

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

**FISCAL YEAR 2016
FINANCIAL REPORT**



DISTRICT OF COLUMBIA PENSIONS PROGRAM

MESSAGE FROM THE DIRECTOR

December 2016

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2016 Financial Report, which provides highlights of the significant accomplishments achieved by the program for this fiscal year as well as plans for upcoming years.

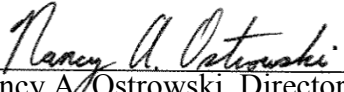


Pursuant to the Balanced Budget Act of 1997 (the Act), as amended, the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Teachers', and Police Officers' and Firefighters' Retirement Plans. As of September 30, 2016, 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 2016, the Office of D.C. Pensions processed \$699.9 million in benefit payments to 14,350 annuitants, and refunds of employee contributions totaling \$0.4 million were made to former active employees or their beneficiaries.

In FY 2016, an independent public accounting firm rendered an unmodified opinion on the Office of D.C. Pensions Balance Sheet. The Office of D.C. Pensions selected a new actuarial contractor, performed a comprehensive census data review, and continued to improve its actuarial valuation process in order to address the FY 2015 audit findings.

During FY 2016, the Office of D.C. Pensions collaborated with the District of Columbia Retirement Board (DCRB) to improve the System to Administer Retirement (STAR), its pension/payroll system. STAR was used to support the electronic enrollment for the Federal Employee Health Benefit (FEHB) Plan changes which increased due to implementation of the new *Self Plus One* enrollment option. The Office approved a Change Request to electronically interface new annuitant data to STAR. The Office of D.C. Pensions completed an analysis of the PeopleSoft 9.2 upgrade, and the implementation phase began during the fourth quarter of FY 2016.

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


Nancy A. Ostrowski, Director
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TABLE OF CONTENTS

PART 1	MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)	PAGE
I.	Introduction.....	1
II.	Executive Summary.....	3
III.	Strategic Goals, Objectives, Outcomes, and Performance Measures	4
IV.	Limitation of the Balance Sheet.....	31
PART 2	INDEPENDENT AUDITORS’ REPORT	
	Independent Auditors’ Report	35
	Independent Auditors’ Report on Internal Control over Financial Reporting.....	37
	Independent Auditors’ Report on Compliance and Other Matters	41
PART 3	BALANCE SHEET AND NOTES	
	Consolidated Balance Sheet.....	45
	Notes to Consolidated Balance Sheet	46

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PART 1

MANAGEMENT'S DISCUSSION AND ANALYSIS



“I think the first duty of society is justice.”

Alexander Hamilton



MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2016

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 Treasury's Bureau of the Fiscal Service, and other Treasury entities.

Mission:

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

I. Introduction

A. Statutory Basis and Responsibilities

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act¹), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (the District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers, and firefighters based upon service accrued on or before June 30, 1997, and administering the retirement benefits earned by District judges, regardless of when

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).

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. Police officers, firefighters, and teachers' benefit payments based upon service accrued before and after June 30, 1997, are the financial responsibility of both the Department of the Treasury (Treasury) and the District. Payments resulting from such service are referred to as split benefit payments.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, 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 program management. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

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

B. Organizational Structure and Staffing

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

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

- Benefits and Systems Administration: The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. The Office also operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration. Approximately \$699.9 million in Federal and District benefit payments were made to 14,350 annuitants for the year ended September 30, 2016.
- Finance and Resource Administration: The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. The Office provides oversight for investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately \$4.1 billion as of September 30, 2016. The Office also contracts with a third-party enrolled actuarial firm to perform an annual actuarial valuation to determine the pension liability of the retirement plans and the annual contributions from the Treasury General Fund to the

District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).

- Program Management: The Office plans and executes its responsibilities through program management activities which include planning and project management, quality management and risk management. The Office also produces, analyzes, and acts upon performance management information to continually improve operations. As of September 30, 2016, the D.C. Federal Pensions Fund and the Judicial Retirement Fund paid for 19 Treasury positions. In addition, the Office provided funds to other Treasury offices performing critical functions to accomplish the Office's mission.

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

II. Executive Summary

During Fiscal Year (FY) 2016, the Office successfully worked with the District of Columbia Retirement Board (DCRB), the Treasury's Bureau of the Fiscal Service (Fiscal Service) and Administrative Resources Center (ARC), and other Department of the Treasury (Treasury) entities to execute responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

In response to the Disclaimer of Opinion rendered by auditors on the FY 2015 financial statements related to actuarial valuation errors, the Office contracted with a new third-party actuary to produce the FY 2016 actuarial valuation report. In addition, the Office of D.C. Pensions (the Office) expanded its staff and management review of plan participant data, the actuarial valuation report, and other actuarial contractor documents. The Office documented the review process in a series of Standard Operating Procedures. The expanded Office reviews resulted in more accurate census data, improved management oversight, and a high quality actuarial valuation report.

The Office continued to oversee DCRB's benefit administration activities and conducted training to ensure that benefit payments were accurate. In FY 2016, the Office provided training on the enhancements to the System to Administer Retirement (STAR), including

enhancements related to the Federal Employees Health Benefits Program Open Season changes. In FY 2016, the Office approved a Change Request to automate the process for entering new annuitants into STAR using information collected electronically by DCRB; the system is being tested and the Office anticipate implementation during the first quarter of FY 2017. The Office also completed the analysis phase of the STAR upgrade to Oracle/PeopleSoft version 9.2. The target date for implementation is May 2017.

In FY 2016, the Office reviewed its security posture in relation to data sharing resulting in the formalization of its STAR data security position. The Office drafted a Federal Information Security Modernization Act (FISMA) position paper that outlined the changes that will go into effect in FY 2017, which will strengthen controls around protecting STAR data shared with other entities that support the Office in administering benefit payments.

In FY 2016, the Office placed more emphasis internal controls. A Financial Manager for Internal Controls was hired and a contract with a Certified Public Accountant (CPA) firm was awarded to assist with the design of a formal Internal Control Program while strengthening the existing internal control processes.

The Office's Program Management Group (PMG) supports long-term strategic planning with a focus on program oversight, quality management, and performance management. In FY 2016, the Office continued to use the FY 2014 through 2016 Multi-Year Plan while reviewing several Memorandum of Understanding (MOU) and Interagency Agreement (IAA) documents and updating the inventory of key programmatic activities.

The following sections of the Management's Discussion and Analysis provide more details about the FY 2016 program results and plans for future years.

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

The Office of D.C. Pensions (the Office) has three Strategic Goals that contribute to the achievement of one of the five Department of the Treasury's (Treasury) Strategic Goals: *Create a 21st Century approach to government by improving efficiency, effectiveness, and customer interaction.*

1. Office Strategic Goal: Effectively Managed Finances

Office Outcomes:

- Benefit payments are accurate and timely
- Pension funds are effectively invested
- Pension funds meet future needs

2. Office Strategic Goal: Management and Organizational Excellence

Office Outcomes:

- Program is effectively managed

3. Office Strategic Goal: Effective Quality Assurance Program

Office Outcomes:

- Program pursues continuous improvement

The table on the following pages displays the Office's Strategic Goals, Objectives and Outcomes linked to Treasury's Strategic Goal. It also identifies the Office's Performance Measures and Results.

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

Fiscal Years 2016/2017		Fiscal Year 2016			
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Management Objective	ODCP Strategic Goal	ODCP Management Objective	ODCP Outcomes	ODCP Performance Measure
Create 21 st Century approach to government by improving efficiency, effectiveness, and customer interaction	Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability	Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	FY 2016 projected monetary error rate for new benefit calculations Target: 5.0% or less Actual: 1.8%
					STAR is available to users Target: 99.0% or more Actual: 99.9%
			Skilled staff and funds are available to manage financial activities	Pension funds are effectively invested	FY 2016 Investment strategy executed timely Target: 100.0% Actual: 100.0%
					FY 2017 Investment strategy developed timely Target: September 23, 2016 Actual: September 23, 2016
Pension funds are effectively managed	Pension funds are effectively managed	FY 2016 minimum daily cash balance exceeds the minimum balance as defined in the FY 2016 investment strategy Target: 100.0% Actual: 100.0%			
		FY 2016 annual required contribution from General Fund received timely into the D.C. Federal Pension & Judicial Retirement Funds Target: September 30, 2016 Actual: September 22, 2016			

Fiscal Years 2016/2017				Fiscal Year 2016	
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Management Objective	ODCP Strategic Goal	ODCP Management Objective	ODCP Outcomes	ODCP Performance Measure
Create 21 st Century approach to government by improving efficiency, effectiveness, and customer interaction (continued)	Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability (continued)	Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively managed (continued)	Monthly benefit payments made to annuitants by the first business day of the month Target: 100.0% Actual: 100.0%
					Electronic benefit payments made to annuitants Target: 98.5% Actual: 98.8%
				Pension funds meet future needs	FY 2016 Actuarial calculation for annual contribution from General Fund prepared timely Target: November 9, 2015 Actual: November 23, 2015 (See footnote #1)
		Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Risks are reviewed in accordance with the schedule outlined in the Risk Management Plan Target: Quarterly Meetings Actual: Meetings held quarterly in FY 2016.
					FY 2016 Financial Statement audit opinion received from an independent external auditor Target: Unmodified Opinion Actual: Unmodified Opinion

Fiscal Years 2016/2017				Fiscal Year 2016	
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Management Objective	ODCP Strategic Goal	ODCP Management Objective	ODCP Outcomes	ODCP Performance Measure
Create 21 st Century approach to government by improving efficiency, effectiveness, and customer interaction (continued)	Support effective, data-driven decision making and encourage transparency through intelligent gathering, analysis, sharing, use, and dissemination of information	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	FY 2016 Financial Report and Balance Sheet completed timely Target: December 9, 2016 Actual: December 9, 2016
					FY 2016 open material weakness as of 10/31/2016 Target: 0 Actual: 0
		FY 2016 Actuarial Valuation Report delivered timely Target: September 21, 2016 Actual: September 21, 2016			
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	FY 2017 Quality Assurance Plans approved by September 30, 2016 Target: 100% Actual: 75% (See footnote #2)
Footnotes: 1) The actuarial calculations were delayed eight business days in order to refine the calculations. 2) IT Quality Assurance Plan delivery target was not met due to a new IT Service Level Agreement (SLA) that has been established with the Treasury's Bureau of the Fiscal Service (Fiscal Service). Revisions to the Quality Plan are under discussion.					

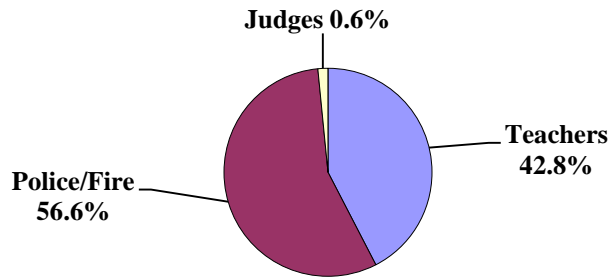
A. *Benefit payments are accurate and timely*

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 14,350 annuitants, as of September 30, 2016, 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, 6,140; police officers and firefighters, 8,119; and judges, 91.



The average monthly Federal and District benefit payments in Fiscal Year (FY) 2016 was \$58.3 million. All payroll files were submitted on time, ensuring timely payment of annuitant benefits on the first business day of the month. With oversight and support by the Office, the District of Columbia Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan. The Office performed benefits administration for the Judges' Retirement Plan.

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

The Office encourages annuitants to receive their benefit payments through direct deposit, as it is a more convenient, secure and timely method of delivering benefits. At the end of the fiscal year, the Electronic Funds Transfer (EFT) participation rate for annuitants in all retirement plans was 98.8%.

The table below illustrates the EFT participation rates for annuitants by retirement plan.

District of Columbia Retirement Plans FY 2016 Electronic Funds Transfer (EFT) Participation Rate	
<i>Police Officers/Firefighters</i>	98.6%
<i>Teachers</i>	99.0%
<i>Judges</i>	100.0%

In FY 2016, a variety of outreach efforts ensured that accurate and timely information was provided to annuitants, including:

- Letters notifying annuitants when their benefits changed;
- DCRB’s newsletters (which provides retirement plan information for active and retired police officers, firefighters, and teachers);
- Earning statement messages alerting annuitants to changes such as a cost-of-living adjustment (COLA) or opportunities to improve services (e.g., signing up for direct deposit, changing tax withholdings or updating mailing addresses) and changes in health benefits, including the new Self Plus One option;
- Letters to retired Judges announcing the new Self Plus One enrollment option;
- Letters to retired Judges providing information regarding the 2015 COLA; and
- Letters to retired Judges announcing Federal Employees Group Life Insurance (FEGLI) Open Season.

Annuitant Payroll Operations

Pursuant to an Interagency Agreement (IAA) with the Treasury’s Bureau of the Fiscal Service, Administrative Resource Center (ARC), ARC Pension Payroll utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that supports benefit administration and payroll operations, to process monthly benefit payments. ARC Pension Payroll works closely with DCRB to process monthly benefit payments. ARC Pension Payroll is responsible for reconciling the payroll reports generated from STAR to ensure the annuitant payroll is processed correctly.

In FY 2016, ARC Pension Payroll staff made 172,007 benefit payments totaling approximately \$699.9 million for a monthly average of \$58.3 million. These monthly benefits represent payments for annuitants, beneficiaries, and Qualified Domestic Relations Orders (QDROs). In addition, off-cycle payments totaling approximately \$890 thousand were paid to annuitants when benefits were not processed in time for the regular on-cycle schedule, and when beneficiaries received one-time payments.

During FY 2016, ARC Pension Payroll reported the share of Federal and District benefit payments. This information is calculated by STAR and is included in the Split

Reimbursement Summary Report (SRSR). This report supports the reimbursement to the Office from DCRB for District benefit payments. ARC Pension Payroll also provided mail management support to ensure that monthly earnings statements and other annuitant communications are distributed in an efficient and timely manner.

In FY 2016, the Office conducted a Payroll Emergency Preparedness test which successfully executed the Memorandum of Understanding (MOU) with Treasury's Bureau of the Fiscal Service Payment Management (Fiscal Service Payment Management). The MOU provided guidance on how the Office makes payments in an emergency situation. This MOU ensures that the Office can generate monthly benefit payments in the unlikely situation that ARC Pension Payroll cannot process, certify, and/or transmit data to Fiscal Service Payment Management in a timely manner.

In FY 2017, the Office will continue to focus on making accurate and timely payments by improving the review of the Monthly Preliminary Statistics Report. This report is generated in STAR and consists of the entire payroll for the current month. The Office, DCRB, and ARC Pension Payroll review these reports for consistency from month-to-month, percentage differences, large payment amounts to annuitants, and variations in the gross and/or net pay to individual annuitants. The Office will work with ARC Pension Payroll to provide a thorough analysis of new annuitants, recalculations, and QDROs to ensure benefit payments are accurate before the payments are distributed.

Benefit Administration Projects

During FY 2016, the Office continued to collaborate with DCRB to focus on key benefit activities and data integrity. In support of these efforts, the Office contracted with a consulting firm with applicable experience in benefits administration to assist with benefit administration support activities and projects. This allows the Office to have maximum flexibility to simultaneously execute various benefit activities and projects.

The 2015 open season afforded, for the first time, an opportunity for annuitants enrolled in the Federal Employees Health Benefit Program (FEHBP) to elect a Self Plus One option. In FY 2016, STAR was modified to support the election of the FEHB's new enrollment option. The new enrollment codes and rate changes were effective January 1, 2016. Additionally, to comply with the Office of Personnel Management (OPM) requirements, the Office modified STAR to automate the transmission of the FEHBP data to OPM.

In FY 2017, the Office will continue to utilize contractors to assist with benefit administration support activities. The Office will begin assessing training requirements to ensure skills and knowledge exists to effectively manage and execute benefits administration activities. In addition, the Office will review business processes, procedures, and reporting to ensure benefit payments are processed accurately and timely.

Summary Plan Description (SPD)

The SPDs are designed to provide Plan members accurate and easy to understand information about the retirement plans. In FY 2016, DCRB began updating the District of Columbia Teachers' Retirement Plan SPD and the District of Columbia Police Officers' and Firefighters' Retirement Plan SPD. The Office will update the SPD for the District of Columbia Judges' Retirement Plan in FY 2017.

Post-1956 Military Service

The District of Columbia Retirement Equity Act (Public Law 108-133) was signed into law on November 22, 2003. Public Law 108-133 permits D.C. Police Officers' and Firefighters' Retirement Plan members to purchase eligible post-1956 military service for purposes of calculating their retirement benefit. For members who purchased, no further action was required. If the post-1956 military service was not purchased and the annuitant was eligible for Social Security Benefits at age 65, the annuity must be recalculated to exclude the military service. DCRB reviewed the impacted population and made the appropriate adjustments.

Refund of Retirement Contributions

Former District employees who have not requested a refund or retirement benefits and have retirement contributions remaining in the retirement funds are entitled to a deferred retirement benefit or a refund of contributions. Former employees with service totaling less than five years are entitled to a refund. Former employees with service totaling five years or greater are entitled to a deferred retirement benefit. The Office is working with DCRB to analyze the data to identify the former District employees who may be entitled to a deferred benefit or refund of retirement contributions. Once the population has been identified, the Office and DCRB will collaborate to determine the necessary next steps.

Lookback COLA

A COLA was erroneously included in the retirement benefit due to a misapplication of the "lookback" COLA provision, causing some annuitants to receive an additional COLA. This error occurred during the period 1980 to 1997, a period during which both Federal and split annuitants may be impacted. In FY 2016, the Office's benefits administration contractor continued work on recalculating the benefits of affected annuitants whose benefit changed effective March 1, 2015. Efforts also focused on reconsiderations, appeals, and waivers. The Office expects to complete the work in early FY 2017.

80% Maximum Annuity Calculations

In FY 2010, DCRB (with assistance from the District's attorneys) determined that since 1980, the D.C. Code incorrectly described the maximum benefit payable under the District of Columbia Police Officers and Firefighters' Retirement Plan. In FY 2016, the

Office's benefit administration contractor continued recalculating the Federal benefits of affected annuitants whose benefits changed effective on March 1, 2015. Efforts also focused on reconsiderations, appeals, and waivers. The Office expects to complete the work in early FY 2017.

b. System to Administer Retirement (STAR)

Background and History

STAR is an automated pension/payroll system developed by the Office in cooperation with the District. STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables retirement analysts to quickly access information and provide annuitants with real-time customer service. In addition to processing retirements, STAR calculates the share of Federal and District benefit payments.

STAR is based on Oracle/PeopleSoft's "commercial off-the-shelf" (COTS) software for human resources, pensions, and payroll administration. The STAR implementation was phased and deployed in bundles known as releases.

- Release 1 was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 was implemented in September 2003 to serve Teachers, Police Officers, and Firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 was deployed in August of 2005 for Teachers, Police Officers, and Firefighters whose initial retirement was processed in STAR after August 1, 2005 (and their survivors). This release also converted Teachers, Police Officers, and Firefighters who retired after July 1, 1997, and before August 1, 2005, and whose initial retirement processing took place in the District's legacy system, the Pension Administration and Payroll System (PAPS).
- Release 4 started the implementation of the split benefit calculation to enable STAR to calculate the Federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. This release also included an upgrade of Oracle/PeopleSoft from version 8.0 to 8.9.
- Release 5 was implemented in November 2007 and completed the implementation of the split benefit calculation. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. In addition, STAR calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in PAPS.
- Release 6 was deployed in May 2012 which upgraded the Oracle/PeopleSoft version 8.9 to version 9.1, and included the implementation of the "person model." The upgrade leveraged existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations.

- Release 7 will be deployed in April 2017 which will upgrade the Oracle/PeopleSoft version 9.1 to version 9.2. The upgrade will again leverage existing and newly delivered functionality to reduce the overall number of Oracle/PeopleSoft application customizations.

STAR Long-Term Architectural Plan

The Office maintains a STAR Long-Term Architecture Plan (LTAP) designed to ensure the system architecture continues to meet business goals and objectives. The STAR LTAP also provides information for planning and budgeting for system enhancements. The STAR LTAP was updated in FY 2015 to reflect the changes in Oracle's planned release dates. This five year management plan outlines the future upgrades to the STAR application software, database, and hardware in order to maintain the vendor license agreements. In FY 2016, new hardware service was implemented by the Treasury's Bureau of the Fiscal Service (Fiscal Service) with an estimated production cutover in first quarter FY 2017. The Office completed the analysis phase of PeopleSoft Upgrade 9.2, which is required for ongoing maintenance and support. The target date for implementation is May 2017.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Fiscal Service, Information Security Services (ISS). Since September 2003, ISS staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. A supplemental support contract is also in place to provide assistance to ISS in both operations and maintenance activities. In FY 2016, STAR was available 99.9% of the time.

STAR System Security

The STAR system is in compliance with all relevant security requirements and the triennial Security Assessment and Accreditation (SA&A) was renewed in May 2016. The SA&A is a process that ensures that systems and major applications are well-documented, authorized, and adhered to formal and established security requirements. The Office is in the process of upgrading the STAR hardware through a hardware refresh project. Although the next SA&A was scheduled to be conducted in FY 2019, the hardware upgrade is considered a major change to the STAR system. Therefore, the next SA&A will be conducted in FY 2017.

During FY 2016, the Office successfully mitigated all the vulnerabilities identified during the previous system test and evaluation (ST&E). The FY 2016 SA&A identified a high vulnerability that was related to unsupported software. Specifically, support from the vendor was discontinued for the 2003 version of the windows operating system used on a STAR web server that hosts STAR's training tool – Oracle User Productivity Kit (UPK). The vulnerability has been entered into the Treasury FISMA Inventory Management

System (TFIMS) and a plan of action and milestone (POA&M) has been developed to eliminate the vulnerability. Through the hardware refresh, the Office will move UPK to a new server and decommission the old server.

As required by NIST 800-53, the Office conducted an annual test of its STAR Contingency and Incident Response Plans. The STAR Contingency Plan outlines how the Office responds to potential disruptions in service and the STAR Incident Response Plan outlines the procedures for handling any major catastrophe.

In FY 2016, the Office used a production backup tape for contingency testing. The tape was loaded into STAR Contingency to test the availability of the environment and to test the quality of the data on the tape. In addition, the Office experienced a non-system related incident that it used to identify gaps in its Incident Response Plan. Lessons learned from the tests were used to update STAR security documentation.

FISMA

In FY 2016, the Office reviewed its security posture in relation to data sharing. The Office identified areas that needed strengthening which resulted formalizing its STAR data security position to further ensure the security of annuitant information. The Office drafted a FISMA position paper that outlined the need for change and an overview of the changes that will go into effect at the start of FY 2017. The Office's non-federal partners have received notification letters in regards to the upcoming changes for the new requirements.

FISMA Audit

In FY 2016, STAR was among four Departmental Offices' (DO) systems selected to participate in the DO FISMA Audit led by the Treasury, Office of the Inspector General (OIG). STAR's 2015 FISMA year (covering July 1, 2015, through June 30, 2016) was assessed against National Institutes of Standards and Technology (NIST), Special Publication (SP) 800-53, revision 4. STAR received three Notice of Findings and Recommendations (NFRs). The NFRs were in the areas of: scanning vulnerability, system security plan, and contingency testing. The following findings resulted:

- Vulnerability scanning was not conducted on the STAR servers from February 2016 to May 2016 due to incomplete configuration change request;
- The contingency test executed in FY 2015 was not sufficient enough to qualify as a contingency test for a FISMA system categorized as a medium risk level; and
- The STAR System Security Plan (SSP) did not conform to the DO template.

The Office worked with Fiscal Service to research why STAR was not being scanned. It was determined that a configuration change request had been prematurely closed. The issue has since been resolved and the STAR servers are being scanned. In addition, the Office revised its FY 2016 STAR Contingency Plan test to ensure the exercise executed,

met FISMA compliance. The Office will dedicate time in the first quarter of FY 2017, to update its System Security Plan to ensure it conforms to the DO template.

STAR will participate in the next DO FISMA audit to validate the mitigation work that has been executed to resolve the noted findings. In addition, the audit will ensure that STAR is in compliance with FISMA and DO policy.

Change Control Board

The Office's Change Control Board (CCB) acts as the approving authority for all STAR requirement changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change; makes a determination as to whether or not the proposed change should be implemented; and establishes the priority for each approved change. The CCB process enhances internal controls and accountability for new proposed changes. During FY 2015, a change request, which automated the electronic health benefit enrollment to OPM, was approved and was implemented in FY 2016 (the fall of 2015).

During FY 2016, a change request was approved to automate the process for entering new annuitants into STAR. This will be accomplished by using information collected electronically by DCRB from the District Human Resources offices. The change request is planned to be implemented in November 2016.

In FY 2017, the Office will continue to focus on leveraging new or existing PeopleSoft capabilities to enhance or streamline the benefit administration and pension payroll processes and reduce the possibilities of erroneous payments.

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 administers Federal benefit payments through two funds:

- **The District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal benefit payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are:
 - An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations;

- Interest earned on investments; and
- Payments from DCRB and the D.C. government.

Total assets as of September 30, 2016 are \$3.9 billion.

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal benefit payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund:

- An annual federal payment from the Treasury General Fund which amortizes the original unfunded liability and any additional liabilities identified in annual actuarial valuations;
- Interest earned on investments; and
- Judges’ employee contributions.

Total assets as of September 30, 2016 are \$156.3 million.

b. Fund Deposits

Warrants

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

In accordance with the Act, the annual payments to the funds are calculated by an enrolled actuary. These funds are requested in September each year, and invested upon receipt in Government Account Series (GAS) non-marketable Treasury securities, with maturities and par amounts consistent with the expected payment dates and payout amounts of the pension liabilities. The FY 2016 annual payments from the Treasury General Fund are summarized in the following table:

Office of D.C. Pensions’ Funds FY 2016 Annual Payments from the Treasury General Fund (in Millions)	
<i>District of Columbia Federal Pension Fund</i>	\$460.9
<i>District of Columbia Judicial Retirement and</i>	\$14.2
Total	\$475.1

A major component of each of the above annual payments is the 30-year payment established in 1997 to amortize the unfunded liabilities of the retirement programs assumed by the Federal Government. There are 11 years remaining of these 30-year payments of \$348.6 million for the D.C. Federal Pension Fund and \$2.1 million for the Judicial Retirement Fund after which the original unfunded liabilities will be fully amortized.

Interest

The amount of Interest Payments (deposits) in the table below reflects three sources of interest; interest earned on GAS long-term securities, interest earned on overnight securities, and interest earned through the amortization of discounts. There are two methods of calculating interest: the Interest Earned (recognized) reflects the amortization of premiums and discounts from GAS securities in the portfolio; while the Rate of Return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities. Interest Earned (recognized) and Rate of Return are driven primarily by the interest rates for available GAS non-marketable Treasury securities available at the time investments are placed. The FY 2016 annual interest from the pension funds are summarized in the following table:

Office of D.C. Pensions' Funds FY 2016 Annual Interest (in Millions)	Interest Payments (deposits)	Interest Earned (recognized)	Rate of Return
<i>District of Columbia Federal Pension Fund</i>	\$127.0	\$51.4	2.48%
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$4.2	\$3.6	1.46%
Totals	\$131.2	\$55.0	

Judges' Employee Contributions

Active judges are required to contribute 3.5% of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5% of salary.

The table below summarizes the contributions of active judges' contributions for FY 2016:

Office of D.C. Pensions' Fund	
<i>District of Columbia Judicial Retirement and</i>	\$785.0

Summary of Fund Deposits

The following table reflects the fund deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund for FY 2016:

Office of D.C. Pensions' Funds FY 2016 Deposits (in Millions)		
Fund	Type of Deposit	Amount
<i>District of Columbia Federal Pension Fund</i>	Warrant	\$460.9
	Interest	\$127.0
	Contributions	\$0.0
	District Benefit Reimbursements	\$147.6
	Post-87 D.C. Health & Life Employer Payment Reimbursements	\$8.6
	Administrative Reimbursements	\$1.6
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	Warrant	\$14.2
	Interest	\$4.2
	Contributions	\$0.8
Totals	Warrant	\$475.1
	Interest	\$131.2
	Contributions	\$0.8
	Reimbursements	\$157.8

c. Collections

District Benefit Payments

Treasury pays all benefit payments under the Police Officers and Firefighters' and Teachers' Retirement Plans from the D.C. Federal Pension Fund. DCRB reimburses the D.C. Federal Pension Fund in advance prior to the last business day of the month for benefit payments that are made by Treasury on behalf of the District. The STAR Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month.

The table below summarizes this reimbursement activity for FY 2016:

Office of D.C. Pensions' Fund FY 2016 Benefit Payments from District of Columbia Retirement Board (in Millions)	
<i>District of Columbia Federal Pension Fund</i>	\$147.6

Refunds Reconciliation Project

In FY 2016, the Office reconciled the federal and District portions of retirement contribution refunds funded by Treasury in FY 1998 and FY 1999. The reconciliation had been delayed because of incomplete data related to 138 refund cases. The Office analyzed the outstanding balances and developed a methodology to reconcile and process the remaining cases. The resulting District liability for refunds Treasury made on the District's behalf is \$676.3 thousand.

Debt Management

During FY 2016, the Office pursued debt prevention and collection efforts working with ARC Pension Payroll, which manages the debt collection process for the Office. The Office worked with ARC Pension Payroll and the Office of the General Counsel (OGC) to pursue debt prevention efforts and ensured approximately \$1.1 million was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. In addition, during the fiscal year, \$217,095 was collected through offsets, lump sum payments or installment payments. Also, in FY 2016, the Office worked closely with DCRB and ARC Pension Payroll to reduce the number of open debt cases.

The FY 2016 agreement with the Treasury's Bureau of the Fiscal Service, Debt Management Services' (DMS) Cross-Servicing Program allows collection processes for delinquent debt through a number of tools including: issuing demand letters, conducting telephone follow-up calls, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment, and referring debts to private collection agencies.

STAR Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administration costs incurred by the Office when administering District and Federal benefit payments. The methodology takes into consideration the number of 100% Federal annuitants, 100% District annuitants, and split annuitants. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2016 actual expenses. During FY 2016, the Office received

payments from DCRB for the District’s share of Treasury’s administrative expenses for fourth quarter FY 2015 and quarters one through three for FY 2016 totaling \$1.6 million. A receivable in the amount of \$385 thousand was established for the FY 2016 fourth quarter estimate.

d. Investments

As required by the Act, amounts received in the D.C. Federal Pension Fund and the Judicial Retirement Fund are invested in non-marketable securities issued to mirror the characteristics of marketable securities. The Fiscal Service invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2016, the cash balances in the D.C. Federal Pension Fund and Judicial Retirement Fund, available for contingencies, were targeted to remain above \$95.0 million and \$2.3 million respectively, which represent approximately two months of federal obligations. Typically, the Office invests the cash balance in one-day certificates, except for an un-invested balance of \$500,000 at month-end to cover unanticipated withdrawals on the last day of the calendar month. In FY 2016, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to February 2023 and for securities in the Judicial Retirement Fund to February 2027.

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

The following table reflects the net investments breakdown as of September 30, 2016:

Office of D.C. Pensions’ Funds	
<i>District of Columbia Federal Pension Fund</i>	\$3,889.4
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$155.7
Total	\$4,045.1

e. Payments

Annuity Federal Benefit Payments

Federal benefit payments paid by the Office are summarized in the following table:

Office of D.C. Pensions' Funds	
<i>District of Columbia Federal Pension Fund</i>	\$541.8
<i>District of Columbia Judicial Retirement and</i>	\$11.4
Total	\$553.2

Refunds of Employee Contributions

DCRB processes refunds of contributions for active Police Officers, Teachers and Firefighters and requests the Office reimburse DCRB for the Federal portion of those refund payments. In FY 2016, the Office processed refunds for two active judges.

The table below summarizes the refunds of employee contributions processed in FY 2016:

Office of D.C. Pensions' Funds FY 2016 Refunds of Federal Portion of Employee Contributions	
<i>District of Columbia Federal Pension Fund</i>	\$78,692
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$271,711

Benefit Administration Expense Reimbursements

The Office reimburses DCRB for administrative expenses incurred in administering Federal benefit payments. The Office and DCRB have developed a methodology for estimating costs incurred by DCRB while administering District and Federal benefit payments and entered into a cost sharing agreement for reimbursement of FY 2016 actual expenses. The methodology takes into consideration: (1) the number of active employees, 100% Federal annuitants, 100% District annuitants, and split annuitants; (2) the estimated DCRB resources needed to support these populations; 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 table below is an estimate of the amounts the Office expects to reimburse DCRB for FY 2016 administrative expenses incurred while administering Federal benefit payments:

Office of D.C. Pensions' Fund FY 2016 Reimbursements to DCRB for Administrative Expenses (in Millions)	
<i>District of Columbia Federal Pension Fund</i>	\$3.2

Administrative Expenses

The Office funds administrative expenses to support federal responsibilities for the retirement programs under the Act from the D.C. Federal Pension Fund and the Judicial Retirement Fund. When administrative expenses related to activities that benefit all of the retirement programs occur, expenses are usually allocated 99% to the D.C. Federal Pension Fund and 1% to the Judicial Retirement Fund. The allocation percentages are based on the number of annuitants covered by each Fund. When expenses benefit only one group, or when a different allocation is clearly appropriate, expenses are charged accordingly.

The Office's major administrative expenses consisted of DCRB benefit administration (discussed above), the Office's staff salaries, and contractors engaged to provide benefit administration and IT system support. The following table reflects administrative expenses by fund for the fiscal year:

Office of D.C. Pensions' Funds FY 2016 Administrative Expenses (in Millions)	
<i>District of Columbia Federal Pension Fund</i>	\$15.9
<i>District of Columbia Judicial Retirement and</i>	\$1.0
Total	\$16.9

In FY 2016, the Office was again subject to the Sequestration under the Bipartisan Budget Act of 2015 (Public Law 114-74) which modified the caps on defense and nondefense funding for fiscal year 2016 that were established by the Budget Control Act of 2011. The Office of Management and Budget (OMB) issued a report to the Congress on the Joint Committee Reductions for Fiscal Year 2016. OMB prepared the report consistent with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended. The report provided calculations of the amounts by which FY 2016 direct spending is required by section 251A of BBEDCA to be

reduced and listed the required reductions for each non-exempt budget account with direct spending.

Based on this report, the Office identified the District of Columbia Federal Pension Fund and the District of Columbia Judicial Retirement and Survivors Annuity Fund as budget authority subject to sequestration. Although reductions due to sequestration had no impact on payments to annuitants, the Office absorbed these reductions in FY 2016 in the area of administrative expenses by delaying approved hiring actions (leaving vacancies unfilled), and delaying the award of several contract actions (postponing planned projects).

The table below summarizes these reductions for the fiscal years:

Office of D.C. Pensions' Funds FY 2016 Sequestration Impact (in Millions)		
Fund	Payment Type	Impact
<i>District of Columbia Federal Pension Fund</i>	Annuitant Benefit Payments	\$0.0
	Administrative Expenses	\$1.3
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	Annuitant Benefit Payments	\$0.0
	Administrative Expenses	\$0.1
Total Reduction due to Sequestration		\$1.4

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

Improper Payments Elimination and Recovery Improvement Act

In FY 2016, the Office continued to review existing procedures to evaluate whether the Office is effective in preventing and recapturing erroneous payments as required by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). The Office worked extensively with teams from ARC to analyze the various types of

payments disbursed by the Office and reported these results using a standardized, risk-based model. Additionally, the Office reported and reviewed results from ongoing internal benefit payment quality reviews and will continue to work with Treasury's Office of the Deputy Chief Financial Officer (DCFO) to comply with IPERIA reporting requirements.

In addition, in FY 2016, the Office of the Inspector General (OIG) selected the Office as part of its IPERA/IPERIA Compliance Audit for the Office's submission of the FY 2015 Payment Recapture Audit Spreadsheet (Attachment C) reporting requirement. The OIG auditor reviewed supporting documentation provided by the Office for the balances/data included in Attachment C, and also, the auditor evaluated the responses to the OIG Questionnaire submitted by the Office. The OIG did not note any matters involving FY 2015 IPERA activities that it considered to be significant, or any instances of noncompliance with laws and regulations.

Prompt Payment Act and Electronic Invoice Payments

The Prompt Payment Act was enacted to ensure that suppliers doing business with the Federal Government are paid by the government in a timely manner. The Office paid 100% of the 92 invoices received within the timeframes required by the Prompt Payment Act.

f. Financial Operations

Accounting Support

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

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

In FY 2016, the Office recorded three sources of revenue associated with the administration of the District of Columbia (the District) Retirement Plans for Teachers,

Police Officers and Firefighters as reimbursable revenue and offsetting collections, as appropriate. The three sources of revenue are:

- Collections to reimburse the Office for actual expenses incurred in support of administrating District Benefit Payments;
- The portion of annuitant benefit payments from the District of Columbia Retirement Board (DCRB); and
- The District’s employer contribution for Post-87 D.C. Health and Life benefits.

These three payments were recorded as net amounts in prior years on the Office’s financial statements. Pursuant to guidance and discussions with OMB and OGC, it was determined that the revised financial reporting method for the recording of gross revenues and expenses resulted in a preferable presentation of the Office’s cash flows. The Office net balances were not impacted by this change.

g. Actuarial Valuation

In FY 2016, the Office’s actuarial contractor performed the annual actuarial valuation for the Office, as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office. The actuarial liability, as of October 1, 2016, was determined using the demographic rates from the FY 2014 experience study with future mortality improvement and economic assumptions in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The Federal Government’s total liability for Federal benefit payments for the Police Officers’ and Firefighters’, and Teachers’ Retirement Plans, and Judges’ Retirement Plan is summarized in the table below for the two most recent years. The table also identifies the portions of these actuarial liabilities by fund.

Office of D.C. Pensions’ Funds FY 2016 Actuarial Pension Liability (in Millions)	
<i>District of Columbia Federal Pension Fund</i>	\$8,605.5
<i>District of Columbia Judicial Retirement and Survivors Annuity Fund</i>	\$230.5

C. Program is effectively managed and pursues continuous improvement

1. Program Results

a. Long-Term Strategic Planning

In FY 2016, the Program Management Group (PMG) members began focusing attention on the Office's major functional areas and other issues that will have longer term impact. These efforts were made in preparation for revisions to the FY 2014 through FY 2016 Multi-Year Plan. Initial areas of consideration in FY 2016 included the future use of the System to Administer Retirement (STAR) and Federal Information Security Management Act (FISMA) policy – all in response to the natural maturation of the Office's business model, program activities, and service providers. The PMG began to revise the Multi-Year Plan in August 2016 with an expected completion date of November 2016. The Multi-Year Plan is being updated to reflect a three year period, FY 2017 through FY 2019.

b. Program Management

A key component of program management involves setting the Office's annual priorities. In FY 2016, the priorities focused on the annual financial statement audit and actuarial valuation; corrective actions with respect to the prior year's audit report and actuarial valuation; STAR Assessment and Accreditation (SA&A); STAR Upgrade Analysis; Internal Controls Assessment; Business Strategy, and Benefit Correction Projects. More detailed information about activities supporting these priorities can be found throughout the Program Results section.

Priorities for FY 2017 include upgrading STAR, conducting an additional SA&A due to the Oracle/PeopleSoft 9.2 STAR upgrade, revising the Judges' Summary Plan Description, completing the Annual Actuarial Valuation, preparing for a successful Financial Statement Audit, filing staff positions, continuing Business Strategy efforts with an emphasis on benefits administration, and completing an Internal Control Assessment.

c. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with the District of Columbia Retirement Board (DCRB) for benefit administration and with ARC for the STAR administration and hosting, annuitant payroll operations, and financial management services. In FY 2016, the SLAs were reviewed and modified to more accurately define responsibilities, required services, and reporting requirements for service providers and to ensure the Office is providing high quality service to annuitants. In addition, the Office has revised quality plans and conducted periodic reviews to ensure responsibilities are executed.

In FY 2016, the Office used the revised SLA, in conjunction with the quality plans, to identify areas that require more focus by the Office to achieve the acceptable quality level for the required services.

d. Quality Program

Benefits Administration

As part of the Office's Quality Program, a quality plan was established to review benefit administration activities such as new annuitant calculations, which include new retirees, survivors, beneficiaries, and Qualified Domestic Relation Orders (QDROs). In FY 2016, the benefits administration quality plan was reviewed and revised to ensure benefits processing errors are identified. Also in FY 2016, the Office's staff and benefits administration contractors conducted quality reviews for annuitant payments. Benefit administration contractors will continue to support quality reviews in FY 2017.

In FY 2016, the Office continued to review data maintenance activities, such as changes to annuitants' personal data, bank information, health benefits, and life insurance. As part of the Quality Program, the Office provided appropriate feedback to the DCRB to assess training needs for the staff. The activities will continue in FY 2017.

Payroll Administration

The Office's Quality Program includes reviews of payroll processing functions. The Office reviews preliminary and final payroll statistics, large annuitant payments, and third-party payroll reporting. In addition to the aforementioned reports, each month the Office monitors death audit verification, Do Not Pay (DNP) notifications, split discrepancies, pending issues escalated for resolution, checks which have not been cashed for an extended period of time, and payment reclamations. In FY 2016, the Office enhanced the review of monthly preliminary statistics data and final payroll statistics reports by modifying thresholds, developing standard operating procedures, and including a validation report of analysis performed on the reports by ARC Pension Payroll staff.

System Administration

During FY 2016, the Office continued to include system administration activities and the review of user accounts in its Quality Program. The quality plan tracks system availability, number and type of open production trouble tickets and completion time of trouble tickets. As part of the quality review, user accounts are reviewed semi-annually to ensure that users have the least amount of access privileges necessary to perform their duties. The semi-annual reviews are used by the Office to manage resources, maintain system security, and track the quality of STAR production support and hosting services.

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

In FY 2016, the Office tracked, collected, and reported performance data in an effort to continue to promote transparency, and improve decision making using the performance measurement reporting tool. The performance measures are reported and reviewed during the Office's monthly quality review meeting. The performance data is utilized to make improvements in program management areas, such as operational planning and resource needs assessments.

f. Risk Management Program

In FY 2016, the PMG and Risk Manager continued to monitor risks and made recommendations to the Office. The PMG and Risk Manager explored alternative risk management tools; however, the group decided to not replace the current Microsoft Access based tool.

The Risk Manager worked with risk owners to gather risk updates and to assist in developing mitigation worksheet as needed. In addition, the risk manager conducted quarterly risk meetings with the Office staff to discuss current risks, as well as, give risk owners the opportunity to provide status updates on their risks. The quarterly meetings were also used to make risk retirement and risk ownership recommendations to the Director and Assistant Director.

In FY 2017, the PMG, Risk Manager and Financial Manager for Internal Controls will evaluate the changes need for the Risk Management Program to meet the revised Office of Management and Budget Circular A-123 requirements. This change will help the Office establish a more comprehensive and effective enterprise risk management program.

g. Internal Control Program

FY 2016, the Office hired a Financial Manager for Internal Controls, as well as, contracted with a Certified Public Accounting Firm to design an Internal Control Program. During FY 2016, the Office reviewed the Committee of Sponsoring Organizations of the Treadway Commission (COSO), U.S. Government Accountability Office (GAO) Questionnaire, programmatic and financial risks, and the processing of judges' retirement along with a related standard operating procedure.

In FY 2017, the Office will develop a summary of risks and a GAP analysis of current internal Control design. The Office plans to use these tools to develop and strengthen the existing internal control processes.

During the FY 2016 Balance Sheet audit, the Office received two Notice of Findings and Recommendations (NFRs) related to STAR. One finding is the result of not removing separated employees in STAR which has been resolved by implementing a monthly review process. A second finding is the result of not reviewing the STAR Application

and Oracle Database Audit Logs. The Office will work closely with Fiscal Service to identify appropriate requirements, roles and responsibilities, as outlined in the STAR Auditing and Logs document, which will be updated to reflect the necessary changes.

Also, the FY 2016 audit resulted in a NFR related to the Office's internal control over the review of the actuarial pension liability. The finding noted that the Office did not perform or document some of the steps and the results in accordance with the newly developed Standard Operating Procedures (SOPs). Further, the Office did not provide sufficiently detailed guidance on how the results should be documented, the basis for selecting items for review, and the threshold over which differences should be investigated. Also, the Office did not perform and document subsequent event procedures. The Office will monitor notifications received from professional associations or from the Office's third party actuary to be aware of subsequent events in a timelier manner. The Office will continue to refine its execution and documentation of control procedures to ensure that the newly developed policies and procedures are being adhered to, and that the results are documented appropriately.

h. Internal Control over Financial Reporting

OMB Circular A-123, Management's Responsibility for Internal Controls

During FY 2016, the Office also conducted a review of internal control over financial reporting as required by OMB Circular A-123, Management's Responsibility for Internal Controls, Appendix A, Internal Control over Financial Reporting.

The Office used the FY 2016 Guidance and Implementation Plan provided by Treasury's DCFO to conduct the review on internal control over financial reporting. The Office's assessment of the effectiveness of internal controls over financial reporting as of September 30, 2016, 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, demonstrated that controls were working effectively. 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.

Response to FY 2015 Financial Statements Audit

In response to the Disclaimer of Opinion received for the FY 2015 financial statements audit, the Office revised and enhanced the Performance Work Statement (PWS) with improved requirements for quality reviews on the actuarial valuation report by the third party actuarial firm. In FY 2016, the Office engaged a new third party actuarial firm to prepare the FY 2016 actuarial valuation report. The Office also strengthened its overall process for the review of the actuarial valuation report. The process improvements included:

- Established a Senior Management Oversight Team to review activities while the actuarial valuation report was being developed, including assumptions provided to the third party actuarial firm and data review results;
- Updated an Actuarial Valuation SOP for reviewing the actuarial valuation report prepared by the third party actuarial firm and includes a review of the actuarial model;
- Established a Data Review SOP that documents the newly implemented procedures required for conducting a review of the participants' data used for the actuarial valuation;
- Developed the "Guidelines for the Review of Actuarial Valuation Report by Non-Actuary Staff"; and
- Updated the SOP for the Manual Journal Entry Approval process.

i. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unmodified opinion on the Office's FY 2016 Balance Sheet.

KPMG noted no material weakness in the Office internal controls over financial reporting. Also, results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under Government Auditing Standards or OMB Bulletin No. 15-02, Audit Requirements for Federal Financial Statements.

IV. Limitation of the Balance Sheet

The consolidated balance sheet has been prepared to report the financial position of the Office of D.C. Pensions (the Office), pursuant to the requirements of the 31 U.S.C. 351(b).

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

The balance sheet should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

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PART 2

INDEPENDENT AUDITORS' REPORTS



“I never expect to see a perfect work from an imperfect man.”

Alexander Hamilton



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 DC Pensions:

Report on the Financial Statement

We have audited the accompanying consolidated financial statement of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) which comprises the consolidated balance sheet as of September 30, 2016 and the related notes to the consolidated balance sheet (hereinafter referred to as consolidated financial statement).

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free from material misstatement.

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

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

Opinion on the Financial Statement

In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of DC Pensions as of September 30, 2016 in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis included in Part 1 be presented to supplement the basic consolidated financial statement. Such information, although not a part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statement 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 basic consolidated financial statement, and other knowledge we obtained during our audit of the basic consolidated financial statement. 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The Message from the Director is presented for purposes of additional analysis and is not a required part of the consolidated financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016 on our consideration of the ODCP's internal control over financial reporting and our report dated December 7, 2016 on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ODCP's internal control over financial reporting and compliance.

KPMG LLP

Washington DC
December 7, 2016



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 DC Pensions:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statement of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheet as of September 30, 2016, and the related notes to the consolidated financial statement, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statement as of September 30, 2016, we considered the ODCP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I as an item that we consider to be a significant deficiency.

ODCP's Response to Findings

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



Purpose of this Report

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

KPMG LLP

Washington DC
December 7, 2016

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

ODCP's Internal Control over the Actuarial Pension Liability Needs Further Refinement

Our fiscal year 2014 and 2015 audits identified a material weakness in ODCP's internal control over the actuarial pension liability and accrued pension liability, and we issued a Disclaimer of Opinion on the consolidated financial statements as we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit.

During the fiscal year 2016 audit, ODCP engaged a new third party actuary to prepare the fiscal year 2016 actuarial valuation report and implemented corrective actions which includes new Standard Operating Procedures (SOPs) to strengthen the overall process for reviewing the data sent to the third party actuary and for reviewing the actuarial valuation report and the relevant supporting schedules received from the third party actuary. During the fiscal year 2016 audit, we noted that continued refinement in execution and documentation of the SOPs control procedures is required to ensure that the newly developed policies and procedures are being adhered to, and the results are documented appropriately. Specifically, we noted the following:

- ODCP personnel did not provide re-performable evidence of the results of certain controls and documented steps detailed in the SOPs for the review of the census data and reports received from the third party actuary. As a result, there was no confirmable evidence that the procedures were being performed or if any discrepancies identified were appropriately researched and cleared.
- ODCP developed an estimate of gains/losses due to changes in discount rates, cost-of-living adjustments (COLAs), and pay increases. Although there were differences between the amounts calculated by ODCP and the third party actuary, the differences below were not included in ODCP's analysis as well as ODCP's review of its third party actuary report; consequently, there were no explanations on how these differences were resolved:

Police Officers, Firefighters, and Teachers Plan	ODCP Actuary	3rd Party Actuary	Difference
COLA and Salary increase assumption	(\$270 million)	(\$223 million)	(\$47 million)
Discount Rate Assumption	\$402 million	\$380 million	\$22 million

- ODCP eventually determined that the differences were due to the sequencing of gain/loss calculations by the third party actuary associated with the changes in the COLA, discount rate, and mortality assumption. KPMG and the third party actuary recalculated the above assumptions using the same cash flows used by ODCP and noted the same differences.
- The SOPs requires the final census data used in the actuarial valuation to be reviewed by ODCP personnel for a sample of 10 active members and 40 inactive members. However, there is no documentation to explain why this sample is a representative of the participants' population, nor were the results documented.
- The SOPs requires a review of the newly added active participants with pre-06/30/1997 service. During our analysis, we noted that one participant was excluded from the participants data used to calculate the actuarial liability estimate, and this individual was not identified during ODCP's review. This error resulted in a projected \$1 million understatement of the actuarial liability as of September 30, 2016.

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

Subsequent to year-end on October 20, 2016, the Society of Actuaries published newly issued mortality improvement scale (MP-2016). We noted that ODCP personnel did not document ODCP's consideration and analysis of this event.

Inadequate review of the actuarial valuation and the underlying data may result in errors and increases the risk that ODCP's consolidated financial statement could be materially misstated.

U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G) states:

Principle 3.10 - "Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors."

Principle 3.11 - "Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity."

Recommendations

We recommend that ODCP management:

1. Clarify in the SOPs the basis ODCP uses for selecting items for review and require adequate documentation of that basis.
2. Evaluate the impact of changes in the relevant assumptions on the actuarial liability and indicate the threshold over which differences identified should be investigated.
3. Ensure the procedures in the SOPs are being performed and documented. The documentation should clearly identify all discrepancies noted and how they were resolved.
4. Enhance the internal review process that management performs to include a detailed review of the steps performed by ODCP staff to ensure the steps are being followed. This review should be signed by management as evidence of review.
5. Include timely notification and documentary evidence (e.g., within one week of triggering event) of initiating a review if knowledge of a subsequent event is obtained through professional associations and inquiry of a third party actuary.

Management's Response

The Office of D.C. Pensions concurs with the significant deficiency identified in this report and is developing a corrective action plan to address the audit findings and recommendations. Management will continue to improve the review and the documentation of the Actuarial Pension Liability and strengthen the evidence of the review calculations.



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

Independent Auditors' Report on Compliance

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the consolidated financial statement of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP), which comprise the consolidated balance sheet as of September 30, 2016 and the related notes to the consolidated financial statement, and have issued our report thereon dated December 7, 2016.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ODCP's consolidated financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of this Report

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

KPMG LLP

Washington DC
December 7, 2016

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PART 3

BALANCE SHEET AND NOTES



“The art of reading is to skip judiciously.”

Alexander Hamilton

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheet
As of September 30, 2016
(in thousands)

	<u>2016</u>
Assets:	
<i>Entity Assets</i>	
<i>Intragovernmental</i>	
Fund Balance with Treasury (Note 2)	\$ 504
Investments, Net (Note 3)	4,045,051
Interest Receivable	<u>30,175</u>
Total Intragovernmental	4,075,730
Accounts Receivable, Net (Note 4)	3,155
Taxes Receivable	<u>3</u>
Total Assets	<u>\$ 4,078,888</u>
 Liabilities:	
<i>Intragovernmental</i>	
Accounts Payable	\$ 74
Accrued Payroll and Benefits	<u>18</u>
Total Intragovernmental	92
Accounts Payable	4,504
Advances from Others	13,810
Accrued Pension Benefits Payable	45,832
Actuarial Pension Liability	8,835,982
Accrued Payroll and Benefits	<u>330</u>
Total Liabilities	8,900,550
 Net Position:	
Cumulative Results of Operations	<u>(4,821,662)</u>
Total Net Position	<u>(4,821,662)</u>
 Total Liabilities and Net Position	<u>\$ 4,078,888</u>

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

*Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Consolidated Balance Sheet
September 30, 2016*

1) Summary of Significant Accounting Policies

a. Reporting Entity

Under provisions in Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), 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, the Office engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

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

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

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

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred 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;
- Reimbursement from DCRB for the District's share of annuitant benefits paid from the D.C. Federal Pension Fund (see Note 1h for additional information);
- Reimbursement for the District's employer contribution for Post-87 D.C. Health and Life benefits; and
- Reimbursement of the Office's actual expenses incurred in support of administering District Benefit Payments.

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 Bureau of the Fiscal Service. Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amount paid into the D.C. Federal Pension Fund during FY 2016 was \$460.9 million.

District of Columbia Judicial Retirement and Survivors Annuity Fund

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

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

The Judicial Retirement Fund consists of the following:

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

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

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount, and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amount paid into the Judicial Retirement Fund during FY 2016 was \$14.2 million.

b. Basis of Accounting and Presentation

The Office is presenting a single financial statement, the Consolidated Balance Sheet, and related notes which consist of a summary of significant accounting policies and other relevant explanatory information. The Consolidated Balance Sheet has been prepared from the accounting records of the Office in accordance with accounting principles generally accepted in the United States of America for federal entities. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is designated by the American Institute of Certified Public Accountants as the official accounting standards-setting body for the Federal Government.

The Consolidated Balance Sheet presents the consolidated balances of the D.C. Federal Pension Fund and the Judicial Retirement Fund. There were no transactions between the Funds that require elimination during consolidation.

c. Fund Balance with Treasury

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

d. Investments, Net

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement Fund in GAS, market-based (“MK”) securities — special non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by Fiscal Service. The Office follows Treasury's investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately 10 years.

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

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

e. Accounts Receivable, Net

Accounts receivable consist primarily of:

- The amount due from the D.C. Government for the District's share of benefits paid by the Office to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period;
- Amounts due from the D.C. Government for the District's estimated share of refunds paid by the Office in prior years;
- Pending amounts due from annuitants and survivors as a result of benefit overpayments that have not completed collection due process; and
- Amounts due from annuitants and survivors as the result of benefit overpayments.

f. Advances from Others

As previously stated in Note 1a, the Office is authorized to disburse funds for the District's share of monthly benefits, and the employer contribution for Post-87 Health and Life benefits, and, under a memorandum of understanding with the District, the Office is to receive an advance of these monies prior to the actual disbursements. Once the Office disburses funds on behalf of the District, earned revenues are generated and recognized in the period in which actual disbursements occur.

g. 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.

h. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is

the Individual Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The economic assumptions (rate of return, inflation, and salary increases) are based upon the requirements of 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, 2016, the Office used a 100-year yield curve of spot rates developed by Treasury's Office of Economic Policy. The yield curve is based on a 10-year average of quarterly rates, consistent with the requirements of SFFAS No. 33. The assumptions for inflation and salary increases were also the average of 10-year historical values. The assumptions used to calculate the pension liabilities as of October 1, 2016, were spot rates gradually increasing from 1.12% to discount FY 2017 payments, to a maximum of 4.17% to discount longer term payments; annual inflation and cost-of-living adjustments of 1.99% for judges, 1.90% for teachers, and 1.87% for police officers and firefighters; and salary increases at an annual rate of 1.15% for judges, 3.00% for teachers, 2.00% for police officers, and 2.20% for firefighters.

The economic assumptions used by the Office for the Teachers, Police Officers and Firefighters, and Judges plans differ from those used by OPM for the following reasons: (1) the annual rate of salary increase assumptions are based on different plan member experience; (2) 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 (3) for the discount rate assumption, OPM and the Office use Treasury spot rate yield curves, but the averaging periods differ and OPM converts the yield curve to a single equivalent rate while for teachers, police officers and firefighters, the Office uses the individual yield curve rates.

i. Treasury Employee Retirement Plans

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

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most

employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

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

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

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

j. 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 provisions for income taxes have been recorded in the accompanying balance sheet.

2) Fund Balance with Treasury

Fund Balance with Treasury and the Status of Fund balance with Treasury as of September 30, 2016 consisted of the following (in thousands):

	<u>2016</u>
<i>Fund Balances</i>	
<i>Trust Fund</i>	\$ 96
<i>Special Fund</i>	<u>408</u>
 <i>Total Fund Balance with Treasury</i>	 \$ <u><u>504</u></u>

3) **Investment, Net**

Investments, Net as of September 30, 2016 consisted of the following (in thousands):

	<u>2016</u>			
	<u>Investments, Gross</u>	<u>Unamortized Premium, Net</u>	<u>Investments, Net</u>	<u>Market Value</u>
<i>Intragovernmental Securities</i>				
<i>Non-Marketable Par Value</i>	\$ 211,251	-	211,251	211,251
<i>Non-Marketable Market-based</i>	<u>3,695,758</u>	<u>138,042</u>	<u>3,833,800</u>	<u>3,885,721</u>
<i>Total</i>	<u>\$ 3,907,009</u>	<u>138,042</u>	<u>4,045,051</u>	<u>4,096,972</u>

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, 2016, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in these figures is a net unrealized gain of \$51.9 million as of September 30, 2016.

The amortized cost of Investments, Net (*including par value securities invested overnight*) as of September 30, 2016, by maturity date is as follows (in thousands):

	<u>2016</u>
<i>Less than or Equal to 1 Year</i>	\$ 835,476
<i>More than 1 Year and Less than or Equal to 5 Years</i>	2,509,845
<i>More than 5 Years and Less than or Equal to 10 Years</i>	<u>699,730</u>
<i>Total</i>	<u>\$ 4,045,051</u>

4) **Accounts Receivable, Net**

The components of Accounts Receivable, Net as of September 30, 2016, are as follows (in thousands):

	<u>2016</u>
<i>Accounts Receivable, Gross</i>	\$ 4,567
<i>Allowance for Loss on Accounts Receivable</i>	<u>(1,412)</u>
<i>Accounts Receivable, Net</i>	<u>\$ 3,155</u>

