482.4	$491.7
	Interest	$130.7	$132.3
	Contributions	$0.0	$0.0
Judicial Retirement Fund	Warrant	$9.6	$9.3
	Interest	$4.7	$4.8
	Contributions	$0.6	$0.6
Total	**Warrants**	**$492.0**	**$501.0**
	Interest	**$135.4**	**$137.1**
	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 2012 and FY 2011 reimbursements for District benefit payments totaled $86.0 million and $73.3 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 2013, 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 2012, the Office pursued debt prevention and collection efforts working with Treasury's Bureau of the Public Debt, Administrative Resource Center Accounting Services Branch-4 (ARC Payroll), which manages the debt collection process for the Office. The Office worked with ARC Payroll to pursue debt prevention efforts and ensured that a total of $939,962 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. During the fiscal year, $131,987 was collected through offsets, lump sum payments or installment payments.

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 2012 agreement with the Financial Management Service's (FMS) Cross-Servicing Program allows FMS to initiate collection processes by issuing demand letters, conducting telephone follow-up, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment and referring debts to private collection agencies. As of September 30, 2012, ARC Payroll referred eight debt cases totaling $55,464 to FMS for collection.

During FY 2012, the Office, District of Columbia Retirement Board (DCRB), ARC Payroll and Office of General Counsel (OGC) worked together to develop processes to collect debt associated with benefit overpayments. Also in FY 2012, the Office and ARC Payroll created a Debt Collection Binder. This binder includes Standard Operating Procedures and flowcharts, letters and forms, and Regulations. Additionally, this binder outlines the roles and responsibilities for the Office, ARC Payroll and DCRB to improve the debt collection process. ARC Payroll conducted training at DCRB to familiarize staff with the process.

During FY 2013, 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 both entities in administering District and Federal benefit payments. The methodology takes into consideration the number of 100% federal annuitants, 100% District annuitants, and split annuitants. In addition, DCRB is responsible for 100% of STAR development costs associated with new District legislation. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2012 actual expenses. Pursuant to the agreement, DCRB will reimburse the Office approximately $1.1 million for the Office's expenses in developing and operating STAR to administer District benefit payments. In FY 2011, DCRB reimbursed the Office $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 Public Debt (BPD) invests the assets of the pension funds based on investment guidance from the Office. The Office follows a "ladder" approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2012, the cash balances in the two funds available for contingencies were targeted to remain above $95 million, that represents approximately two months of federal obligations. The Office invested the cash balance in one-day certificates, except for an un-invested balance of $500,000 at month end, to cover unanticipated withdrawals on the last day of the month. In FY 2012, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to February 2018 and for securities in the Judicial Retirement Fund to February 2022.

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, 2012, as was the case in 2011. The following table reflects the net investments breakdown by fund.

Net Investments as of September 30, 2012 and 2011 (in millions)		
Fund	**2012**	**2011**
D.C. Federal Pension Fund	$3,907.2	$3,878.6
Judicial Retirement Fund	140.4	136.9
Total	**$4,047.6**	**$4,015.5**

e. Payments

<u>Annuity Benefit Payments</u>

Pension benefit payments issued by the Office totaled $619.4 million and $10.1 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for FY 2012. The Office issued $600 million and $9.1 million, respectively, for FY 2011. DCRB then reimbursed the D.C. Federal Pension Fund for benefit payments made by Treasury on the District's behalf. After the DCRB reimbursement, Federal benefit payments totaled $543.5 million from the D.C. Federal Pension Fund for FY 2012 and $526.7 million for FY 2011.

Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests payment from Treasury for the federal portion. During FY 2012, refunds of employee contributions of nearly $0.4 million were issued to plan participants from the D.C. Federal Pension Fund. For FY 2011, refunds of employee contributions of nearly $0.5 million were issued to plan participants from the D.C. Federal Pension Fund. In addition, one contribution refund related to a survivor annuity was made to a plan participant in the Judicial Retirement Fund during FY 2012.

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 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. In FY 2011, administrative expenses were approximately $16.2 million for the D.C. Federal Pension Fund and $0.8 million for the Judicial Retirement Fund, for a total of $17.0 million. A $3.4 million variance in administrative expenses was realized in FY 2012 from FY 2011 in the D.C. Federal Pension Fund due to a decrease in contractual services, amortization, and depreciation.

The major administrative expenses consisted of DCRB benefit administration and support function expenses, the Office's staff salaries and benefits, and contractors engaged by the Office to provide IT systems support. Certain costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing STAR development costs monthly in the Judicial Retirement Fund and the D.C. Federal Pension Fund on a five-year schedule. The following table reflects administrative expenses by fund.

Administrative Expenses by Fiscal Year (in millions)			
Fund	**2012**	**2011**	**Difference**
D.C. Federal Pension Fund	$12.8	$16.2	$3.4
Judicial Retirement Fund	0.8	0.8	-
Total	**$13.6**	**$17.0**	**$3.4**

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 2012, payments were reviewed and no high risk payment types identified. Also, in FY 2012, 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. In FY 2013, the Office will continue to work with the Treasury's Office of the Deputy Chief Financial Officer (DCFO) to comply with IPERA.

Prompt Payment Act and Electronic Payments

The Prompt Payment Act was enacted to ensure that suppliers doing business with the Federal Government are paid by the government in a timely manner. The Office paid 99% of the 106 invoices received within the timeframes required by the Prompt Payment Act.

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage federal agencies to use electronic payments. In FY 2012, the Office paid 100% of the 146 payments, which include invoices and travel reimbursements, by electronic funds transfer. All 146 payments were processed electronically, of which 17% were paid by credit card. In FY 2011, of the 177 electronic payments made, 14% were made by credit card.

In FY 2012, the Office implemented the Treasury's department-wide automated payment processing system called Invoice Processing Platform (IPP). The system allows the Office to more efficiently manage government invoicing from purchase order through payment notification while automating invoice collection, validation and approval workflows.

Benefit Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating costs incurred by DCRB in administering District and Federal benefit payments. The methodology takes into consideration: (1) the number of active employees, 100% federal annuitants, 100% District annuitants, and split annuitants; (2) the estimated DCRB resources needed to support these populations; and (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function; and 4) the level of effort associated with processing Federal benefit payments. The Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2012 actual expenses. Pursuant to the agreement, the Office will reimburse DCRB approximately $2.9 million for FY 2012 expenses incurred in administering Federal benefit payments. The Office reimbursed DCRB $2.4 million in FY 2011 for expenses incurred in administering Federal benefit payments.

f. Financial Operations

Accounting Support

Pursuant to a reimbursable services agreement, ARC Accounting provides accounting support services that include processing accounting transactions such as commercial invoices, purchase cards, obligations, accruals, and revenue transactions. Transaction processing consists of a full range of accounting transactions necessary to maintain a complete general ledger, including budgetary transactions, accounts payable, accounts receivable, and fixed assets. ARC 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. BPD/ARC also provides a report writer package called Discoverer, which allows the Office to generate various accounting reports to monitor obligations and expenditures.

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

3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated “green” (the highest rating) since February 2002 for all data quality checks on the monthly data quality scorecard maintained by Treasury’s Deputy Chief Financial Officer.

g. Actuarial Valuation

In FY 2012, EFI Actuaries (EFI) 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, 2012, 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, 2012, the Federal Government’s total liability for Federal benefit payments under the Police Officers’ and Firefighters’, and Teachers’ Retirement Plans is approximately $9.92 billion. Of the $9.92 billion actuarial liability, approximately $3.96 billion is funded by assets in the D.C. Federal Pension Fund and $5.96 billion is unfunded.

EFI determined an actuarial total liability of $197.3 million for the Judges' Retirement Plan as of October 1, 2012. Of the $197.3 million actuarial liability, approximately $140.9 million is funded by assets in the Judicial Retirement Fund and $56.4 million is unfunded.

h. Reconciliation 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 is 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 will identify any amounts owed to Treasury by the District for benefit payments, and conversely owed to the District by Treasury, during the period between October 1, 1997, and December 31, 2007.

In FY 2012, the Office finalized the methodology to determine actual District benefit payments and completed a preliminary reconciliation of District benefit payments. In FY 2013, the Office will finalize the Treasury Reconciliation Report (TRR), which will provide the basis for amounts owed.

In FY 2012, the Office also completed a reconciliation of investments and administrative expenses. After completing a review of investment activity during the Interim Investment Period, the parties agreed no reimbursement was required. Following a review of administrative expenses, from October 1, 1997, to December 31, 2009, the parties also agreed that no reimbursement was required. In FY 2013, the Office plans to complete the Reconciliation Project.

C. Program is effectively managed and creates continuous improvement

1. Program Results

a. Long-Term Strategic Planning

During FY 2012, 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 Public Debt, Administrative Resource Center (ARC), where appropriate, in order to maximize coordination of activities for FY 2013. This collaborative planning approach minimizes the possibility of redundancies or oversights and improves processing efficiencies. In FY 2013, the Multi-Year Plan will be updated to reflect the upcoming three year cycle.

In FY 2013, the Office will also continue to implement the key future focus areas, particularly in three areas: program management, STAR process and procedure enhancements, and benefits administration improvements. The STAR enhancements effort will transition to operation and maintenance mode, and roles and responsibilities associated with the new processes will take effect. Benefits administration re-engineering effort will also be an area of focus.

b. Program Management

In FY 2012, the Program Management Group (PMG) developed and implemented more robust program management practices. A performance measurement database tool was implemented which captures measurement data obtained through quality reviews. The PMG also created a structured methodology for the planning and execution of projects. This enhanced approach to project planning has improved communication and reduced scheduling conflicts. In addition, program management procedures were developed and deployed in FY 2012.

In FY 2013, the PMG will focus on quality and risk management, and performance reporting activities. The new performance measurement reporting tool, which includes historical and current performance data, will be utilized to improve communications and decision making. The tool will also enhance the Office's operational risk management program. The PMG will provide oversight to the Service Level Agreements and quality planning efforts in FY 2013.

c. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with the DCRB for benefit administration and ARC for STAR system administration and hosting and annuitant payroll operations. In FY 2012, 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, and beneficiaries as well as Qualified Domestic Relation Orders (QDROs). The benefits administration quality plans are periodically reviewed and revised to ensure benefits processing errors are identified. In FY 2012, the Office completed quality reviews for annuitant payments through the August 1, 2012 pay date. The Office realized a decrease in the monetary error rate during FY 2012. In FY 2013, the Office will address audit recommendations and focus its reviews on areas identified during the annual financial statement audit.

In addition, the Office continued to review data maintenance activities, such as changes to annuitants' personal data, bank information, health benefits, and life insurance. As part of the quality program, the Office provided appropriate feedback to the benefits administrator to assess training needs for the staff. Subsequently, targeted training was provided to analysts and customer service staff as needed to improve benefit administration.

Payroll Processing

The Quality Program includes reviews of payroll processing functions. The program reviews preliminary and final payroll statistics, large annuitant payments, and third-party reporting. In addition to the aforementioned reports, each month the Office monitors reports such as 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 2012, 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 are granted the appropriate access privileges. This information is used by the Office to manage resources, maintain system security, and track the quality of STAR production support and hosting services.

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

In FY 2012, the Office aimed to more efficiently track, collect, and report performance data, promote transparency, and improve decision making. A benefits administration snapshot was created to track critical performance and quality measures on a monthly basis. A new performance measurement reporting tool was 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 2012. 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 2013 to identify areas for improvement.

h. Federal Benefit Payments Regulations

<u>Split Benefit Regulations</u>

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

Under the Act, some annuitants receive both Federal and District benefit payments as a portion of their total retirement benefit based on service before or after June 30, 1997. Benefits 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 will be published in early FY 2013. These regulations maintain consistency with the general principles established in the original regulations.

Debt Regulations

In FY 2012, the Office reviewed the regulations in Part 29, Subpart E of Title 31 of the Code of Federal Regulations, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans – Debt Collection and Waivers of Collection* ("Debt Regulations"), which are specific to the retirement plans for District of Columbia judges, teachers, and police officers and firefighters. These Debt Regulations were originally published in FY 2001. The Office determined that by implementing policies and procedures, the initial Debt Regulations should remain unchanged.

i. Internal Control over Financial Reporting

The Office used the FY 2012 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*. BPD/ARC staff members and the Office conducted internal control tests or relied on the BPD/ARC Statement on Standards for Attestation Engagements No. 16 (SSAE 16) review, previously referred to as Statement on Auditing Standards No. 70. (SAS 70).

The Office conducted its assessment of the effectiveness of internal controls over financial reporting as of June 30, 2012, which included reviewing core financial processes and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Office provided unqualified assurance that its internal controls over financial reporting were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines for which the Office contributes 10% or greater and internal financial reports produced for the Office. In addition, the Office had no material weaknesses in the design or operation of internal controls over financial reporting identified in FY 2011 that required corrective actions during FY 2012.

During FY 2011, the Office was selected by the Treasury's DCFO for a review of the Office's internal control test plans. Treasury's DCFO concluded that these test plans were executed in accordance with published guidance.

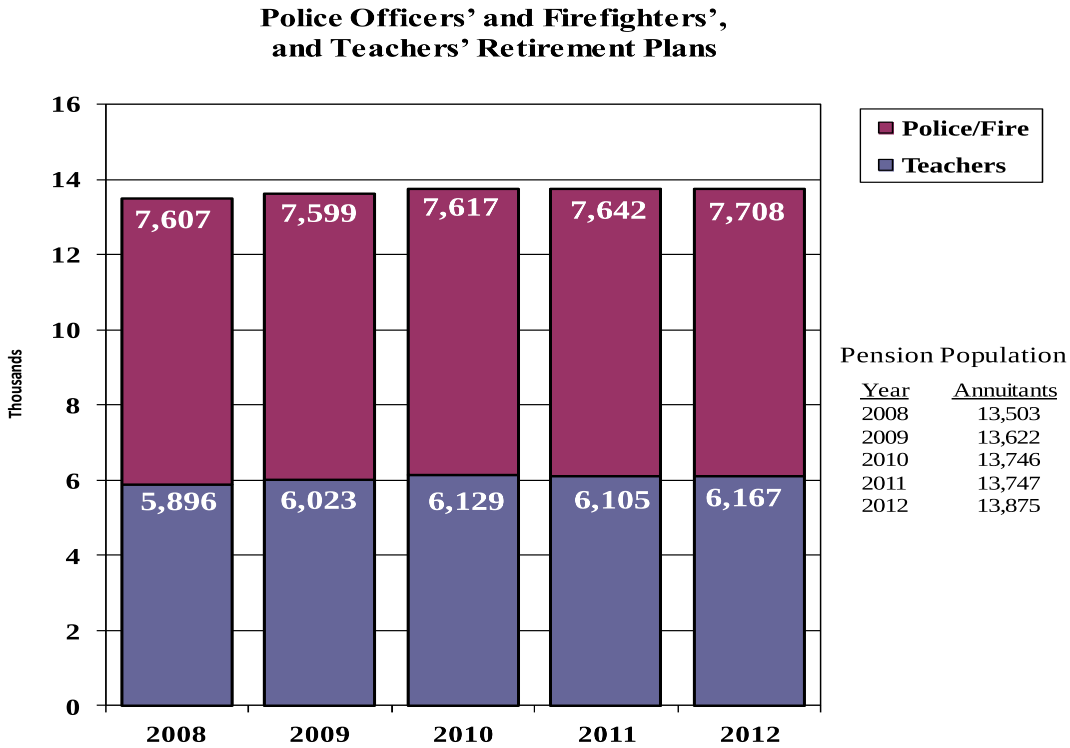
j. Financial Statement Audit Opinion

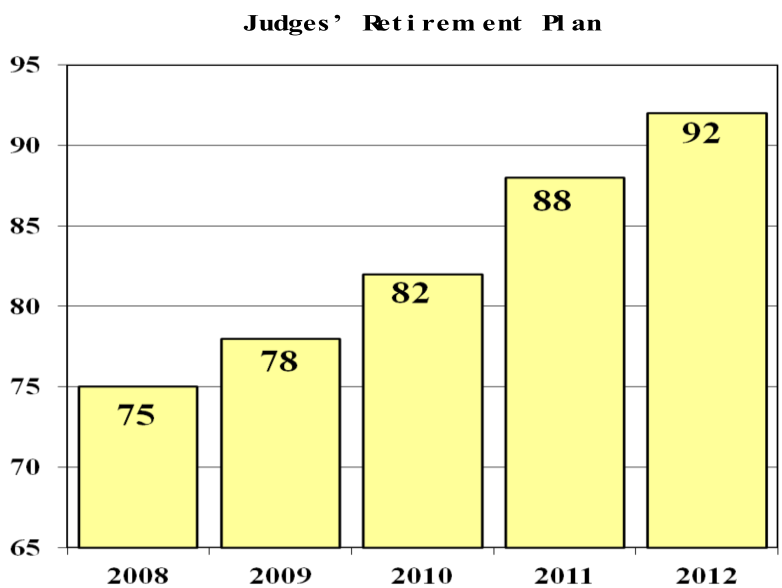
KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office's FY 2012 financial statements. This is the 14th consecutive year that the Office's financial statements have received an unqualified opinion.

KPMG noted no material weaknesses in the Office of D.C. Pensions internal control 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. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

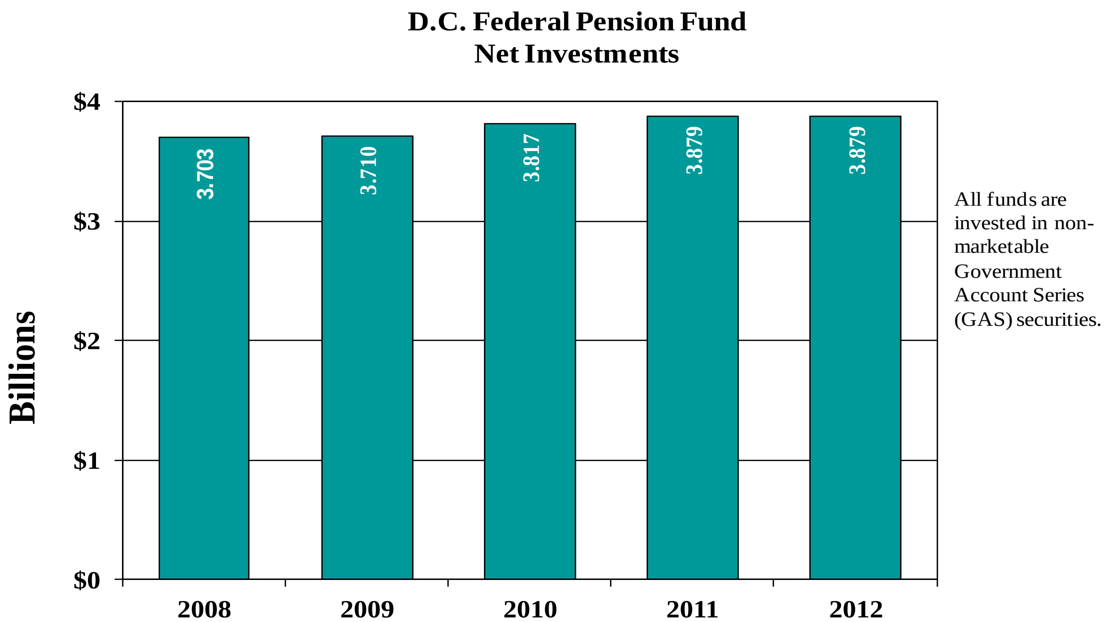
IV. Five-Year History of the District of Columbia Pensions Program

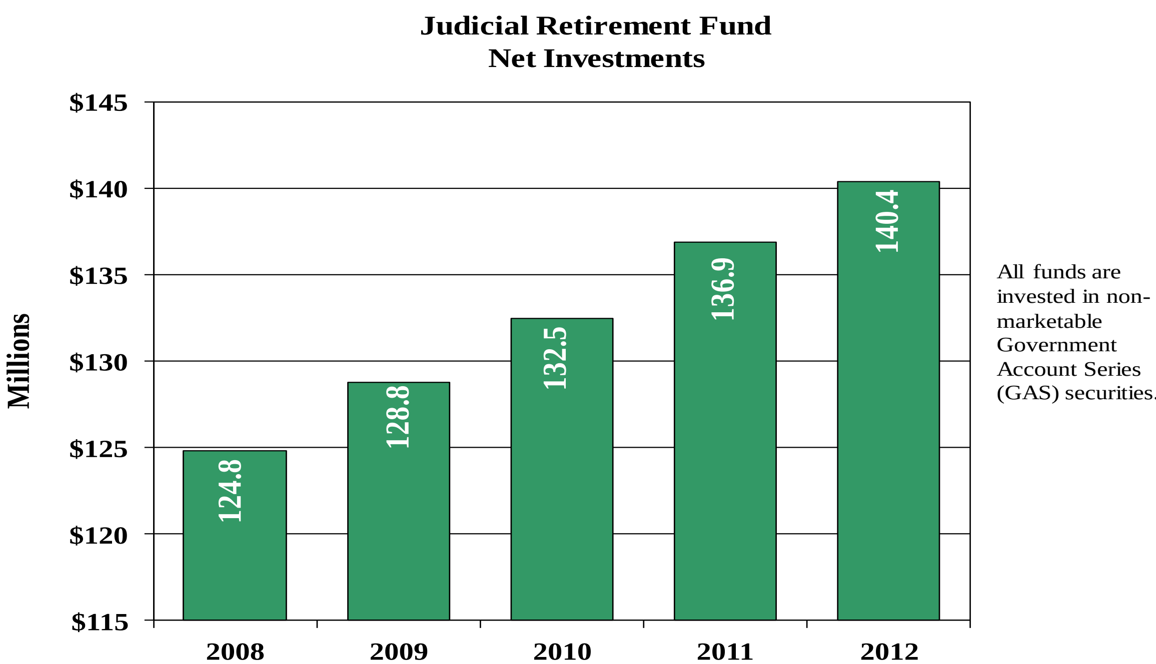
A. Annuitants *(as of September 30, 2012)*





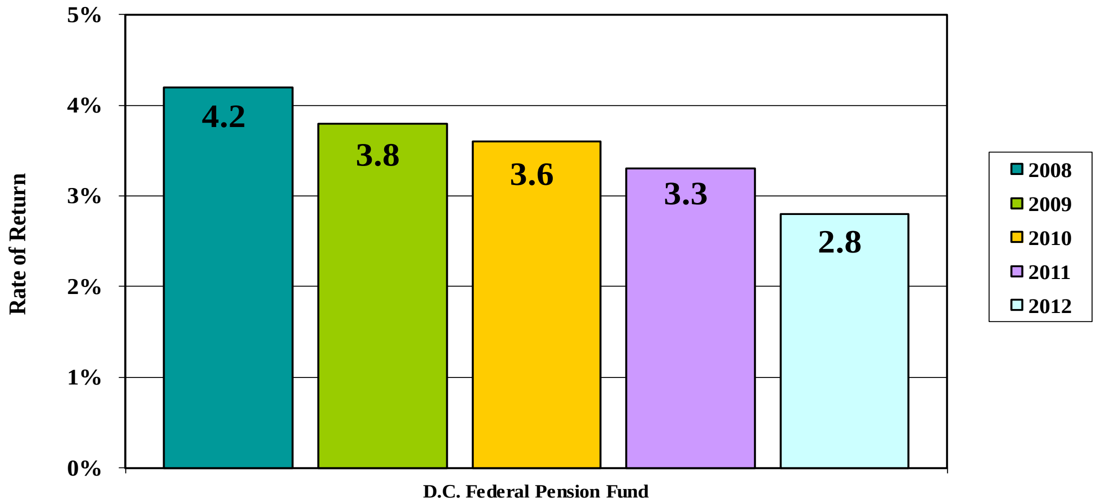
B. *Investments* *(as of September 30, 2012)*





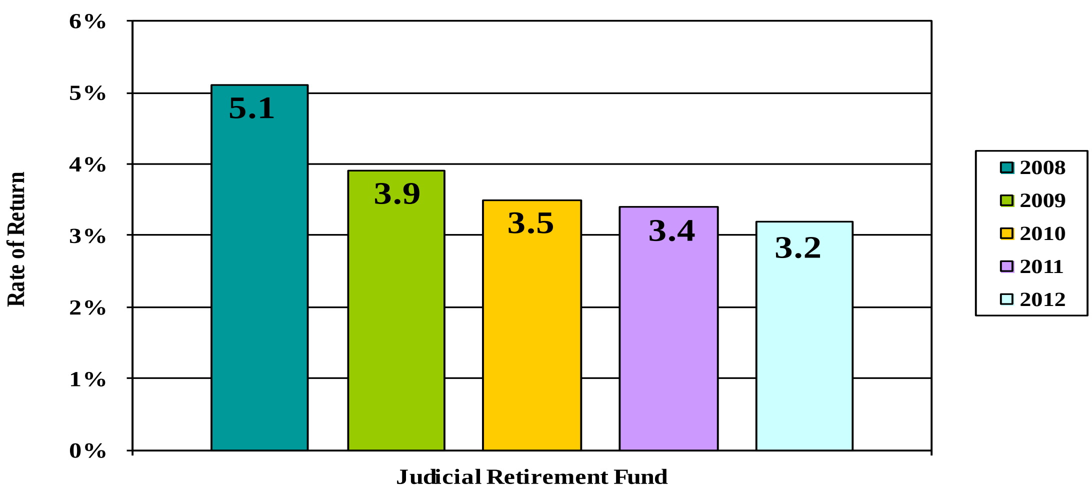
B. Investments (as of September 30, 2012) continued

Investment Average Annual
Rate of Return*



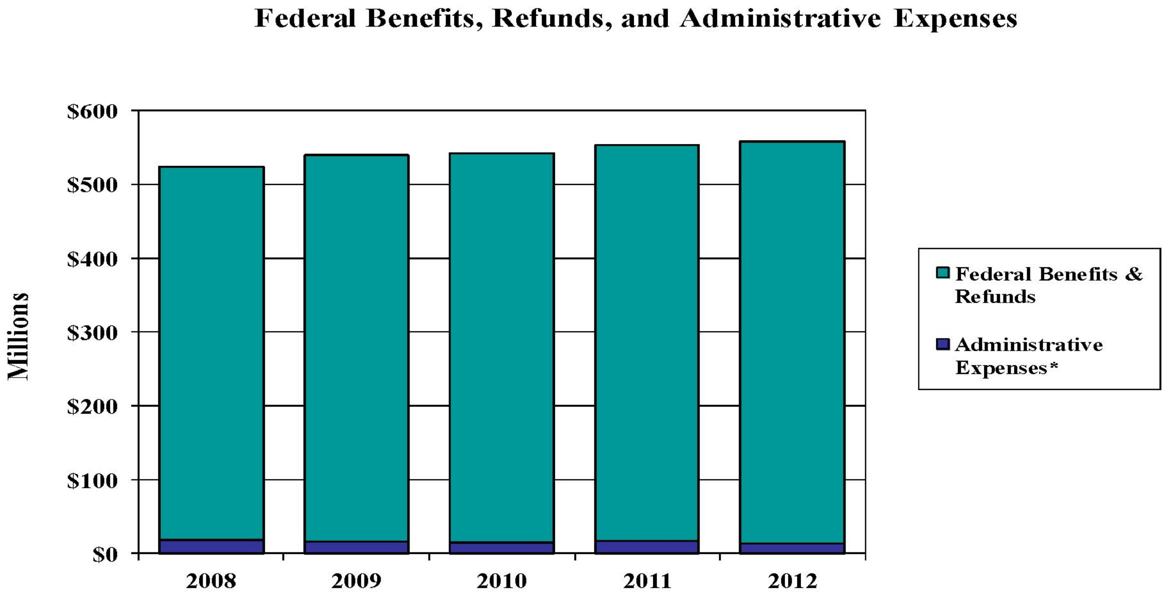
*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

Investment Average Annual
Rate of Return*



*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, 2012)*



*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 %
2008	$506M	$18.4M	96%	4%
2009	$524M	$15.3M	97%	3%
2010	$528M	$14.0M	97%	3%
2011	$536M	$17.0M	97%	3%
2012	$544M	$13.6M	97%	3%

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

V. Limitation of the Financial Statements

The 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:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the ODPC changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements.* As a result, certain balances on the ODCP's Combined Statement of Budgetary Resources for fiscal year 2011 have been reclassified to conform to the current year presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis be presented to supplement the consolidated financial statements. Such information, although not a part of the 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 consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during

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our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2012 and 2011 consolidating information presented on pages 67 to 77 in Part 4: *Supplementary Schedules* is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The September 30, 2012 and 2011 consolidating information on pages 67 to 77 in Part 4: *Supplementary Schedules* have been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the 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 September 30, 2012 and 2011 consolidating information on pages 67 to 77 in Part 4: *Supplementary Schedules* is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 7, 2012, on our consideration of the ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 7, 2012

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 the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2012 and 2011 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 7, 2012. That report recognized that the ODCP changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2012 audit, we considered the ODCP's internal control over financial reporting by obtaining an understanding of the design effectiveness of the ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

ODCP's written response to the significant deficiency identified in our audit and presented in Exhibit I was not subjected to the auditing procedures applied in the audit of the ODCP's consolidated financial statements and, accordingly, we express no opinion on it.

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

We noted certain additional matters that we have reported to management of the ODCP in a separate letter dated December 7, 2012.

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

KPMG LLP

December 7, 2012

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

DCRB Supervisory Review Controls and ODCP Monitoring Controls over Annuitant Benefit Payments need Improvement

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 2012. 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 2012 audit, we again identified weaknesses in the controls over processing annuitant benefit payments that we consider collectively to be a significant deficiency. Specifically, during our testing of 78 new annuitant payments processed by DCRB for the Police & Firefighters and Teacher retirement plans, we noted the following:

- The DCRB second review or ODCP monitoring controls failed to identify errors made by the DCRB analyst in processing 4 new annuitants in STAR as follows:

  - One incorrect classification of an annuitant as a Police instead of as a Firefighter
  - One incorrect classification of an annuitant as a Firefighter instead of as a Police
  - One incorrect classification of a survivor as a survivor of an active teacher instead of a survivor of a deceased retired teacher, and
  - One new annuitant was overpaid by approximately $8.

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

  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.

- There were 2 instances where the STAR split-benefit allocation percentage between the District of Columbia and Federal government was incorrectly calculated for the beneficiaries of Police & Firefighters survivors, resulting in under allocations to the Federal government of approximately $276.

  After a legal review of plan provisions related to beneficiary of survivor payments, ODCP and DCRB agreed that final partial month benefit payments would be due to the beneficiaries of Police & Firefighters and Teacher survivors who died after April 27, 2011. However, STAR has not yet been configured to calculate the split between the District of Columbia and Federal government and process these payments. Hence, these partial month benefit payments were processed manually by the DCRB analysts, and the error was not detected by the second reviewer at DCRB. We understand that the Change Request for STAR has been approved, and the system will be enhanced by February 2013 to process these partial month benefit payments.

Exhibit I

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

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."

<u>Recommendations:</u>

We recommend that the ODCP:

1) Conduct further training with the DCRB analysts and second reviewers so they fully understand their roles and responsibilities associated with the benefit payment process.
2) Improve its coordination with DCRB as it relates to the timing and execution of benefits processing associated with implementing future Change Requests.

<u>Management's Response:</u>

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

2) Prior to the development and implementation of Change Requests, any alternative methods of processing benefit payments will be tested to ensure accurate benefit payments and accurate calculation of the split benefit allocation.

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

Prior Year Deficiency	Prior Year Recommendation	Status as of September 30, 2012
DCRB Supervisory Review Controls and ODCP Monitoring Controls over Adding or Modifying Annuitant Benefit Payments in the System to Administer Retirement (STAR) need Improvement	We recommend that the ODCP: 1. Continue training the DCRB analysts and second reviewers so they fully understand their role and responsibilities associated with the benefit payment process; 2. Take appropriate steps to ensure corrections are made to the inaccurate payments identified by reviewers; and 3. Provide additional training to Quality Reviewers.	This finding has been partially repeated in the current year. See Exhibit I.
STAR Configuration and Change Management Controls need Improvement	We recommend that ODCP: 1. Incorporate the Federal / District split calculation in its Quality Review; 2. Improve the controls over migration of code changes into STAR to ensure they do not have unintended consequences; 3. Conduct periodic training on the STAR Procedures Manual with the end-users of STAR; and 4. Modify STAR to prevent the capability of inadvertently deleting data used to calculate the split benefit allocation.	Closed.

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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 the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 7, 2012. That report recognized that the ODCP changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

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

KPMG LLP

December 7, 2012

Part 3:

Financial Statements and Notes

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2012 and September 30, 2011
(in thousands)

	2012	2011
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	$ 500	$ 7,141
Investments in GAS Securities, Net (Note 4)	4,047,649	4,015,504
Interest Receivable from GAS Securities	35,175	32,794
Advances to Others	53	41
Accounts Receivable, Net (Note 5)	9,109	896
ADP Software, Net (Note 6)	224	1,354
Equipment, Net (Note 7)	-	-
Total Assets	$ 4,092,710	$ 4,057,730
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	$ 57	$ 162
Accrued Payroll and Benefits	34	30
Accounts Payable	3,241	3,382
Accrued Pension Benefits Payable	53,340	51,346
Actuarial Pension Liability (Notes 2i, 10)	3,705,529	3,721,182
Accrued Payroll and Benefits	354	316
Total Liabilities Covered By Budgetary Resources	3,762,555	3,776,418
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability (Notes 2i, 10)	6,353,764	5,949,636
Total Liabilities	10,116,319	9,726,054
Net Position		
Cumulative Results of Operations - Earmarked	(6,023,609)	(5,668,324)
Total Net Position	(6,023,609)	(5,668,324)
Total Liabilities and Net Position	$ 4,092,710	$ 4,057,730

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, 2012 and September 30, 2011
(in thousands)

	2012	2011
Program Costs (Note 8)		
Administrative Expenses (Note 9)	*$ 13,635*	*$ 16,950*
Pension Expense before Actuarial Assumption Changes (Note 10)	*242,437*	*146,964*
Less: Earned Revenues (Note 8)		
Interest Earned	*98,282*	*116,853*
Employee Contributions	*577*	*615*
Net Expense Before Loss from Actuarial Assumption Changes	*157,213*	*46,446*
Loss on Actuarial Assumption Changes, Net (Note 10)	*690,264*	*318,317*
Net Cost of Operations	*$ 847,477*	*$ 364,763*

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, 2012 and September 30, 2011
(in thousands)

	2012 Earmarked	2011 Earmarked
Cumulative Results of Operations		
Net Position - Beginning of Year	$ (5,668,324)	$ (5,804,694)
Budgetary Financing Sources		
Appropriations Used	492,040	500,970
Other Financing Sources		
Imputed Financing Sources	152	163
Total Financing Sources	492,192	501,133
Net Cost of Operations	(847,477)	(364,763)
Net Change	(355,285)	136,370
Net Position - End of Year	$ (6,023,609)	$ (5,668,324)

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, 2012 and September 30, 2011
(in thousands)

		2012		2011
Budgetary Resources				
Unobligated Balance Brought Forward, October 1	$	-	$	-
Recoveries of Prior Year Unpaid Obligations		5,407		3,974
Unobligated balance from Prior Year Budget Authority, Net		5,407		3,974
Appropriations (Discretionary and Mandatory)		1,056,818		1,053,468
Spending Authority from Offsetting Collections		10		-
Total Budgetary Resources	$	1,062,235	$	1,057,442
Status of Budgetary Resources				
Obligations Incurred	$	1,062,235	$	1,057,442
Total Budgetary Resources	$	1,062,235	$	1,057,442
Change in Obligated Balance				
Unpaid Obligations, Brought Forward, October 1	$	60,918	$	58,440
Obligations Incurred		1,062,235		1,057,442
Outlays (Gross)		(1,055,063)		(1,050,990)
Recoveries of Prior Year Unpaid Obligations		(5,407)		(3,974)
Unpaid Obligations, End of Year (Gross)		62,683		60,918
Obligated Balance, End of Year	$	62,683	$	60,918
Budget Authority and Outlays, Net				
Budget Authority, Gross (Discretionary and Mandatory)	$	1,056,828,270	$	1,053,467,529
Actual Offsetting Collections (Discretionary and Mandatory)		(9,882)		-
Budget Authority, Net (Discretionary and Mandatory)	$	1,056,818,388	$	1,053,467,529
Outlays, Gross (Discretionary and Mandatory)	$	1,055,063	$	1,050,990
Actual Offsetting Collections (Discretionary and Mandatory)		(10)		-
Outlays Net (Discretionary and Mandatory)		1,055,053		1,050,990
Distributed Offsetting Receipts		(544,052)		(542,421)
Agency Outlays, Net (Discretionary and Mandatory)	$	511,001	$	508,569

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

1) Reporting Entity

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

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

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

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

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

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

- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the D.C. Federal Pension Fund; and
- Reimbursement from the D.C. Government for the District's actual share of benefits paid from the D.C. Federal Pension Fund.

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

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amounts paid into the D.C. Federal Pension Fund during FY 2012 and FY 2011 were $482.4 million and $491.7 million, respectively.

b. District of Columbia Judicial Retirement and Survivors Annuity Fund

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

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

The Judicial Retirement Fund consists of the following:

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

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

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2012 and FY 2011 were $9.6 million and $9.3 million, respectively.

2) Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources, all of which are prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America for federal entities are prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated as the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The financial statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources. These financial statements present the consolidated activities and balances of the D.C. Federal Pension Fund and the Judicial Retirement Fund. There were no transactions between the Funds that require elimination during consolidation.

b. Fund Balance with Treasury

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

c. Investments

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

Amounts that are not necessary to meet current obligations are invested in MK securities. Amounts needed to meet current obligations are invested overnight in one-day MK securities, which are redeemed at face value plus accrued interest. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy.

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

d. Advances to Others

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.

e. ADP Software, Net

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

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

- Capitalize software acquisitions that exceed $125,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than $5,000 and less than $125,000) that exceed $500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than $125,000) that exceed $500,000

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

f. Equipment, Net

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

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

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

g. Accounts Receivable

Accounts receivable consist primarily of: (a) the amount due from the D.C. Government for the District's share of benefits paid by the Office to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period, (b) amounts due from the D.C. Government for the District's estimated share of refunds paid by the Office in prior years, (c) employee retirement contributions withheld from judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of each fiscal year, and (d) amounts due from annuitants and survivors as the result of benefit overpayments.

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

h. Accrued Pension Benefits Payable

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

i. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Aggregate Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The 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, 2012, 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, 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 teachers, 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 assumptions used to calculate the pension liabilities as of October 1, 2011, were an annual rate of investment return of 2.28% in FY 2012, gradually increasing to 4.97% by FY 2032 and then gradually decreasing to 4.93% by FY 2041; an annual inflation and cost-of-living adjustment of 2.43% for judges and 2.39% for teacher, police officers and firefighters; and salary increases at an annual rate of 1.84% for judges, and 4.26% for teachers, police officers, and firefighters.

The 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.

j. Appropriations Received and Used

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative expenses of the Funds. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the D.C. Federal Pension Fund to be invested in non-marketable GAS securities. In accordance with 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, 2012 and 2011 were $492 million and $501 million, respectively.

k. Treasury Employee Retirement Plans

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

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

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

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

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

l. President’s Budget

The Budget of the United States (also known as the “President's Budget”), with actual numbers for FY 2012, was not published at the time that these financial statements were issued. The President's Budget for FY 2014, which includes the Office’s budget within the Other Independent Agencies’ budget appendix, is expected to be published in January or February 2013. It will be available from the United States Government Printing Office. The FY 2011 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President’s Budget for FY 2013 and there were no differences for budgetary resources, status of budgetary resources, and net outlays.

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

m. Earmarked Funds

Funding Sources

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

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

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

Intra-governmental Investments in Treasury Securities

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

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

n. Income Taxes

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

o. Reclassifications

The Office changed its presentation for reporting the Combined Statement of Budgetary Resources in FY 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the Combined Statement of Budgetary Resources for FY 2011 has been reclassified to conform to the current year presentation.

3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2012 and 2011, consisted of the following (in thousands):

		2012		2011
Fund Balances:				
Trust Fund	$	118	$	100
Special Fund *		382		7,041
Total Fund Balance with Treasury	$	500	$	7,141

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

		2012		2011
Status of Fund Balance with Treasury				
Obligated Balance not yet Disbursed	$	500	$	7,141
Total	$	500	$	7,141

4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2012 and 2011 consisted of the following (in thousands):

		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

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

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, 2012 and 2011, 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 $140.6 million as of September 30, 2012, and a net unrealized gain of $177.7 million as of September 30, 2011.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2012 and 2011, by maturity date, are as follows (in thousands):

	2012	2011
Less than or Equal to 1 Year	$ 436,276	$ 570,493
More than 1 Year and Less than or Equal to 5 Years	2,633,217	2,395,195
More than 5 Years and Less than or Equal to 10 Years	680,673	748,459
Total	$ 3,750,166	$ 3,714,147

5) Accounts Receivable, Net

The components of accounts receivable, net as of September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Accounts Receivable, Gross	$ 9,216	$ 981
Allowance for Loss on Accounts Receivable	(107)	(85)
Accounts Receivable, Net	$ 9,109	$ 896

6) ADP Software, Net

The components of ADP software, net as of September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
ADP Software	$ 40,129	$ 40,129
Accumulated Amortization	(39,905)	(38,775)
ADP Software, Net	$ 224	$ 1,354

7) Equipment, Net

The components of equipment, net as of September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
ADP Hardware	$ 500	$ 500
Accumulated Depreciation	(500)	(500)
Equipment, Net	$ —	$ —

8) Intra-governmental Costs and Exchange Revenue

Intra-governmental Costs and Exchange Revenue for the years ended September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Program Costs		
Intragovernmental Costs	$ 4,911	$ 4,746
Public Costs	941,425	477,485
Total Program Costs	946,336	482,231
Program Revenue		
Intragovernmental Earned Revenue	(98,282)	(116,853)
Public Earned Revenue	(577)	(615)
Total Program Revenue	(98,859)	(117,468)
Net Program Cost	$ 847,477	$ 364,763

9) Administrative Expenses

Administrative expenses for the years ended September 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Intragovernmental Expenses		
Salaries and Related Benefits	$ 683	$ 707
Contractual Services	3,678	3,397
Rent	547	626
Other	3	16
Total intragovernmental expenses	4,911	4,746
Public Expenses		
Salaries and Related Benefits	2,620	2,364
Contractual Services	4,947	7,701
Noncapitalized Equipment/Software	1	-
Amortization/Depreciation	1,130	1,856
Other	26	283
Total public expenses	8,724	12,204
Total administrative expenses	$ 13,635	$ 16,950

10) Pension Expense

Pension expense for the plan years ended September 30, 2012, and 2011, includes the following components (in thousands):

	2012	2011
Beginning Liability Balance	$ 9,670,818	$ 9,742,579
Pension Expense:		
Normal Cost	4,334	4,567
Interest on Pension Liability During the Period	215,482	265,746
Actuarial (Gains) Losses During the Period:		
From Experience	22,621	(123,349)
From Discount Rate Assumption Change	531,672	472,668
From Other Assumption Changes	158,592	(154,350)
Total Pension Expense	932,701	465,282
Less Amounts Paid and Accrued	(544,226)	(537,043)
Ending Liability Balance	$ 10,059,293	$ 9,670,818

Federal Benefit Payments

Federal pension benefits paid and accrued during the plan years were $534.1 million and $10.1 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2012, and $527.9 million and $9.1 million, respectively, for 2011. For FY 2012 and FY 2011, approximately $0.56 million and $0.5 million, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund.

Actuarial Gains and Losses

In FY 2012, there was a net liability actuarial loss in both funds. There was a liability actuarial loss of $531.7 million due to new discount rate assumptions, a liability actuarial loss of $158.6 million due to new pay and cost-of-living assumptions, and a liability actuarial loss of $22.6 million due to experience. The net result was a total liability actuarial loss of $712.9 million for both funds.

In FY 2011, there was a liability actuarial loss of $472.7 million due to new discount rate assumptions, a liability actuarial gain of $154.3 million due to new pay and cost-of-living assumptions, and a liability actuarial gain of $123.3 million due to experience. The net result was a total liability actuarial loss of $195.0 million for both funds.

11) 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, 2012, and 2011, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	2012	2011
Budgetary Resources Obligated		
Obligations Incurred	$ 1,062,235	$ 1,057,442
Less: Spending Authority from Offsetting Collections and Adjustments	5,417	3,974
Obligations Net of Offsetting Collections and Recoveries	1,056,818	1,053,468
Less: Offsetting Receipts	544,052	542,421
Net Obligations	512,766	511,047
Imputed Financing from Costs Absorbed by Others	152	163
Total Resources Used to Finance Activities	512,918	511,210
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	(12)	862
Resources That Fund Expenses Recognized in Prior Periods	8,214	76,206
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	8,201	77,067
Total Resources Used to Finance Net Cost of Operations	504,717	434,143
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	388,477	4,787
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	388,477	4,787
Components not Requiring or Generating Resources		
Depreciation and Amortization	51,280	12,041
Other	(96,997)	(86,208)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	(45,717)	(74,167)
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	342,760	(69,380)
Net Cost of Operations	$ 847,477	$ 364,763

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Part 4:
Supplementary Schedules

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Assets						
Entity Assets						
Intra-Governmental Assets						
Fund Balance with Treasury	$ 118	382	500	$ 100	7,041	7,141
Investments in GAS Securities, Net	140,408	3,907,241	4,047,649	136,882	3,878,622	4,015,504
Interest Receivable from GAS Securities	603	34,572	35,175	629	32,165	32,794
Advances to Others	5	48	53	4	37	41
Accounts Receivable, Net	-	9,109	9,109	-	896	896
ADP Software, Net	-	224	224	1	1,353	1,354
Equipment, Net	-	-	-	-	-	-
Total Assets	$ 141,134	3,951,576	4,092,710	$ 137,616	3,920,114	4,057,730
Liabilities						
Liabilities Covered By Budgetary Resources						
Intra-Governmental						
Accounts Payable	$ 6	51	57	$ 31	131	162
Accrued Payroll and Benefits	3	31	34	3	27	30
Accounts Payable	15	3,226	3,241	19	3,363	3,382
Accrued Pension Benefits Payable	845	52,495	53,340	782	50,564	51,346
Actuarial Pension Liability	134,125	3,571,404	3,705,529	130,263	3,590,919	3,721,182
Accrued Payroll and Benefits	42	312	354	35	281	316
Total Liabilities Covered By Budgetary Resources	135,036	3,627,519	3,762,555	131,133	3,645,285	3,776,418
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	62,389	6,291,375	6,353,764	59,589	5,890,047	5,949,636
Total Liabilities	197,425	9,918,894	10,116,319	190,722	9,535,332	9,726,054
Net Position						
Cumulative Results of Operations - Earmarked	(56,291)	(5,967,318)	(6,023,609)	(53,106)	(5,615,218)	(5,668,324)
Total Net Position	(56,291)	(5,967,318)	(6,023,609)	(53,106)	(5,615,218)	(5,668,324)
Total Liabilities and Net Position	$ 141,134	3,951,576	4,092,710	$ 137,616	3,920,114	4,057,730

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, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Program Costs						
Administrative Expenses	$ 798	12,837	13,635	$ 786	16,164	16,950
Pension Expense before Actuarial Assumption Changes	6,144	236,293	242,437	11,298	135,666	146,964
Less: Earned Revenues						
Interest Earned	4,091	94,191	98,282	4,227	112,626	116,853
Employee Contributions	577	-	577	615	-	615
Net Expense Before Loss from Actuarial Assumption Changes	2,274	154,939	157,213	7,242	39,204	46,446
Loss on Actuarial Assumption Changes, Net	10,566	679,698	690,264	2,594	315,723	318,317
Net Cost of Operations	$ 12,840	834,637	847,477	$ 9,836	354,927	364,763

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, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Cumulative Results of Operations						
Net Position - Beginning of Year	*$ (53,106)*	*(5,615,218)*	*(5,668,324)*	*$ (52,566)*	*(5,752,128)*	*(5,804,694)*
Budgetary Financing Sources						
Appropriations Used	*9,640*	*482,400*	*492,040*	*9,280*	*491,690*	*500,970*
Other Financing Sources						
Imputed Financing Sources	*15*	*137*	*152*	*16*	*147*	*163*
Total Financing Sources	*9,655*	*482,537*	*492,192*	*9,296*	*491,837*	*501,133*
Net Cost of Operations	*(12,840)*	*(834,637)*	*(847,477)*	*(9,836)*	*(354,927)*	*(364,763)*
Net Change	*(3,185)*	*(352,100)*	*(355,285)*	*(540)*	*136,910*	*136,370*
Net Position - End of Year	*$ (56,291)*	*(5,967,318)*	*(6,023,609)*	*$ (53,106)*	*(5,615,218)*	*(5,668,324)*

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Combined DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Combined DC Pension Funds Total*
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$ -	-	-	$ -	-	-
Recoveries of Prior Year Unpaid Obligations	81	5,326	5,407	120	3,854	3,974
Unobligated Balance from Prior Year Budget Authority, Net	81	5,326	5,407	120	3,854	3,974
Appropriations (Discretionary and Mandatory)	20,493	1,036,325	1,056,818	19,187	1,034,281	1,053,468
Spending Authority from Offsetting Collections	-	10	10	-	-	-
Total Budgetary Resources	$ 20,574	1,041,661	1,062,235	$ 19,307	1,038,135	1,057,442
Status of Budgetary Resources						
Obligations Incurred	$ 20,574	1,041,661	1,062,235	$ 19,307	1,038,135	1,057,442
Total Budgetary Resources	$ 20,574	1,041,661	1,062,235	$ 19,307	1,038,135	1,057,442
Change in Obligated Balance						
Unpaid Obligations, Brought Forward, October 1	$ 1,049	59,869	60,918	$ 934	57,506	58,440
Obligations Incurred	20,574	1,041,661	1,062,235	19,307	1,038,135	1,057,442
Outlays (Gross)	(20,430)	(1,034,633)	(1,055,063)	(19,071)	(1,031,919)	(1,050,990)
Recoveries of Prior Year Unpaid Obligations	(81)	(5,326)	(5,407)	(120)	(3,854)	(3,974)
Unpaid Obligations, End of Year (Gross)	1,112	61,571	62,683	1,050	59,868	60,918
Obligated Balance, End of Year	$ 1,112	61,571	62,683	$ 1,050	59,868	60,918
Budget Authority and Outlays, Net						
Budget Authority, Gross (Discretionary and Mandatory)	20,492,941	1,036,335,329	1,056,828,270	19,186,311	1,034,281,218	1,053,467,529
Actual Offsetting Collections (Discretionary and Mandatory)	-	(9,882)	(9,882)	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	20,492,941	1,036,325,448	1,056,818,388	19,186,311	1,034,281,218	1,053,467,529
Outlays, Gross (Discretionary and Mandatory)	$ 20,430	1,034,633	1,055,063	$ 19,071	1,031,919	1,050,990
Actual Offsetting Collections (Discretionary and Mandatory)	-	(10)	(10)	-	-	-
Distributed Offsetting Receipts	(9,640)	(534,412)	(544,052)	(9,280)	(533,141)	(542,421)
Agency Outlays, Net (Discretionary and Mandatory)	$ 10,790	500,211	511,001	$ 9,791	498,778	508,569

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Intra-governmental Balances
As of and for the years ended September 30, 2012 and September 30, 2011
(in thousands)

Department	Intra-governmental balance description	2012 D.C. Judicial Retirement and Survivors Annuity Fund	2012 D.C. Federal Pension Fund	2012 Consolidated D.C. Pension Funds Total	2011 D.C. Judicial Retirement and Survivors Annuity Fund	2011 D.C. Federal Pension Fund	2011 Consolidated D.C. Pension Funds Total
	Assets						
Treasury	Fund Balance with Treasury	$ 118	382	500	$ 100	7,041	7,141
Treasury	Investments in GAS securities, net	140,408	3,907,241	4,047,649	136,882	3,878,622	4,015,504
Treasury	Interest receivable from GAS securities	603	34,572	35,175	629	32,165	32,794
Treasury	Advances to Others	5	48	53	4	37	41
	Total intra-governmental assets	$ 141,134	3,942,243	4,083,377	$ 137,615	3,917,865	4,055,480
	Liabilities						
Treasury	Accounts Payable	$ 6	51	57	$ 31	131	162
Gen Fund	Accrued Payroll and Benefits	1	9	10	—	8	8
OPM	Accrued Payroll and Benefits	2	22	24	3	19	22
	Total intra-governmental liabilities	$ 9	82	91	$ 34	158	192
	Revenues						
Treasury	Interest earned/loss from GAS Securities, Net	$ 4,091	94,191	98,282	$ 4,227	112,626	116,853
OPM	Imputed Financing Sources	15	137	152	16	147	163
	Total intra-governmental revenues	$ 4,106	94,328	98,434	$ 4,243	112,773	117,016
	Expenses						
Treasury	Salaries and related benefits	$ —	1	1	2	15	17
OPM	Salaries and related benefits	52	473	525	57	492	549
Gen Fund	Salaries and related benefits	17	140	157	16	125	141
Treasury	Contractual Services	323	3,355	3,678	316	3,081	3,397
Treasury	Rent	55	492	547	63	563	626
GPO	Other	—	2	2	—	8	8
Treasury	Other	—	1	1	1	7	8
	Total intra-governmental expenses	$ 447	4,464	4,911	$ 455	4,291	4,746

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in GAS Securities - Net By Fund
As of September 30, 2012 and September 30, 2011
(in thousands)

	2012				2011			
	Cost	*Unamortized Premium Net*	*Investments Net*	*Market Value*	*Cost*	*Unamortized Premium Net*	*Investments Net*	*Market Value*
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 6,264	-	6,264	6,264	$ 5,704	-	5,704	5,704
Non-marketable Market-based	129,511	4,633	134,144	145,215	126,234	4,944	131,178	141,935
Total	$ 135,775	4,633	140,408	151,479	$ 131,938	4,944	136,882	147,639
D.C. Federal Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 291,219	-	291,219	291,219	$ 295,653	-	295,653	295,653
Non-marketable Market-based	3,352,232	263,790	3,616,022	3,745,558	3,363,018	219,951	3,582,969	3,749,900
Total	$ 3,643,451	263,790	3,907,241	4,036,777	$ 3,658,671	219,951	3,878,622	4,045,553

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity
As of September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
Time of Maturity	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Less than or equal to 1 year	$ 12,173	424,103	436,276	$ 11,004	559,489	570,493
More than 1 year and less than or equal to 5 years	53,924	2,579,293	2,633,217	51,681	2,343,514	2,395,195
More than 5 years and less than or equal to 10 years	68,047	612,626	680,673	68,493	679,966	748,459
Total	$ 134,144	3,616,022	3,750,166	$ 131,178	3,582,969	3,714,147

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Intragovernmental Costs and Exchange Revenue - by Fund
For the Years Ended September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	D.C. Judicial Retirement and Survivors Annuity Fund	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Program Costs						
Intragovernmental Costs	$ 448	4,463	4,911	$ 455	4,291	4,746
Public Costs	17,060	924,365	941,425	14,224	463,262	477,485
Total Program Costs	17,508	928,828	946,336	14,678	467,553	482,231
Program Revenue						
Intragovernmental Earned Revenue	(4,091)	(94,191)	(98,282)	(4,227)	(112,626)	(116,853)
Public Earned Revenue	(577)	-	(577)	(615)	-	(615)
Total Program Revenue	(4,668)	(94,191)	(98,859)	(4,842)	(112,626)	(117,468)
Net Program Cost	$ 12,840	834,637	847,477	$ 9,836	354,927	364,763

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Administrative Expenses - by Fund
For the Years Ended September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	D.C. Judicial Retirement and Survivors Annuity Fund	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*	*D.C. Judicial Retirement and Survivors Annuity Fund*	*D.C. Federal Pension Fund*	*Consolidated D.C. Pension Funds Total*
Intragovernmental Expenses						
Salaries and Related Benefits	$ 70	613	683	$ 75	632	707
Contractual Services	323	3,355	3,678	316	3,081	3,397
Rent	55	492	547	63	563	626
Noncapitalized Equipment/Software	-	-	-	-	-	-
Other	-	3	3	1	15	16
Total intragovernmental expenses	448	4,463	4,911	455	4,291	4,746
Public Expenses						
Salaries and Related Benefits	288	2,332	2,620	264	2,100	2,364
Contractual Services	60	4,887	4,947	63	7,638	7,701
Noncapitalized Equipment/Software	-	1	1	-	-	-
Amortization/Depreciation	1	1,129	1,130	3	1,853	1,856
Other	2	24	26	1	282	283
Total public expenses	351	8,373	8,724	331	11,873	12,204
Total administrative expenses	$ 799	12,836	13,635	$ 786	16,164	16,950

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Pension Expense - by Fund
For the Years Ended September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	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	$ 189,852	9,480,966	9,670,818	$ 185,065	9,557,514	9,742,579
Pension Expense:						
Normal Cost	4,334	-	4,334	4,567	-	4,567
Interest on Pension Liability During the Period	4,238	211,244	215,482	5,065	260,681	265,746
Actuarial (Gains) Losses During the Period:						
From Experience	(2,427)	25,048	22,621	1,666	(125,015)	(123,349)
From Discount Rate Assumption Change	10,054	521,618	531,672	9,210	463,458	472,668
From Other Assumption Changes	511	158,081	158,592	(6,616)	(147,734)	(154,350)
Total Pension Expense	16,710	915,991	932,701	13,892	451,390	465,282
Less Amounts Paid and Accrued	(10,048)	(534,178)	(544,226)	(9,105)	(527,938)	(537,043)
Ending Liability Balance	$ 196,514	9,862,779	10,059,293	$ 189,852	9,480,966	9,670,818

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Reconciliation of Net Cost of Operations to Budget - by Fund
For the Years Ended September 30, 2012 and September 30, 2011
(in thousands)

	2012			2011		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Budgetary Resources Obligated						
Obligations Incurred	$ 20,574	1,041,661	1,062,235	$ 19,307	1,038,135	1,057,442
Less: Spending Authority from Offsetting Collections and Adjustments	81	5,336	5,417	120	3,854	3,974
Obligations Net of Offsetting Collections and Recoveries	20,493	1,036,325	1,056,818	19,187	1,034,281	1,053,468
Less: Offsetting Receipts	9,640	534,412	544,052	9,280	533,141	542,421
Net Obligations	10,853	501,913	512,766	9,907	501,140	511,047
Imputed Financing from Costs Absorbed by Others	15	137	152	16	147	163
Total Resources Used to Finance Activities	10,868	502,050	512,918	9,923	501,287	511,210
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	24	(36)	(12)	35	827	862
Resources That Fund Expenses Recognized in Prior Periods	-	8,214	8,214	-	76,206	76,206
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	-	(1)	(1)	-	(1)	(1)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	24	8,177	8,201	35	77,032	77,067
Total Resources Used to Finance Net Cost of Operations	10,844	493,873	504,717	9,888	424,255	434,143
Components Requiring or Generating Resources in Future Periods						
Future Funded Expenses	6,663	381,814	388,477	4,787	-	4,787
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	6,663	381,814	388,477	4,787	-	4,787
Components not Requiring or Generating Resources						
Depreciation and Amortization	1	51,279	51,280	3	12,038	12,041
Other	(4,667)	(92,330)	(96,997)	(4,842)	(81,366)	(86,208)
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	(4,666)	(41,051)	(45,717)	(4,839)	(69,328)	(74,167)
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	1,997	340,763	342,760	(52)	(69,328)	(69,380)
Net Cost of Operations	$ 12,841	834,636	847,477	$ 9,836	354,927	364,763

See accompanying independent auditors' report.