



# Audit Report



OIG-09-029

Audit of the Office of D.C. Pensions' Fiscal Years 2008 and 2007 Financial Statements

January 12, 2009

Office of  
Inspector General

Department of the Treasury

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However, the Office of D.C. Pensions' Fiscal Year 2008 Annual Report does not conform to the requirements of Section 508 of the Rehabilitation Act;

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

January 12, 2009

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

**FROM:** Michael Fitzgerald /s/  
Director, Financial Audits

**SUBJECT:** Audit of the Office of D.C. Pensions' Fiscal Years 2008 and  
2007 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2008 and 2007. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2008 and 2007 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

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

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

In its audit, KPMG LLP found:

- the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no matters involving internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible

for the attached auditors' reports dated December 4, 2008 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment



## Department of the Treasury Office of D.C. Pensions



## District of Columbia Pensions Program Fiscal Year 2008 Annual Report



## MESSAGE FROM THE DIRECTOR

December 2008

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year (FY) 2008 Annual Report, which provides highlights of the significant milestones achieved by the program during the year and a summary of our future focus areas.




Pursuant to the Balanced Budget Act of 1997, as amended, the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Teachers', and Police Officers' and Firefighters' Retirement Plans. As of September 30, 2008, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling \$3.8 billion. During FY 2008, the Office of D.C. Pensions paid \$506 million in federal benefits to more than 13,500 annuitants and refunds of employee contributions to more than 350 former active employees.

The Office of D.C. Pensions achieved a significant milestone with the completion of the core functionality in the automated pension/payroll system, the System to Administer Retirement (STAR). In addition to issuing timely and accurate payments, STAR is now able to identify the Federal and District Government's share of the annuitant payments. For the first time in program history, the District of Columbia Retirement Board was able to reimburse the Office of D.C. Pensions for the District's share of the annuitant payments based on the STAR calculation.

During the fiscal year, the Office of D.C. Pensions also focused on annuitant communications. Annuitants received enhanced earning statements and more clearly printed 1099-R tax forms. The Office of D.C. Pensions produced an updated version of the Summary Plan Description for the District of Columbia Judges' Retirement Plan and assisted the District of Columbia Retirement Board with updates to the Summary Plan Description for the District of Columbia Teachers' Retirement Plan.

For the 10<sup>th</sup> consecutive year KPMG LLP, an independent public accounting firm, rendered an unqualified opinion on the FY 2008 financial statements of the Office of D.C. Pensions. In addition, KPMG did not note any matters involving internal controls that it considered material or any instances of noncompliance with laws and regulations.

The Office of D.C. Pensions will continue to work cooperatively with the District of Columbia Retirement Board, Bureau of the Public Debt, and other Department of the Treasury and District entities to provide quality service to the annuitants and to carry out the Department of the Treasury's responsibilities under the Act.

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



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# PART 1

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## MANAGEMENT'S DISCUSSION AND ANALYSIS





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FISCAL YEAR 2008

***Vision:***

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

***Mission:***

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

### **I. Introduction**

#### ***A. Statutory Basis and Responsibilities***

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

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

All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters and teachers based upon service accrued after June 30, 1997) are referred to as District Benefit Payments.

## ***B. Organizational Structure and Staffing***

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

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

- **Benefits and Systems Administration:** The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. The Office also operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration. Annually, more than \$550 million in benefit payments are made for more than 13,500 annuitants.
- **Finance and Resource Administration:** The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. The Office manages and accounts for net investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately \$3.8 billion as of September 30, 2008. The Office also performs an annual actuarial valuation to determine the pension liability of the retirement programs and the annual contribution from the Treasury General Fund into the federal pension funds.
- **Program Management:** The Office provides oversight of its responsibilities through special project management and a quality assurance program which ensures internal program areas and Treasury/District business partners meet quality standards.

In addition, the Office funds and receives support from other Treasury offices, the Office of General Counsel and the Procurement Services Division. As of September 30, 2008, 20 Treasury positions are funded from 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).

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

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

## II. Executive Summary

During Fiscal Year (FY) 2008, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Public Debt (BPD), and other Treasury entities to carry out its responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

The Office achieved a significant milestone with the completion of the core functionality for the System to Administer Retirement (STAR). The implementation of STAR Release 5 was completed in November 2007 with support from the DCRB and BPD. STAR is now able to identify the Federal and District Government portions of all future annuity payments. In January 2008, the DCRB reimbursed the Office for District Benefit Payments based on the STAR calculation of the actual monthly District liability for the first time.

With that significant milestone met, the Office staff turned their attention to transitioning from an office supporting a major system development to one that focuses on operational oversight. The re-structuring of the organization positions the Office to address future challenges. In the new organization, service areas were created to more clearly identify operational responsibilities and single points-of-contact to enhance communication with our business partners. With the transition away from major system development, the IT Hosting Team at BPD now has full responsibility for STAR development, operations and maintenance.

The Office also focused on annuitant communications during FY 2008. With support from the Payroll Team at BPD's Administrative Resources Center (ARC), communication to annuitants was improved with the distribution of enhanced earning statements and more clearly printed 1099-R tax forms. The Office produced an updated version of the Summary Plan Description (SPD) for the District of Columbia Judges' Retirement Plan and assisted DCRB with the preparation of an updated version of the SPD for the District of Columbia Teachers' Retirement Plan.

In FY 2008, the Office provided successful stewardship of the pension funds and effective use of resources. For the 10<sup>th</sup> consecutive year the Office received an unqualified audit opinion with the support from the Accounting Team at ARC.

In FY 2009, the Office plans to develop a long-term strategic plan, continue to expand its oversight and quality assurance program related to benefits administration, complete a review of future STAR architectural requirements, and continue to communicate organizational changes to business partners while enhancing the new organizational areas. This report provides more detail about both the FY 2009 future focus areas and the FY 2008 program results.

### **III. Strategic Goals/Objectives**

#### ***A. Strategic Objectives and Performance Measures***

The Office of D.C. Pensions (the Office) has four Strategic Objectives that contribute to the achievement of two of the Department of the Treasury's (Treasury) Strategic Goals.

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

Office Strategic Objectives:

1. Benefit payments are accurate and timely; and the use of secure electronic systems are optimized
2. Pension Funds in the custody of the Treasury are effectively managed and invested

Treasury Strategic Goal: Management and Organizational Excellence

Office Strategic Objective:

1. Organization's mission is effectively managed
2. Annuitants received quality service

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



*A. Office of D.C. Pensions (Office) Strategic Objectives and Performance Measures*

Fiscal Years 2008 - 2010			Fiscal Year 2008	
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
<b>Effectively Managed U.S. Government Finances</b>	<b>Cash resources are available to operate the government</b>	Benefit payments are accurate and timely; and the use of secure electronic systems are optimized	Percentage of monthly benefit payments made to annuitants by the first business day of the month	STAR made 100% of the benefits payments to annuitants on time. Treasury ensured timely availability of funding for \$506 million in benefit payments to 13,578 annuitants and refunded contributions to 363 former active employees in FY 2008.
			Percentage of electronic payments made to annuitants	The Office pays 94.0% of its annuitants by direct deposit, a 1.6% increase over FY 2007.
			New annuitant benefit calculation error rate	The District's calculation error rate identified in the quality review process decreased to 2.00% in FY 2008 from 3.36% in FY 2007.
			Secure electronic pension/payroll system effectiveness	Throughout FY 2008, STAR continued to provide accurate, secure and timely processing for 75 annuitants under the Judges' Plan and 13,503 annuitants under the plans for teachers, police and firefighters. The STAR Release 5 project was completed, fully implementing the split benefit capability.
			Percentage of time, excluding scheduled maintenance, STAR was available to users	STAR was available 99.99% of the time.

Fiscal Years 2008 - 2010		Fiscal Year 2008		
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
<b>Effectively Managed U.S. Government Finances (continued)</b>	<b>Cash resources are available to operate the government (continued)</b>	Pension Funds in the custody of the Treasury are effectively managed and invested	Financial Statement Audit Opinion received from an independent external auditor	KPMG LLP, an independent public accounting firm, rendered an unqualified opinion on the Office's Financial Statements.
			Number of open financial management material weaknesses or corrective actions	KPMG LLP noted no material weakness in the Office's internal control over financial reporting. In addition, no corrective actions were noted by the Office during its OMB Circular A-123, Appendix A review of internal control over financial reporting.
			Accuracy and timeliness of actuarial report	The enrolled actuary, Ed Friend, Inc., issued a report as of October 1, 2008, providing all information necessary to meet the requirements of the Balanced Budget Act of 1997, as amended. The actuarial report also included the amount of the deposits to be made to the D.C. Federal Pension Fund and Judicial Retirement Fund.
			Percentage of electronic vendor and travel payments made timely	Of the 157 payments made during FY 2008, 99% were paid using electronic fund transfers within 30 days of receipt.
			Amount saved by utilizing early payment discount incentives	The Office saved \$30,142.54 in FY 2008 by meeting the early payment discount incentives.

Fiscal Years 2008 - 2010			Fiscal Year 2008	
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
<b>Effectively Managed U.S. Government Finances (continued)</b>	<b>Cash resources are available to operate the government (continued)</b>	Pension Funds in the custody of the Treasury are effectively managed and invested (continued)	Accuracy and timeliness of internal financial reports	The Office submitted financial information timely to all required entities, closing its books within three business days each month. The Office's financial approach integrates financial information with its resource planning requirements and uses detailed expense reports to manage operations.
			Rate of return on investments	In FY 2008, the rate of return as a percentage of par-valued investments was 4.2% for the D.C. Federal Pension Fund and 5.1% for the Judicial Retirement Fund.
			Minimum of two months of available cash and securities	In accordance with its investment guidelines, the Office maintained adequate cash balances to meet monthly obligations.
			Amount replenished to the D.C. Federal Pension and Judicial Retirement Fund	The D.C. Federal Pension Fund received \$989,576 through debt prevention efforts and received \$112,451 through debt collection efforts which totaled \$1.1 million.
			Progress toward ending the Interim Benefits Period and planning for the final reconciliation	The Office established a Reconciliation Project Team and began planning for reconciliation activities. The Team completed a review of current legislation and Memorandums of Understanding that govern reconciliation requirements.

Fiscal Years 2008 - 2010			Fiscal Year 2008	
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
<b>Management and Organizational Excellence</b>	<b>Enabled and effective Treasury Department</b>	Organization's mission is effectively managed	Percentage of Office employee performance and training plans supporting individual employee and Office goals	100% of Office employees have a current performance plan and Individual Development Plan (IDP) which is consistent with Office and individual goals.
			Percentage of Office employees receiving timely performance reviews and feedback	100% of the Office employees received quarterly reviews and year end performance ratings.
			Alignment of Office structure to effectively accomplish mission	The Office transitioned from supporting system development to a steady state operational oversight organization. The Office underwent a re-organization to align responsibilities within service areas and established single points-of-contact with business partners.
		Annuitants received quality service	Percentage of surveyed annuitants who indicated satisfaction with the accuracy, timeliness, and professionalism of service received	A sample of annuitants was surveyed regarding the patience, professionalism, knowledge, responsiveness and courteousness of the individual who provided assistance. Responses indicated that the services provided were excellent.
		Quality and timeliness of retirement plan information	The Office updated the Judges' Summary Plan Description (SPD) during FY 2008. In addition, the Office supported DCRB in updating the Teachers' SPD. The SPDs provide current, accurate and easy to understand information about the Retirement Plans.	

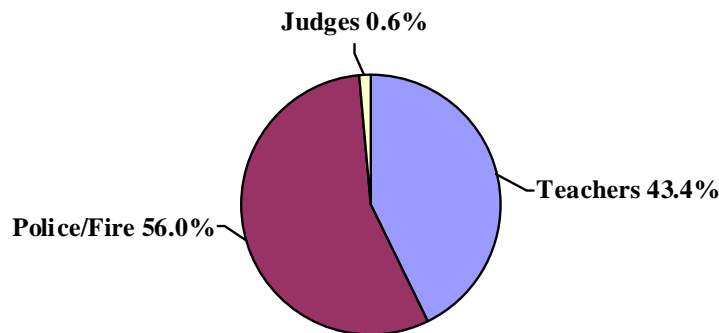
**B. Benefit payments are accurate and timely; and the use of secure electronic systems are optimized**

**1. Program Results**

**a. Benefits Administration**

General Operations

Benefits administration services were provided to 13,578 annuitants, as of September 30, 2008, 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, 5,896; police officers and firefighters, 7,607; and judges, 75.



In FY 2008, the average monthly payroll totaled approximately \$46 million. During the year, all payment files were submitted on time ensuring timely payment of annuitant benefits by the first business day of the month. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia's Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan, while the Office performed benefits administration for the Judges' Retirement Plan.

General operations focus largely on transaction processing and customer service activities. On a monthly basis, the transaction processing activities represent a variety of activities from processing new retirements and/or survivor benefits, to terminating those no longer eligible, and to updating annuitants' personal and benefits information.

In FY 2008, the average monthly processing in key areas included:

- New Retirements – 24 per month
- New Beneficiaries/Estates – 16 per month
- Purchases of Service – 4 per month
- Direct Deposit Changes – 46 per month
- New Survivors – 8 per month
- Qualified Domestic Relations Orders – less than 1 per month
- Refunds – 30 per month
- Tax Changes – 164 per month

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

In FY 2008, the average monthly support from the customer service team included:

- Answering Calls – 1,402 per month
- Servicing Walk-ins – 67 per month

The Office encourages annuitants to receive benefits through direct deposit. Direct deposit is a more convenient, secure and timely method of delivering benefits. During FY 2008, the Office initiated a project to promote the use of Electronic Fund Transfers (EFT) among benefit payment recipients. Personalized letters promoting the use of EFT were mailed to annuitants who received paper checks. In FY2008, there was a 1.6% increase in EFT participation. Of that increase, a 1.2% increase can be attributed to the EFT promotion.

By the end of FY 2008, 93.3% of retired police officers and firefighters or their survivors, 94.9% of retired teachers or their survivors, and 98.7% of retired judges or their survivors received their monthly benefit payments by direct deposit.

<b>Percentage of Direct Deposit by Fiscal Year</b>		
<b>Annuitants</b>	<b>2008</b>	<b>2007</b>
Police/Fire	93.3%	91.3%
Teachers	94.9%	93.6%
Judges	98.7%	97.3%

In FY 2008, a variety of outreach efforts provided accurate and timely information to annuitants, including:

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

Treasury's Bureau of the Public Debt (BPD), Administrative Resources Center (ARC) also supports benefits administration. ARC staff members are responsible for making benefit payments, third party reporting, debt management, and mailing services.

In FY 2008, the ARC staff made 162,627 benefit payments totaling more than \$552.3 million for a monthly average of nearly \$46.0 million. In addition, ARC staff recovered or collected approximately \$1.1 million in debt through reclaimed overpayments and debt collections.

## Special Projects

### *End User Training*

In FY 2008, the Office transitioned the responsibility for STAR training development and delivery to its Benefits Administration team. The Benefits Administration team successfully assumed the responsibility for developing, delivering and maintaining the STAR training program and related support tools. During FY 2008, the Office successfully developed additional training materials and trained new benefit administration staff.

### *Scanning Retirement Benefit Records*

The DCRB is in the process of implementing a document imaging and workflow management system for retirement benefit records with support from the Office. The project involves scanning 2.8 million images for retirement records dating over many decades. During FY 2008, DCRB scanned approximately 62% of the images and expects to scan the remaining documents in FY 2009. The scanning project will enable more reliable preservation of retirement records and provide immediate access of retirement records at the user's desktop.

## **b. System to Administer Retirement (STAR)**

### General Overview

STAR is the automated pension/payroll system developed by the Office, in cooperation with the District, to replace the District's legacy system. STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables pension analysts to quickly access information and provide annuitants with real-time customer service.

STAR is based on Oracle/PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration. The STAR implementation has been phased and deployed in bundles known as releases. Release 5 (the final release necessary to complete the development of the core system functionality in STAR) was implemented in November 2007.

Prior year releases include:

- Release 1 of STAR was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 of STAR was implemented in September 2003 to serve teachers, police officers and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 of STAR, which supported annuitants who retired on or after July 1, 1997, including newly retired teachers, police officers and firefighter retirees, and their subsequent survivors, was deployed in August 2005.

- Release 4 of STAR started the implementation of the split benefit calculation to enable STAR to calculate the federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. New split monthly reports identify at the annuitant level the federal and District portions of the total annuity paid each month. This release also included an upgrade of Oracle/PeopleSoft from 8.0 to 8.9.

#### STAR Release 5 – Implemented in November 2007

Release 5 of STAR completed the implementation of the split benefit calculation. The Split Benefit project involved three phases of work. Each of these Phases targets a distinct group of annuitants for whom split functionality needed to be applied.

In FY 2007, Phase 1 was deployed as an integral part of STAR Release 4. It enabled STAR to calculate the split benefits for annuitants brought into pay status beginning in June 2007. Work in FY 2008 focused on Phases 2 and 3. Phase 2 of the Split Benefit project calculated the split for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. Phase 3 calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in the District's legacy system, PAPS or Pension Administration and Payroll System. These annuitants were converted into STAR in August 2005. The difference between Phase 2 and 3 is that all the relevant data to calculate the split for the Phase 2 population was already recorded in STAR whereas an analysis of historical data was needed to determine the split for the Phase 3 population. The Office implemented both Phases 2 and 3 in November 2007 as part of the Release 5 deployment.

#### STAR Transition

With the implementation of the final STAR release, the Office focused on the transfer of knowledge from the system integrator and other contract partners to staff supporting system and benefit administration activities. The STAR Transition addressed key organizational areas including: STAR technical operations, maintenance, and development; STAR infrastructure configuration and maintenance; STAR training development, maintenance and delivery; and project management tool assessments.

#### STAR Technical Production Support and Hosting

Technical production support and hosting for STAR is performed by BPD. Since September 2003, BPD staff members have led production support activities, including: routine system operations, application and database administration, help desk operations and problem resolution. In FY 2008, STAR was available to the user population 99.99% of the time.



### STAR Systems Security

In FY 2007, the STAR system renewed its security certification and accreditation (C&A) in compliance with the Federal requirement for completing updates at least every three years. A full security C&A was first received in January 2003 and completely updated in August 2004 when the Office made a major change to the technical environment. The certification is the comprehensive and continual testing and evaluation of the management, operational, and technical controls of an IT system. The accreditation is the official management authorization to operate an IT system and to explicitly accept the risk to agency operations, agency assets, or individuals based on the implementation of security controls. To maintain the C&A, a Security Test and Evaluation (ST&E) was conducted in late FY 2008. The Office will review the results and will address any potential security vulnerabilities identified in the final ST&E report.

### STAR Business Continuity Plan

Each year, the Office conducts a test of the STAR Business Continuity Plan. The test is designed to assess the viability of the plan and the readiness of the system and the staff to respond to an emergency. In May 2008, a test was successfully executed to verify the accuracy and availability of the contingency systems. During the test, DCRB users were able to successfully access the contingency systems to perform their normal operations, including processing of new retirement cases.

In August 2008, an additional test was conducted to verify the availability and readiness of the production systems from the contingency operations location. During the test, ARC users were able to successfully access production systems from their contingency operations location to process the month-end payroll.

### Change Control Board

The Office established the STAR Change Control Board (CCB) in FY 2002 as the approving authority for all system changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change. The Board establishes the priority order of work relating to approved changes. The CCB process enhances internal controls and accountability for new proposed changes. Changes are categorized as either a Change Request or as a Configuration Item Change Request.

A Change Request (CR) generally addresses a major project such as a new release or an upgrade, or a significant change in direction or activity, such as adding a new line of business to STAR. CRs are reviewed by an Advisory Committee and must be approved by the STAR Change Control Board. During FY 2008, four CRs were completed by the Office. Three of the CRs were submitted and approved during FY 2007, while the fourth one, which replaced the underlying software for STARBASE, a web-based electronic document system, from contractor-to vendor-supported software, was submitted and approved during FY 2008. A fifth CR was submitted during FY 2008 but, after careful consideration, was not approved. There were no open CRs at the end of the fiscal year.

A Configuration Item Change Request (CICR) will typically address a change with a lesser impact to the system. There were 18 CICRs approved during the fiscal year to enhance or correct system functionality. Sixteen of them were completed and closed. Two of them are still in progress and remained open at the end of the fiscal year.

## **2. Future Focus**

### **a. Benefit Administration**

#### Increased Operational Focus

With the completion of the core STAR functionality during FY 2008, the Office restructured its organization to more effectively support its operational oversight responsibilities. In FY 2009, the Office plans to focus on monitoring the stability of operational areas and on implementing process and system improvements.

#### Scanning Retirement Benefit Records

The Office will continue to support DCRB's effort to scan retirement benefit records. During FY 2009, the scanning project will focus on the preservation of additional retirement records and providing immediate access of retirement records at the user's desktop. The project is expected to be completed during the second quarter of FY 2009.

### **b. System to Administer Retirement (STAR)**

#### Long-Term Architectural Planning

The last STAR application upgrade occurred in June 2007, during the implementation of Release 4. In FY 2009, the Office plans to complete a review of future STAR architectural requirements to better position the organization for the next upgrade cycle. The results of the review will be used to develop an infrastructure upgrade plan to support the next STAR application upgrade, which is targeted for FY 2012.

#### Technical Support Program Review

In FY 2008, the Office transitioned full responsibility of STAR operations/maintenance and development to BPD. In FY 2009, the Office plans to conduct a comprehensive review of these responsibilities to ensure established industry standards and service levels are met. The Office expects the results of this review to identify opportunities for process improvements and efficiencies. The results of the review will aid in forming the FY 2010 annual Service Level Agreement.

## ***C. Pension Funds in the custody of the Treasury are effectively managed and invested***

### **1. Program Results**

#### **a. Pension Funds**

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, the Office of D.C. Pensions (the Office) administers Federal Benefit Payments through two funds:

- **The District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal Benefit Payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are: payments from the District of Columbia Retirement Board (DCRB); an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.
- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

#### **b. Deposits**

##### Warrants

As authorized by the Act, the D.C. Federal Pension Fund and the Judicial Retirement Fund receive annual payments from the Treasury General Fund to 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 and fund covered administrative expenses for the year. In accordance with the Act, these deposits are made in September each year and are invested in non-marketable Treasury securities with maturities consistent with the expected payment dates of the pension liabilities. In FY 2008, \$340.2 million was deposited into the D.C. Federal Pensions Fund and \$6.98 million was deposited into the Judicial Retirement Fund. In FY 2007, \$345.4 million was deposited into the D.C. Federal Pension Fund and \$7.4 million into the Judicial Retirement Fund.

Interest

In FY 2008, the Office received \$178.3 million of interest (\$145.5 million earned) in the D.C. Federal Pension Fund and \$6.7 million (\$5.9 million earned) in the Judicial Retirement Fund. The rate of return in FY 2008 for the Office's pension funds was 4.2% for the D.C. Federal Pension Fund and 5.1% for the Judicial Retirement Fund. In FY 2007, the Office received \$192.4 million of interest (\$153.0 million earned) in the D.C. Federal Pension Fund and \$6.3 million (\$6.2 million earned) in the Judicial Retirement Fund. The rate of return in FY 2007 for the Office's pension funds was 4.4% for the D.C. Federal Pension Fund and 5.6% for the Judicial Retirement Fund. The rate of return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of Investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

Judges' Employee Contributions

Active judges are required to contribute 3.5% of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5% of salary. Active judges' contributions to the retirement fund in FY 2008 totaled approximately \$597,000. Retired judges who elected a survivor annuity are required to contribute 3.5% of retirement salary. In FY 2008, retired judges contributed approximately \$160,000 to the retirement fund. In FY 2007, active judges' contributions to the retirement fund totaled \$577,000. Retired judges contributed approximately \$156,000 to the retirement fund in FY 2007.

Summary of Fund Deposits

The following provides deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund for FY 2008 and FY 2007.

<b>Fund Deposits by Fiscal Year (in millions)</b>			
<b>Fund</b>	<b>Type of Deposit</b>	<b>2008</b>	<b>2007</b>
D.C. Federal Pension Fund	Warrants	\$340.2	\$345.4
	Interest	\$178.3	\$192.4
	Contributions	\$0.0	\$0.0
Judicial Retirement Fund	Warrants	\$7.0	\$7.4
	Interest	\$6.7	\$6.3
	Contributions	\$0.6	\$0.6
<b>Total</b>	Warrants	\$347.2	\$352.8
	Interest	\$185.0	\$198.7
	Contributions	\$0.6	\$0.6

### **c. Payments**

#### Annuity Benefit Payments

Pension benefit payments issued by the Office totaled \$545.1 million and \$7.2 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for FY 2008. The Office issued \$531.2 million and \$7.2 million, respectively, for FY 2007. DCRB then reimburses the D.C. Federal Pension Fund for benefit payments made by Treasury on the District's behalf. After the DCRB reimbursement, federal pension benefit payments totaled \$498.6 million from the D.C. Federal Pension Fund for FY 2008 and \$496.5 million for FY 2007.

#### Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests payment from Treasury for the federal portion. During FY 2008, approximately \$0.6 million represented contribution refunds to plan participants of the D.C. Federal Pension Fund. For FY 2007, approximately \$0.9 million represented contribution refunds to plan participants of the D.C. Federal Pension Fund.

#### 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. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

In FY 2008, administrative expenses were approximately \$17.5 million for the D.C. Federal Pension Fund and \$0.9 million for the Judicial Retirement Fund, for a total of \$18.4 million. In FY 2007, administrative expenses were approximately \$14.6 million for the D.C. Federal Pension Fund and nearly \$1.1 million for the Judicial Retirement Fund, for a total of \$15.7 million. Administrative expenses in FY 2008, as compared to FY 2007, increased by \$2.7 million primarily due to an increase in costs for contractual services.

The major administrative expenses resulted from reimbursement of DCRB benefit administration and support function expenses, the Office's staff salaries and benefits, and contractors engaged by the Office to provide IT systems support. Certain costs of the System to Administer Retirement (STAR) pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing – since January 2003 in the Judicial Retirement Fund and

since September 2003 in the D.C. Federal Pension Fund – direct costs incurred to develop STAR. Capitalized costs in the D.C. Federal Pension Fund and Judicial Retirement Fund will be amortized monthly on a five-year schedule.

<b>Administrative Expenses by Fiscal Year (in millions)</b>			
<b>Fund</b>	<b>2008</b>	<b>2007</b>	<b>Difference</b>
D.C. Federal Pension Fund	\$17.5	\$14.6	\$2.9
Judicial Retirement Fund	\$0.9	\$1.1	(\$0.2)
<b>Total</b>	<b>\$18.4</b>	<b>\$15.7</b>	<b>\$2.7</b>

**d. Collections**

District Benefit Payments

Treasury initially funds all benefit payments under the Police Officers’ and Firefighters’ and Teachers’ Retirement Plans from the D.C. Federal Pension Fund. The District then reimburses the D.C. Federal Pension Fund for benefit payments made by Treasury on behalf of the District. Until July 1, 2007 the District only reimbursed the D.C. Federal Pension Fund annually for estimated District Benefit Payments made by Treasury for the prior year. On July 1, 2007, the DCRB began reimbursing Treasury approximately \$3.0 million monthly for estimated District Benefit Payments made by Treasury on the District’s behalf. These monthly reimbursements totaled approximately \$11.9 million for FY 2007. On January 31, 2008, the DCRB reimbursed Treasury \$23.8 million for the remainder of payments made by Treasury on the District’s behalf in FY 2007. The FY 2007 reimbursements for District Benefit Payments, which totaled \$35.7 million, were based on estimates provided in the DCRB actuarial valuation as of October 1, 2007.

In November and December 2007, the DCRB reimbursed Treasury \$3.5 million monthly for District Benefit Payments earned in the previous month. Each of the two monthly reimbursements was one-twelfth of the estimated District liability for FY 2008, as determined by the DCRB actuary. Beginning in January 2008, monthly DCRB reimbursements for District Benefit Payments have been based on the STAR calculation of the actual District liability. The STAR Split Reimbursement Summary Report supports the District reimbursements made to Treasury each month. The FY 2008 reimbursements for District Benefit Payments totaled \$47.1 million.

Refund Reconciliation Project

The First Amended Memorandum of Understanding (MOU), dated September 28, 2000, required Treasury to pay the total amount of refunds of employee contributions during the interim benefits period. On February 1, 2005, Treasury entered into a MOU with the DCRB and the District of Columbia’s Office of Pay and Retirement Services (OPRS) concerning refunds of employee contributions under the Police Officers’ and Firefighters’, and Teachers’ Retirement Plans. Under this agreement, DCRB agreed to fund refunds of employee contributions paid on and after February 1, 2005, in accordance

with the respective statutory responsibilities (i.e., refunds of contributions deducted from employee salary on or before June 30, 1997, are a federal liability and refunds of contributions deducted after June 30, 1997, are a District liability).

In addition to agreeing to fund amounts paid on and after February 1, 2005, the District agreed to reimburse Treasury for that portion of refunds paid by Treasury prior to February 1, 2005, that represents contributions deducted and withheld from an employee's salary or deposits after June 30, 1997. In FY 2008, the District paid Treasury \$1.6 million for its share of the refunds paid in FY 2000. Nearly \$17 million have been collected for refunds paid in fiscal years 2005 through 2000. A receivable of \$985,000 has been established for FY 1999, and a receivable of \$200,000 for FY 1998-97. The table below summarizes the Treasury and District share of the refunds.

<b>Refund Reconciliation Project by Fiscal Year (in millions)</b>								
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999**</b>	<b>1998-97**</b>
Treasury	\$0.5	\$1.8	\$1.2	\$2.7	\$2.3	\$2.9	\$3.4	\$5.6
District	\$1.4	\$4.7	\$3.2	\$3.7	\$2.3	\$1.6	\$1.0	\$0.2
<b>Total</b>	<b>\$1.9</b>	<b>\$6.5</b>	<b>\$4.4</b>	<b>\$6.4</b>	<b>\$4.6</b>	<b>\$4.5</b>	<b>\$4.4</b>	<b>\$5.8</b>

\* Fiscal Year 2005 includes refunds paid from October 1, 2004, through February 15, 2005.

\*\*Fiscal Years 1997 through 1999 are estimates that have been modified in Fiscal Year 2008.

### Debt Collection

During FY 2008, the Office pursued debt prevention and collection efforts working with Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), which manages the debt collection process for the Office. In FY 2008, debt prevention efforts ensured that a total of \$989,576 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. Through debt collection efforts \$112,451 was collected through offsets, lump sum payments or installment payments. In FY 2007, debt prevention efforts ensured that a total of \$857,665 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. Through debt collection efforts \$104,774 was collected through offsets, lump sum payments or installment payments.

During FY 2008, the Office continued to review its debt management practices. The Office, with significant support from ARC, entered into an agreement with the Financial Management Service's (FMS) to participate in its Cross-Servicing Program. This program is used to further reduce debts owed to the retirement funds. In addition, ARC participated in a three-day debt discussion with the Office, which focused on enhancing debt collection practices and procedures. Later in the year, ARC led additional discussions with DCRB to outline areas for improvements around debt prevention and collection. Once these efforts are complete, the Office will publish updated debt regulations specific to the retirement programs.

**e. Benefit Administration Expense Reimbursements**

The Office and the DCRB have developed a methodology for allocating costs incurred by both entities in administering District and Federal Benefit Payments. The methodology includes consideration of: (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. Applying this methodology, the Office and the DCRB entered into a cost sharing agreement for reimbursement of FY 2008 actual expenses. Pursuant to the agreement, the Office will reimburse the DCRB approximately \$3.0 million for FY 2008 expenses in administering Federal Benefit Payments. DCRB in turn will reimburse the Office approximately \$1.1 million for the Office’s expenses in developing and operating STAR to administer District Benefit Payments. In FY 2007, the Office reimbursed DCRB \$2.4 million for benefit administration expenses, while DCRB reimbursed the Office \$2.0 million for administrative expenses associated with the operation of STAR.

**f. Investments**

As required by the Act, amounts received in the D.C. Federal Pension Fund and the Judicial Retirement Fund were invested in non-marketable securities issued to mirror the characteristics of marketable securities. The Bureau of the Public Debt (BPD) invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder. In FY 2008, the cash balance available for contingencies was targeted not to fall below \$88 million, which is approximately two months of obligations. The Office invested the cash balances in one-day certificates, except for an un-invested balance of \$250,000 at month end, to cover unanticipated withdrawals on the last day of the month. In FY 2008, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to May 2014, and for securities in the Judicial Retirement Fund to February 2017.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Net investments totaled \$3.8 billion in both FY 2008 and FY 2007.

<b>Net Investments by Fiscal Year (in millions)</b>		
	<b>2008</b>	<b>2007</b>
D.C. Federal Pension Fund	\$3,702.5	\$3,701.1
Judicial Retirement Fund	\$124.8	\$120.2
<b>Total</b>	<b>\$3,827.3</b>	<b>\$3,821.3</b>



### **g. Actuarial Valuation**

In FY 2008, the Office contracted with Ed Friend, Inc. (EFI), an actuarial services provider, to perform the annual actuarial valuation as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office.

As estimated by the actuary, as of October 1, 2008, the Federal Government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately \$8.7 billion. Of the \$8.7 billion actuarial liability, approximately \$3.8 billion is funded by assets in the D.C. Federal Pension Fund and \$4.9 billion is unfunded.

EFI determined an actuarial total liability of \$162.2 million for the Judges' Retirement Plan as of October 1, 2008. Of the \$162.2 million actuarial liability, approximately \$128.4 million is funded by assets in the Judicial Retirement Fund and \$33.8 million is unfunded.

### **h. Financial Operations**

#### Oracle Federal Financials (ORACLE)

Pursuant to a reimbursable services agreement ARC performs accounting services using Oracle Federal Financial (ORACLE) for the Office. ORACLE is a core financial management product used to process all financial transactions. The Office's transactions are entered into ORACLE both manually and via custom interfaces from ancillary systems such as PRISM and GovTrip. ARC provides a report writer package called Discoverer which allows the Office to create various accounting reports.

#### 3-Day Close

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

#### Prompt Payment and Vendor Payment Discounts

The Office paid 99% of the 98 invoices received within the timeframes required by the Prompt Payment Act. The Office's systems integration contractor offers an early payment discount as an incentive to make payments in less than the 30 days prescribed in the Prompt Payment Act. The discounts are 1% for payment within 10 days of the invoice date and 1/2% for payment within 20 days of the invoice date. As a result, the Office saved \$30,142.54 in FY 2008 by making payments within 10 days of the invoice date. In FY 2007, the Office saved \$69,150.13 by making payments within 10 days of the invoice date.

## Electronic Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage Federal agencies to use electronic payments. In FY 2008, the Office paid 100% of the 157 payments, which include invoices and travel reimbursements, by electronic funds transfer. Of the 157 payments, 71% were by EFT and 29% by credit card. In FY 2007, of the 163 electronic payments made, 73% were EFT and 27% were made by credit card.

### **i. Financial Statement Audit Opinion**

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office's FY 2008 financial statements. This is the 10<sup>th</sup> consecutive year that the Office's financial statements have received an unqualified opinion.

KPMG noted no material weaknesses in the Office of D.C. Pensions internal control over financial reporting. Also, the results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

### **j. Internal Control over Financial Reporting**

The Office used the FY 2008 Guidance and Implementation Plan provided by Treasury's Office of the Deputy Chief Financial Officer to conduct a review of internal controls over financial reporting as required by OMB Circular A-123, *Management's Responsibility for Internal Controls, Appendix A, Internal Control Over Financial Reporting*. ARC staff members and the Office conducted tests by either inspection or use of the ARC SAS 70 review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting, which included safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Office provided reasonable assurance that its internal controls over financial reporting were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines identified in Treasury's guidance and internal financial reports produced for the Office. The Office provided a compliance statement reflecting an unqualified assurance as of June 30, 2008. In addition, the Office had no material weaknesses identified in FY 2007 that would give cause to corrective actions in FY 2008.

## **k. Reconciliation Project**

Title XI of the Balanced Budget Act of 1997, as amended, states that the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. With respect to the retirement plans for teachers, police officers and firefighters, Treasury will not end the interim benefits period until STAR is enhanced to calculate the split between federal and District liability for post-June 30, 1997, retirees and their survivors and certain reconciliation activities are complete.

With the completion of the core functionality in STAR and ability to calculate the federal and District share of benefits, the Office began work on the Reconciliation Project. The purpose of the Reconciliation Project is to, among other things, perform an accounting and reconciliation of the amounts related to Federal and District liabilities for benefits paid during the interim benefits period to plan members who retired after June 30, 1997. The Office established a Reconciliation Project Team to evaluate the overall reconciliation requirements. The initial stage of the project included the review of current legislation and other documents, including Memorandums of Understanding between the Treasury, DCRB and the District, that currently governs the reconciliation. Through this review, the team plans to document the specific reconciliation requirements outlined in these documents. The team expects to finalize the review of these documents while continuing to plan for the next steps in the Reconciliation Project.

## **2. Future Focus**

### **a. Actuarial Experience Study**

The Office contracted with Ed Friend, Inc. (EFI), an actuarial services provider, to prepare in FY 2009, a quinquennial actuarial experience study to review and, if necessary, modify the actuarial demographic assumptions used in the FY 2010 - 2014 valuations as required by the Act. Demographic assumptions include the mortality, termination, retirement and salary rates that are used to predict future payments of benefits. The more closely the assumptions reflect the actual experience, the more accurate the annual actuarial liability will be for each of the retirement plan funds. The Office is following actuarial best practices by reviewing every five years the demographic assumptions used in the valuations.

### **b. Split Benefit Regulations**

In FY 2009, the Office plans to amend Part 29, Subpart C of Title 31 of the Code of Federal Regulations, "Federal Benefit Payments Under Certain District of Columbia Retirement Plans - Split Benefits" (Split Benefit Regulations). Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Office has responsibility for payment of benefits based on service accrued as of June 30, 1997, under the retirement plans for District of Columbia teachers and police officers and firefighters. The statute creates a situation in which some annuitants receive Federal Benefit Payments as a portion of their

total retirement benefit as well as additional payments from the District of Columbia for their service after June 30, 1997. Benefits partially paid by Treasury and partially paid by the District of Columbia are “split benefits.” The Split Benefit Regulations establish general principles that are applied to determine the amount of service creditable for Federal Benefit Payments and include examples in which the general principles are applied to a variety of benefit calculation scenarios.

The Split Benefit Regulations were published in 2000, but the effective date was delayed until after STAR was fully implemented, which occurred in FY 2008. The proposed amendments to the Split Benefit Regulations establish additional rules and provide additional examples of benefit calculation scenarios. These amendments, which will be published in 2009, are introduced to simplify calculations in STAR and maintain consistency with the general principles established in the original regulations.

### **c. Reconciliation Project and Ending the Interim Benefits Period**

In FY 2009, the Office will continue to focus on the Reconciliation Project. The long-term project will require Treasury, DCRB, and the District Government to gain consensus on how to conduct the reconciliation. Per the current Interim Benefits MOU between Treasury and the District, the major requirements for the reconciliation are that: (1) the District and DCRB provide audited reports of their transactions affecting the retirement funds during the interim benefits period; and (2) the Treasury calculates split benefit payments for plan members who retired during the interim benefits period and reconciles these payments with amounts actually paid by the District to Treasury during the interim benefits period. The reconciliation will identify amounts owed to Treasury by the District and vice-versa. Other financial transactions that occurred after June 30, 1997 may also be included in the Reconciliation Project.

In addition to working on the Reconciliation Project, the Office will begin planning and evaluating all activities required for ending the Interim Benefits Period for the Teachers’, Police Officers’, and Firefighters Retirement Plans. As stated in the Balanced Budget Act of 1997, as amended, the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that Treasury or a trustee will assume the duties of benefits administrator.

## ***D. Organization’s mission is effectively managed***

### **1. Program Results**

#### **a. Office of D.C. Pensions Performance Reporting**

During FY 2008, the Office distributed quarterly performance reports presenting findings, analysis and recommended actions with regard to both the services provided by the Office and the quality assurance activities completed for the services provided to the Office. The report presents these findings in each of the Office’s four primary

performance areas: benefits administration, financial management, information services and program management.

#### **b. Quality Review**

The Office performed quality assurance reviews on a statistical sample of new retiree and survivor cases and Qualified Domestic Relation Orders (QDRO) processed each month. The Office provided appropriate feedback to the benefits administrator to ensure accuracy and assess training needs for the staff. The monetary error rate identified in the Office's review process in FY 2007 was 3.36%. In FY 2008, the error rate decreased significantly to 2.00%. In addition, the Office completed a review of the benefits administration support provided by ARC. In FY 2008, all payment files were transmitted in a manner to ensure timely benefit payments. All third-party reporting was also completed in a timely manner.

During FY 2008, the Office expanded its oversight activities at DCRB. In prior years, the Office focused its quality assurance efforts on a review of pay related activities. In FY 2008, the Office expanded that focus to include a review of data maintenance activities such as changes to personal data, bank information, health benefits, and life insurance. Through its review, the Office found that DCRB follows the established processes and procedures for these activities with minimal errors.

The Office also expanded its oversight and quality assurance efforts at ARC to focus on the review of STAR reports resulting from the new system functionality that enables the benefit payment liability to be split between the Federal and District Governments. The reviews identified process improvements which were implemented prior to the close of the fiscal year.

#### **c. Organizational Structure**

In January of 2008, the Office re-structured its organization and reduced the number of Assistant Directors reporting to the Director from three to two. Under the new organizational structure, the Office Director continues to be responsible for overall program management. The Assistant Directors are responsible for the following functions: (1) Benefit and Systems Administration and (2) Finance and Resource Administration. Service areas were also created within each of these two functions to support critical services provided by the Office. Retirement, Technical and STAR Services are managed within Benefits and Systems Administration, and Financial and Management Services within Finance and Resource Administration. Two additional service areas, Quality Assurance and Special Projects, are directly managed by the Director. While each position is associated with a specific service area, the Office also employs a cross-matrix approach. As a result, staff members execute their responsibilities within their service area but also participate in activities outside their respective service areas.

#### Service Areas Description:

- Quality Assurance: Manages program-wide quality assurance and risk management activities.
- Special Projects: Oversees program-wide special projects coordinating resources and monitoring progress.
- Retirement Services: Manages relationship for DCRB and other District entities, and serves as their single point-of-contact.
- Technical Services: Manages relationship for BPD and serves as their single point-of-contact.
- STAR Services: Oversees benefits administration (pension and payroll) and system hosting services.
- Financial Services: Oversees financial management and investment services.
- Management Services: Manages program-wide operational support functions, budgeting and internal control compliance.

The service areas are designed to clarify points of contact with the Office's key business partners, emphasize the Office's key operational areas, and highlight key functions.

#### **d. Improved Employee Performance Management System**

In FY 2008, a new Employee Performance Management System was implemented. The new performance system uses performance commitments that are job specific and results oriented. Under the new system weight is assigned to performance commitments allowing supervisors to place varying importance to each commitment. The new performance system allowed offices to align performance plans with organizational goals, emphasize program results and employee accountability, and achieve a more meaningful distinction between performance levels.

#### **e. Employee Performance and Training**

The Office managers worked with each employee to achieve the Office's and individual goals through frequent performance feedback, training and development. Management conducts quarterly performance reviews with each employee. Each employee has an Individual Development Plan, which is monitored throughout the year. All employees participate in required and optional training. Opportunities for employee development play an important role in decisions on allocation of work assignments.

## **2. Future Focus**

#### **a. Expanded Oversight of Benefits Administration Activities**

The Office will continue to expand its oversight and quality assurance program efforts related to benefits administration. As in the past, the main focus will continue to be on customer service and benefits processing. In FY 2009, the Office will also initiate formal quality assurance activities for system administration. These efforts will range from system availability and user access to system maintenance and development activities.

## **b. Organizational Structure**

The Office re-structured its organization to address future challenges as the major development efforts for STAR came to an end in May 2008. The Office will continue to communicate the organizational changes to staff and business partners while enhancing the new organizational areas. As the organization continues to mature, the Office will focus on its Quality Assurance and Special Projects Programs.

The Quality Assurance Program was created to ensure Office program areas and business partners meet quality standards. The Quality Assurance Program will continue to leverage existing quality plans and reports with the goal to continue to create improvements. New areas will be identified for quality review and tools will be created to enhance the Program.

The Special Projects Service Area was created to oversee the execution of Office-wide special projects. In addition, the Office will continue to work closely with business partners to coordinate resources and execute projects. New tools and techniques will be introduced to ensure strong oversight and monitoring of special projects.

## **c. Long-term Strategic Planning**

The Office plans to develop a long-term strategic direction during FY 2009. As a result, the Office is in the process of developing a new multi-year Strategic Plan. The new plan will ensure the Office continues to meet its mission to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, as amended.

# ***E. Annuitants received quality service***

## **1. Program Results**

### **a. District of Columbia Retirement Board Performance Report**

During FY 2008, the District of Columbia Retirement Board (DCRB) periodically reported performance indicators for pension and payroll processing. The performance indicators reflect a balance between accuracy, timeliness, quality, and cost effectiveness. In addition, the Office of D.C. Pensions (the Office) tracked the performance indicators to ensure that the Office's standards were being met. DCRB processed a volume of transactions that was consistent with prior years. The timeliness of the processing was also consistent with previous years.

### **b. Annuitant Satisfaction**

DCRB uses a tool to help monitoring and tracking call volume. A monitoring system tracks the volume of calls and the availability of the representatives to answer the calls. DCRB continued to reach out for annuitant feedback regarding customer satisfaction. The annuitant survey form asks members to rate the patience, professionalism,

knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. In addition, the survey asks how satisfied the caller was with the process, their overall experience with the Member Services Center, their wait time, and their perception of customer service representative's ability to understand their issue and help them. Ratings range from 1 (excellent) to 5 (poor). Responses from the annuitants surveyed, indicated that the services provided were excellent.

**c. Benefits Administration Service Level Agreement**

In FY 2008, the Office and DCRB signed a service level agreement (SLA) for benefits administration. The SLA defines the responsibilities and expectations for the DCRB Benefits Department and the Office in order to provide high level service to annuitants. The SLA focuses on the entire benefits administration spectrum of activities from processing to customer service and quality review.

**d. 1099-R Print Quality Improvements**

After receiving feedback from annuitants regarding the print quality of IRS Form 1099-R, the Office, in partnership with DCRB and Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), implemented a software change to correct the printing issues and enhance the print quality of the form. The implementation of these changes greatly reduced the volume of calls received from annuitants regarding the 1099-R forms.

**e. Earnings Statement Improvements**

In FY 2008, the Office implemented enhancements to the earnings statements. The new earning statements include a larger text font size and more space for messages to annuitants. The new statement also eliminated redundant information. In addition, ARC leveraged an existing highly automated system to eliminate the extremely labor intensive tasks of generating, printing, sorting and stuffing the earning statements and additional correspondence to annuitants. As a result of these improvements, the Office expects to realize annual savings of approximately \$34,000 this fiscal year

**f. Retirement Plan Information**

Teachers' Summary Plan Description (SPD)

In FY 2008, an updated SPD for the District of Columbia Teachers' Retirement Plan was completed and published. The SPD was designed to provide plan members with accurate and easy to understand information about the Retirement Plan. This project was led by DCRB with assistance from the Office and several other District stakeholders. The updated SPD includes information on statutory changes to the plan and changes to the regulations.



### Judges' Summary Plan Description

In FY 2008, an updated SPD for the District of Columbia Judges' Retirement Plan was completed. The SPD was designed to provide plan members with accurate and easy to understand information about the Retirement Plan. This project was led by the Office with assistance from District stakeholders.

## **2. Future Focus**

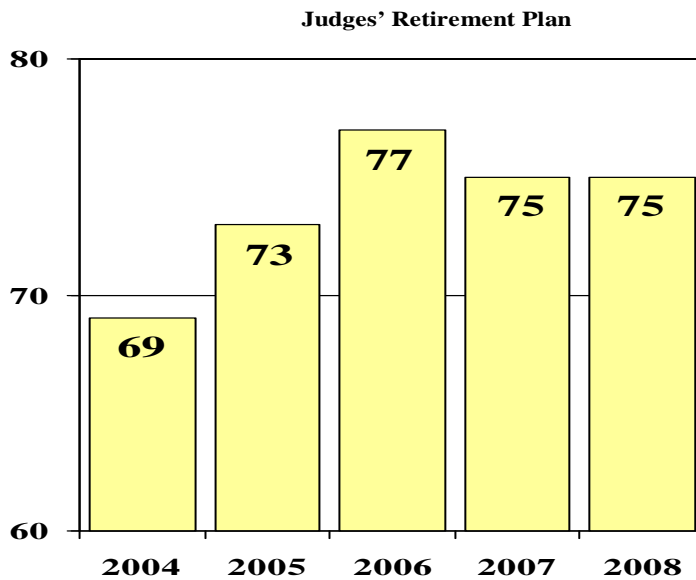
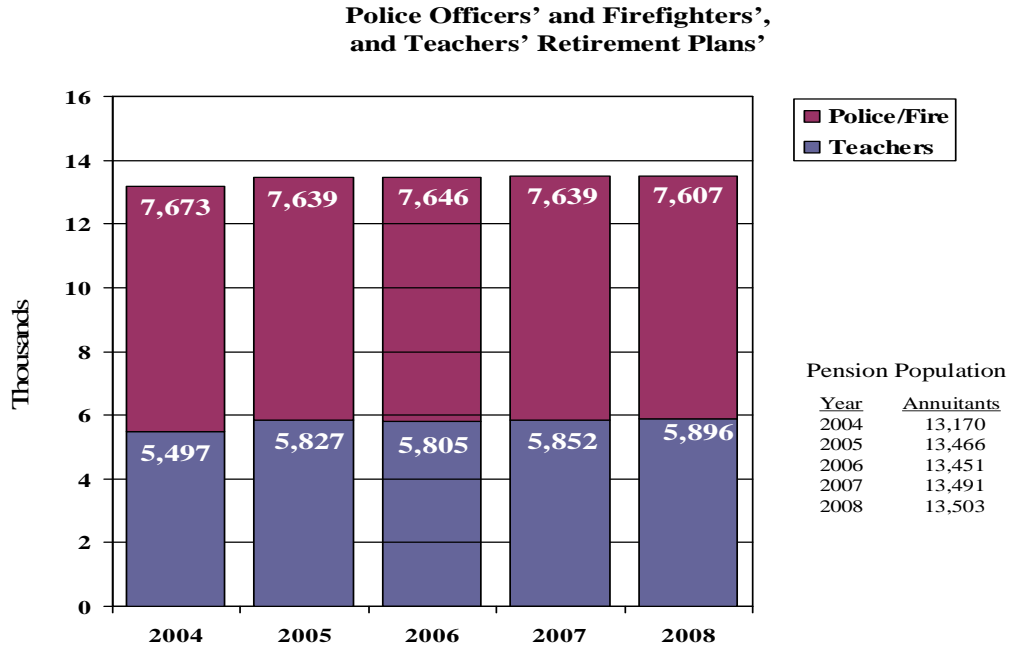
### **a. Retirement Plan Information**

#### Judges' Summary Plan Description

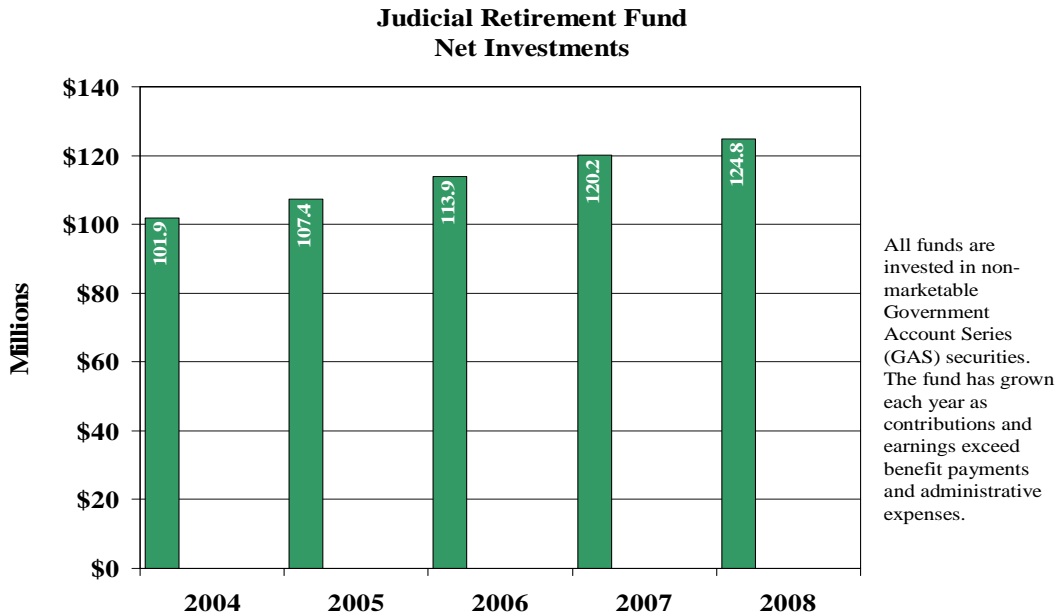
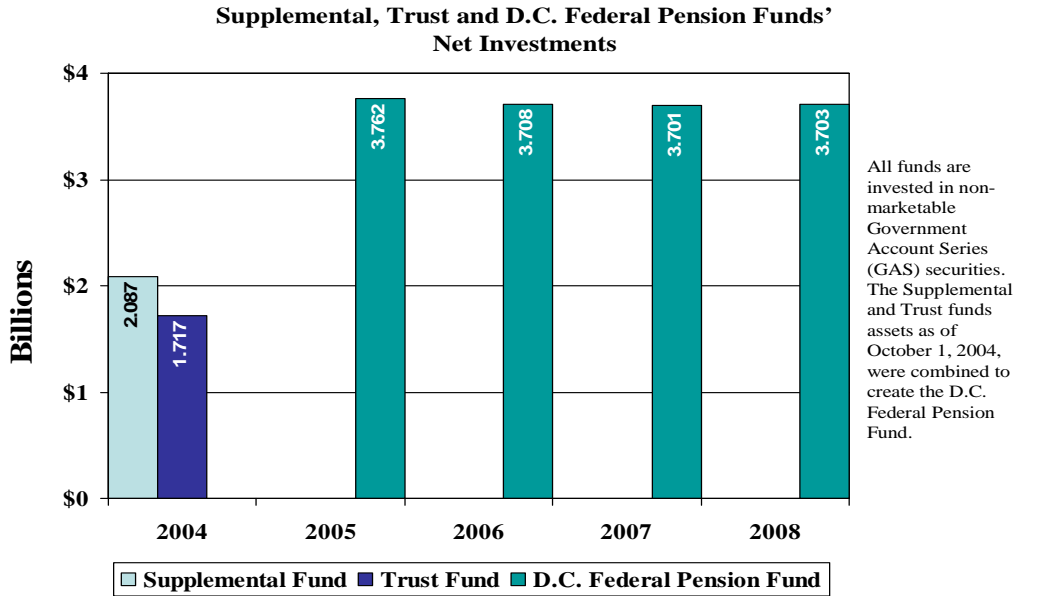
The Office expects to publish and distribute the updated version of the SPD for the District of Columbia Judges' Retirement Plan in early FY 2009. The updated SPD includes information on eligibility, benefit calculations and receiving benefits.

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

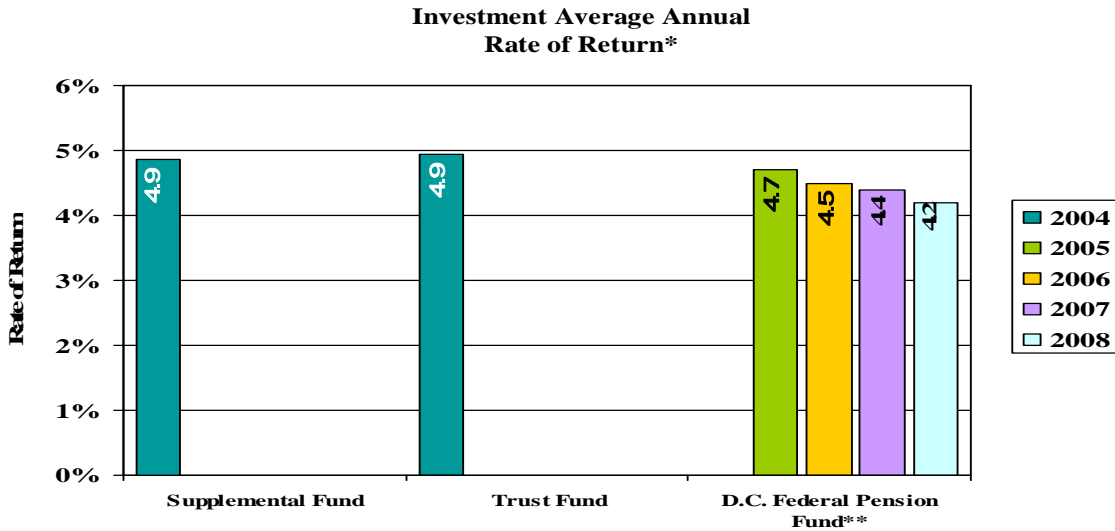
### A. Annuitants (as of September 30, 2008)



**B. Investments** (as of September 30, 2008)

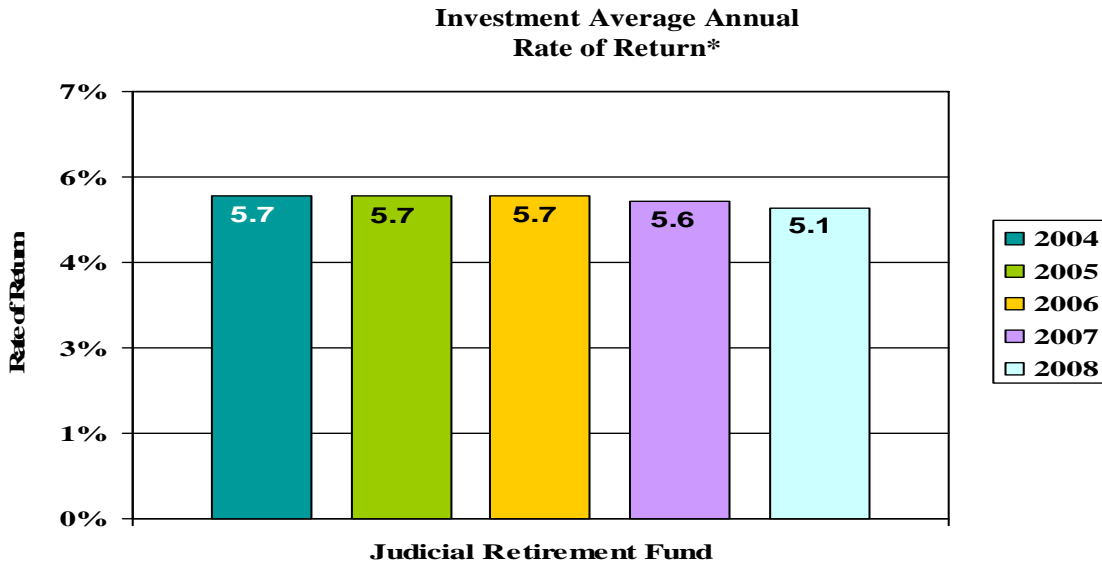


**B. Investments (as of September 30, 2008) continued**



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

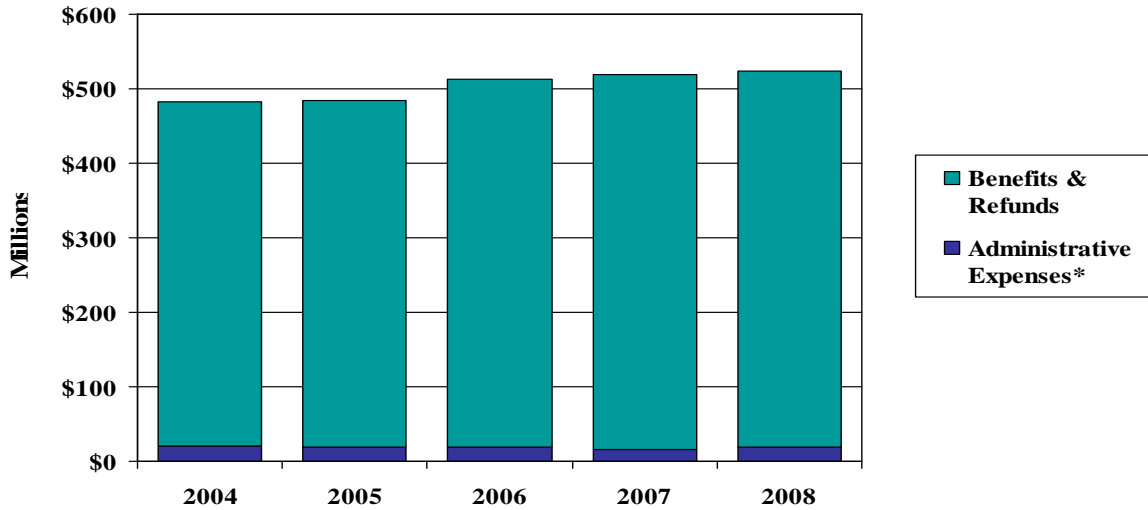
\*\*The Supplemental Fund and the Trust Fund were combined October 1, 2004, to create the D.C. Federal Pension Fund.



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

**C. Payments by Category (as of September 30, 2008)**

**Benefits, Refunds, and Administrative Expenses**



\*Administrative expenses include reimbursement of the District administrative expenses, ODCP salaries and contractor support.

**Benefits, Refunds, and Administrative Expenses**

Fiscal Year	Benefits/ Refunds Paid	Administration Expenses*	Benefits and Refunds %	Administrative Expenses %
2004	\$462M	\$20M	96%	4%
2005	\$464M	\$19.5M	96%	4%
2006	\$494M	\$18.4M	96%	4%
2007	\$504M	\$15.7M	97%	3%
2008	\$506M	\$18.4M	96%	4%

\*Administrative expenses include reimbursement of the District administrative expenses, ODCP salaries and contractor support.

## **V. Limitation of the Financial Statements**

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

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

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

## PART 2

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# INDEPENDENT AUDITORS' REPORTS









KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Treasury's Office of D.C. Pensions as of September 30, 2008 and 2007, its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in Part 4, *Supplementary Schedules*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The September 30, 2008 and 2007 supplementary schedules referred to above have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.



In accordance with *Government Auditing Standards*, we have also issued our reports dated December 4, 2008, on our consideration of the ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 4, 2008



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2008 and 2007 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 4, 2008.

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

The management of the ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2008 audit, we considered the ODCP's internal control over financial reporting by obtaining an understanding of the design effectiveness of the ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ODCP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the ODCP's consolidated financial statements that is more than inconsequential will not be prevented or detected by the ODCP's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the ODCP's internal control.



In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

*KPMG LLP*

December 4, 2008



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Compliance and Other Matters

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 4, 2008.

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

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

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

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

KPMG LLP

December 4, 2008

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## PART 3

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# FINANCIAL STATEMENTS AND NOTES







**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and 2007**  
**(in thousands)**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
<b>Entity Assets</b>		
<b>Intra-Governmental Assets</b>		
Fund Balance with Treasury (Note 3)	\$ 317	\$ 254
Investments in GAS Securities, Net (Note 4)	3,827,309	3,821,315
Interest Receivable from GAS Securities	31,506	34,123
Advances to Others	73	72
Accounts Receivable, Net	6,832	30,860
Software-In-Development	-	1,797
ADP Software, Net (Note 5)	8,505	12,073
Equipment, Net (Note 6)	17	73
<b>Total Assets</b>	<u>\$ 3,874,559</u>	<u>\$ 3,900,567</u>
<b>Liabilities</b>		
<b>Liabilities Covered By Budgetary Resources</b>		
<b>Intra-Governmental</b>		
Accounts Payable	\$ 46	\$ 32
Accrued Payroll and Benefits	23	17
Accounts Payable	3,822	4,493
Accrued Pension Benefits Payable	48,711	45,296
Actuarial Pension Liability (Note 2j)	3,683,632	3,679,487
Accrued Payroll and Benefits	246	194
<b>Total Liabilities Covered By Budgetary Resources</b>	<u>3,736,480</u>	<u>3,729,519</u>
<b>Liabilities Not Covered By Budgetary Resources</b>		
Actuarial Pension Liability	<u>5,119,756</u>	<u>5,312,562</u>
<b>Total Liabilities</b>	<u>8,856,236</u>	<u>9,042,081</u>
<b>Net Position</b>		
Cumulative Results of Operations - Earmarked	<u>(4,981,677)</u>	<u>(5,141,514)</u>
<b>Total Net Position</b>	<u>(4,981,677)</u>	<u>(5,141,514)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 3,874,559</u>	<u>\$ 3,900,567</u>

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

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

	<u>2008</u>	<u>2007</u>
<i>Program Costs</i>		
Administrative Expenses (Note 7)	\$ 18,414	\$ 15,653
Pension Expense (Note 8)	319,660	429,837
<i>Total Program Costs</i>	<u>338,074</u>	<u>445,490</u>
 <i>Less: Earned Revenues</i>		
Interest Earned/Loss from GAS Securities, Net	150,025	159,235
Employee Contributions	597	577
<i>Net Cost of Operations</i>	<u>\$ 187,452</u>	<u>\$ 285,678</u>

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

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidated Statements of Changes in Net Position**  
**For the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

	<u>2008</u> <u>Earmarked</u>	<u>2007</u> <u>Earmarked</u>
<i>Cumulative Results of Operations</i>		
<i>Net Position - Beginning of Year</i>	\$ (5,141,514)	\$ (5,208,738)
<i>Budgetary Financing Sources</i>		
<i>Appropriations Used</i>	347,180	352,780
<i>Other Financing Sources</i>		
<i>Imputed Financing Sources</i>	<u>109</u>	<u>122</u>
<i>Total Financing Sources</i>	347,289	352,902
<i>Net Cost of Operations</i>	<u>(187,452)</u>	<u>(285,678)</u>
<i>Net Change</i>	<u>159,837</u>	<u>67,224</u>
<i>Net Position - End of Year</i>	<u>\$ (4,981,677)</u>	<u>\$ (5,141,514)</u>

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

**Departmental Offices**  
**Office of D.C. Pensions**  
**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

	<u>2008</u>	<u>2007</u>
<i>Budgetary Resources</i>		
<i>Unobligated Balance - brought forward</i>	\$ 76	\$ -
<i>Recoveries of Prior Year Unpaid Obligations</i>	2,334	2,614
<i>Budget Authority:</i>		
<i>Appropriations</i>	846,433	903,530
<i>Spending Authority from Offsetting Collections:</i>		
<i>Earned:</i>		
<i>Collected</i>	35,216	28,613
<i>Temporarily Unavailable Pursuant to Public Law</i>	(4,145)	(34,047)
<i>Total Budgetary Resources</i>	<u>\$ 879,914</u>	<u>\$ 900,710</u>
 <i>Status of Budgetary Resources</i>		
<i>Obligations Incurred:</i>		
<i>Direct</i>	\$ 879,914	\$ 900,634
<i>Unobligated Balance:</i>		
<i>Exempt from Apportionment</i>	-	76
<i>Total Status of Budgetary Resources</i>	<u>\$ 879,914</u>	<u>\$ 900,710</u>
 <i>Change in Obligated Balance</i>		
<i>Unpaid obligations brought forward, Oct. 1</i>	\$ 59,082	\$ 61,266
<i>Obligations Incurred</i>	879,914	900,634
<i>Gross outlays</i>	(876,762)	(900,204)
<i>Recoveries of Prior Year Unpaid Obligations, Actual</i>	(2,334)	(2,614)
<i>Unpaid Obligated Balance, Net, End of Period:</i>	<u>59,900</u>	<u>59,082</u>
 <i>Net Outlays</i>		
<i>Gross Outlays</i>	876,762	900,204
<i>Offsetting collections</i>	(35,216)	(28,613)
<i>Distributed offsetting receipts</i>	(147,325)	(197,970)
<i>Net Outlays</i>	<u>\$ 694,221</u>	<u>\$ 673,621</u>

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

*Department of the Treasury  
Departmental Offices  
Office of D.C. Pensions  
Notes to Financial Statements  
September 30, 2008 and 2007*

**1) Reporting Entity**

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

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

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

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

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 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 the D.C. Government for the District's estimated and actual share of benefits paid from the D.C. Federal Pension Fund

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

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount. 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 2008 and FY 2007 were \$340.2 million and \$345.4 million, respectively.

***b. District of Columbia Judicial Retirement and Survivors Annuity Fund***

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

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

The Judicial Retirement Fund consists of the following:

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

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

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by

the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2008 and FY 2007 were \$7.0 million and \$7.4 million respectively.

## **2) Summary of Significant Accounting Policies**

### ***a. Basis of Accounting and Presentation***

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

### ***b. Fund Balance with Treasury***

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

### ***c. Investments***

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

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

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

***d. Advances and Prepayments***

The carrying amount of advances and prepayments to the Department of the Treasury's Working Capital Fund approximate fair value as they represent the amounts expected to be paid.

***e. Software-In-Development***

Software-in-development as of September 30, 2007, consisted of independent contractor costs incurred to develop Release 5 of a pension/payroll system to support the Police Officers' and Firefighters', and Teachers' Retirement Plans. During FY 2008, the project was completed and such costs were transferred to ADP Software.

***f. ADP Software, Net***

ADP Software, Net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 – FY 2008 to develop a pension/payroll system to meet Treasury's and D.C.'s needs (net of accumulated amortization). Components of this software that calculate benefit payments for the judges and for a portion of the teachers, police officers and firefighters were placed in service during FY 2003. An additional component of the pension/payroll system for the remaining population of the teachers, police officers and firefighters was placed in service during FY 2005. Another component of the pension/payroll system was placed in service during FY 2007 to implement split benefit requirements for new retirements. Lastly, a final component of the pension/payroll system was placed in service during FY 2008 to implement split benefit requirements for the remaining population.

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

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

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

***g. Equipment, Net***

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



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

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

***h. Accounts Receivable***

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

***i. Accrued Pension Benefits Payable***

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

***j. Actuarial Pension Liability***

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Aggregate Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The actuarial pension liability is based upon assumptions made by Treasury. The assumptions used to calculate the pension liability as of October 1, 2008, were an annual rate of investment return of 5.2% in FY 2009 based on the securities held in the Judicial Retirement Fund, gradually increasing to 6% by FY 2015; an annual rate of investment of 4.7% in FY 2009 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2014; an annual inflation and cost-of-living adjustment of

3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. The assumptions used to calculate the pension liability as of October 1, 2007, were an annual rate of investment return of 6% based on the securities held in the Judicial Retirement Fund, an annual rate of investment of 4.7% in FY 2008 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2013; an annual inflation and cost-of-living adjustment of 3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters.

***k. Appropriations Received and Used***

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative expenses of the Judicial Retirement Fund. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the D.C. Federal Pension Fund to be invested in non-marketable GAS securities. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position. Appropriations received and used for the years ended September 30, 2008 and 2007 were \$347.2 million and \$352.8 million, respectively.

***l. Treasury Employee Retirement Plans***

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

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Pub. L. 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.

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

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

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

### ***m. President's Budget***

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2008, was not published at the time that these financial statements were issued. The President's Budget for FY 2010, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2009. It will be available from the United States Government Printing Office. The FY 2007 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P & F) Schedules within the President's Budget for FY 2009 and there were no differences for budgetary resources, status of budgetary resources, and net outlays.

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

### ***n. Earmarked Funds***

#### **Funding Sources**

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

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

Funding for the Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084(a), P.L. 108-149.

Sources of revenue or other financing sources for the years ended September 30, 2008 and 2007 were annual appropriations, employee contributions, and interest earnings from investments.

#### **Intra-governmental Investments in Treasury Securities**

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Office of D.C. Pensions as evidence of its receipts. Treasury securities are an asset to the Office of D.C. Pensions and a

liability to the U.S. Treasury. Since the Office of D.C. Pensions and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

### 3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2008 and 2007, consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Fund balances:		
Trust funds	\$ 15	\$ 15
Special funds *	302	239
Total fund balance with Treasury	\$ <u>317</u>	\$ <u>254</u>

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

	<u>2008</u>	<u>2007</u>
Status of fund balance with Treasury		
Obligated balance not yet disbursed	\$ <u>317</u>	\$ <u>254</u>
Total	\$ <u>317</u>	\$ <u>254</u>

#### 4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2008 and 2007 consisted of the following (in thousands):

<b>2008</b>				
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	\$ 180,218	—	180,218	180,218
Non-marketable market-based	3,581,041	66,050	3,647,091	3,785,037
Total	\$ 3,761,259	66,050	3,827,309	3,965,255

<b>2007</b>				
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	\$ 261,820	—	261,820	261,820
Non-marketable market-based	3,502,594	56,901	3,559,495	3,574,715
Total	\$ 3,764,414	56,901	3,821,315	3,836,535

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, 2008 and 2007, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are a net unrealized gain of \$137.9 million as of September 30, 2008 and a net unrealized gain of \$15.2 million as of September 30, 2007.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2008 and 2007, by maturity date, are as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Less than or equal to 1 year	\$ 727,628	\$ 525,580
More than 1 year and less than or equal to 5 years	2,172,016	2,495,668
More than 5 years and less than or equal to 10 years	747,447	538,247
Total	\$ 3,647,091	\$ 3,559,495

## 5) ADP Software, Net

The components of ADP software, net as of September 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
ADP software	\$ 40,073	\$ 38,383
Accumulated depreciation	<u>(31,568)</u>	<u>(26,310)</u>
ADP software, net	<u>\$ 8,505</u>	<u>\$ 12,073</u>

## 6) Equipment, Net

The components of equipment, net as of September 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
ADP hardware	\$ 500	\$ 500
Accumulated depreciation	<u>(483)</u>	<u>(427)</u>
Equipment, net	<u>\$ 17</u>	<u>\$ 73</u>

## 7) Administrative Expenses

Administrative expenses for the years ended September 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Intragovernmental expenses		
Salaries and related benefits	\$ 560	562
Contractual services	2,636	2,327
Rent	789	780
Noncapitalized equipment/software	2	4
Other	17	64
Total intragovernmental expenses	<u>\$ 4,004</u>	<u>3,737</u>
Public expenses		
Salaries and related benefits	\$ 2,105	1,988
Contractual services	6,964	2,872
Rent	—	1
Noncapitalized equipment/software	3	42
Amortization/Depreciation	5,313	6,996
Other	25	17
Total public expenses	<u>\$ 14,410</u>	<u>11,916</u>
Total administrative expenses	<u>\$ 18,414</u>	<u>15,653</u>

Included in the administrative expenses are amounts incurred by the D.C. Federal Pension Fund and Judicial Retirement Fund for intra-governmental activity totaling \$3,575 thousand and \$429 thousand, respectively, for 2008, and \$3,342 thousand and \$395 thousand, respectively, for 2007.

## 8) Pension Expense

Pension expense for the plan years ended September 30, 2008, and 2007, includes the following components (in thousands):

	<u>2008</u>	<u>2007</u>
Normal cost	\$ 4,200	4,500
Actuarial (gain)/loss during the period	(99,240)	(1,663)
Interest on pension liability during the period	<u>414,700</u>	<u>427,000</u>
Total pension expense	<u>\$ 319,660</u>	<u>429,837</u>

### *Federal Benefit Payments*

Federal pension benefits paid during the plan years were \$498.6 million and \$7.2 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2008, and \$496.5 million and \$7.2 million, respectively, for 2007. For 2008, approximately \$0.6 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For 2007, approximately \$0.9 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. In FY 2008, there was an actuarial loss in each of the funds due to lowering the investment rate assumption. There was an actuarial gain in the D.C. Federal Pension Fund and an actuarial loss in the Judicial Retirement Fund due to plan experience. The net result was a total net actuarial gain in the two funds of \$99.2 million. In FY 2007, there was an actuarial loss in the D.C. Federal Pension Fund due to lowering the investment rate assumption. This was offset by actuarial gains in both funds due to plan experience, which resulted in a total net actuarial gain in the two funds of \$1.7 million.

## 9) Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2008, and 2007, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
<i>Budgetary Resources Obligated</i>		
<i>Obligations Incurred</i>	\$ 879,914	\$ 900,634
<i>Less: Spending Authority from Offsetting Collections and Adjustments</i>	37,550	31,227
<i>Obligations Net of Offsetting Collections and Recoveries</i>	<u>842,364</u>	<u>869,407</u>
<i>Less: Offsetting Receipts</i>	147,325	197,970
<i>Net Obligations</i>	<u>695,039</u>	<u>671,437</u>
<i>Imputed Financing from Costs Absorbed by Others</i>	109	122
<i>Total Resources Used to Finance Activities</i>	<u>695,148</u>	<u>671,559</u>
<i>Resources Used to Finance Items Not Part of the Net Cost of Operations</i>		
<i>Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided</i>	(1,995)	(867)
<i>Resources that Fund Expenses Recognized in Prior Periods</i>	176,157	79,347
<i>Resources that Finance the Acquisition of Assets or Liquidation of Liabilities</i>	(107)	4,169
<i>Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations</i>	<u>347,180</u>	<u>352,780</u>
<i>Total Resources Used to Finance Items not part of the Net Cost of Operations</i>	<u>521,235</u>	<u>435,429</u>
<i>Total Resources Used to Finance Net Cost of Operations</i>	<u>173,913</u>	<u>236,130</u>
<i>Components Requiring or Generating Resources in Future Periods</i>		
<i>Increase in Exchange Revenue Receivable from the Public</i>	-	1
<i>Future Funded Expenses</i>	<u>11,525</u>	<u>4,393</u>
<i>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</i>	11,525	4,394
<i>Components not Requiring or Generating Resources</i>		
<i>Depreciation and Amortization</i>	3,439	8,782
<i>Other</i>	<u>(1,425)</u>	<u>36,372</u>
<i>Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods</i>	<u>2,014</u>	<u>45,154</u>
<i>Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods</i>	<u>13,539</u>	<u>49,548</u>
<i>Net Cost of Operations</i>	<u>\$ 187,452</u>	<u>\$ 285,678</u>



# PART 4

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## SUPPLEMENTARY SCHEDULES





**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Balance Sheets**  
**As of September 30, 2008 and 2007**  
**(in thousands)**

	2008			2007		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
<b>Assets</b>						
<b>Entity Assets</b>						
<b>Intra-Governmental Assets</b>						
Fund Balance with Treasury	\$ 15	302	317	\$ 15	239	254
Investments in GAS Securities, Net	124,750	3,702,559	3,827,309	120,209	3,701,106	3,821,315
Interest Receivable from GAS Securities	1,090	30,416	31,506	1,430	32,693	34,123
Advances to Others	7	66	73	7	65	72
Accounts Receivable, Net	-	6,832	6,832	-	30,860	30,860
Software-In-Development	-	-	-	59	1,738	1,797
ADP Software, Net	10	8,495	8,505	235	11,838	12,073
Equipment, Net	2	15	17	7	66	73
<b>Total Assets</b>	<b>\$ 125,874</b>	<b>3,748,685</b>	<b>3,874,559</b>	<b>\$ 121,962</b>	<b>3,778,605</b>	<b>3,900,567</b>
<b>Liabilities</b>						
<b>Liabilities Covered By Budgetary Resources</b>						
<b>Intra-Governmental</b>						
Accounts Payable	\$ 7	39	46	\$ 3	29	32
Accrued Payroll and Benefits	2	21	23	2	15	17
Accounts Payable	13	3,809	3,822	77	4,416	4,493
Accrued Pension Benefits Payable	611	48,100	48,711	601	44,695	45,296
Actuarial Pension Liability (Note 2))	118,482	3,565,150	3,683,632	114,337	3,565,150	3,679,487
Accrued Payroll and Benefits	24	222	246	20	174	194
<b>Total Liabilities Covered By Budgetary Resources</b>	<b>119,139</b>	<b>3,617,341</b>	<b>3,736,480</b>	<b>115,040</b>	<b>3,614,479</b>	<b>3,729,519</b>
<b>Liabilities Not Covered By Budgetary Resources</b>						
Actuarial Pension Liability	43,150	5,076,606	5,119,756	35,769	5,276,793	5,312,562
<b>Total Liabilities</b>	<b>162,289</b>	<b>8,693,947</b>	<b>8,856,236</b>	<b>150,809</b>	<b>8,891,272</b>	<b>9,042,081</b>
<b>Net Position</b>						
Cumulative Results of Operations - Earmarked	(36,415)	(4,945,262)	(4,981,677)	(28,847)	(5,112,667)	(5,141,514)
<b>Total Net Position</b>	<b>(36,415)</b>	<b>(4,945,262)</b>	<b>(4,981,677)</b>	<b>(28,847)</b>	<b>(5,112,667)</b>	<b>(5,141,514)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 125,874</b>	<b>3,748,685</b>	<b>3,874,559</b>	<b>\$ 121,962</b>	<b>3,778,605</b>	<b>3,900,567</b>

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Statements of Net Cost**  
**For the Years Ended September 30, 2008 and 2007**  
*(in thousands)*

	2008			2007		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
<i>Program Costs</i>						
Administrative Expenses (Note 7)	\$ 913	17,501	18,414	\$ 1,092	14,561	15,653
Pension Expense (Note 8)	18,724	300,936	319,660	11,558	418,279	429,837
<b>Total Program Costs</b>	<b>19,637</b>	<b>318,437</b>	<b>338,074</b>	<b>12,650</b>	<b>432,840</b>	<b>445,490</b>
<i>Less: Earned Revenues</i>						
Interest Earned/Loss from GAS Securities, Net	4,481	145,544	150,025	6,218	153,017	159,235
Employee Contributions	597	-	597	577	-	577
<b>Net Cost of Operations</b>	<b>\$ 14,559</b>	<b>172,893</b>	<b>187,452</b>	<b>\$ 5,855</b>	<b>279,823</b>	<b>285,678</b>

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Statements of Changes in Net Position**  
**For the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

	2008			2007		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
<i>Cumulative Results of Operations</i>						
<i>Net Position - Beginning of Year</i>	\$ (28,847)	(5,112,667)	(5,141,514)	\$ (30,384)	(5,178,354)	(5,208,738)
<i>Budgetary Financing Sources</i>						
<i>Appropriations Used</i>	6,980	340,200	347,180	7,380	345,400	352,780
<i>Other Financing Sources</i>						
<i>Imputed Financing Sources</i>	<u>11</u>	<u>98</u>	<u>109</u>	<u>12</u>	<u>110</u>	<u>122</u>
<i>Total Financing Sources</i>	6,991	340,298	347,289	7,392	345,510	352,902
<i>Net Cost of Operations</i>	<u>(14,559)</u>	<u>(172,893)</u>	<u>(187,452)</u>	<u>(5,855)</u>	<u>(279,823)</u>	<u>(285,678)</u>
<i>Net Change</i>	<u>(7,568)</u>	<u>167,405</u>	<u>159,837</u>	<u>1,537</u>	<u>65,687</u>	<u>67,224</u>
<i>Net Position - End of Year</i>	<u>\$ (36,415)</u>	<u>(4,945,262)</u>	<u>(4,981,677)</u>	<u>\$ (28,847)</u>	<u>(5,112,667)</u>	<u>(5,141,514)</u>

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Combining Statements of Budgetary Resources**  
**For the Years Ended September 30, 2008 and 2007**  
*(in thousands)*

	2008			2007		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined DC Pension Funds Total
<i>Budgetary Resources</i>						
Unobligated Balance - brought forward	\$ 1	75	76	\$ -	-	-
Recoveries of Prior Year Unpaid Obligations	41	2,293	2,334	33	2,581	2,614
Budget Authority:						
Appropriations	19,039	827,394	846,433	21,647	881,883	903,530
Spending Authority from Offsetting Collections:						
Earned:						
Collected	-	35,216	35,216	2	28,611	28,613
Temporarily Unavailable Pursuant to Public Law	(4,145)	-	(4,145)	(6,457)	(27,590)	(34,047)
Total Budgetary Resources	<u>\$ 14,936</u>	<u>864,978</u>	<u>879,914</u>	<u>\$ 15,225</u>	<u>885,485</u>	<u>900,710</u>
<i>Status of Budgetary Resources</i>						
Obligations Incurred:						
Direct	\$ 14,936	864,978	879,914	\$ 15,224	885,410	900,634
Unobligated Balance:						
Exempt from Apportionment	-	-	-	1	75	76
Total Status of Budgetary Resources	<u>\$ 14,936</u>	<u>864,978</u>	<u>879,914</u>	<u>\$ 15,225</u>	<u>885,485</u>	<u>900,710</u>
<i>Change in Obligated Balance</i>						
Unpaid obligations brought forward, Oct. 1	\$ 1,488	57,594	59,082	\$ 1,471	59,795	61,266
Obligations Incurred	14,936	864,978	879,914	15,224	885,410	900,634
Gross outlays	(14,840)	(861,922)	(876,762)	(15,174)	(885,030)	(900,204)
Recoveries of Prior Year Unpaid Obligations, Actual	(41)	(2,293)	(2,334)	(33)	(2,581)	(2,614)
Unpaid Obligated Balance, Net, End of Period:	<u>1,543</u>	<u>58,357</u>	<u>59,900</u>	<u>1,488</u>	<u>57,594</u>	<u>59,082</u>
<i>Net Outlays</i>						
Gross Outlays	14,840	861,922	876,762	15,174	885,030	900,204
Offsetting collections	-	(35,216)	(35,216)	(2)	(28,611)	(28,613)
Distributed offsetting receipts	(5,077)	(142,248)	(147,325)	(6,887)	(191,083)	(197,970)
Net Outlays	<u>\$ 9,763</u>	<u>684,458</u>	<u>694,221</u>	<u>\$ 8,285</u>	<u>665,336</u>	<u>673,621</u>

**Departmental Offices**  
**Office of D.C. Pensions**  
**Consolidating Intra-governmental Balances**  
**As of and for the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

		2008			2007		
<i>Department</i>	<i>Intra-governmental balance description</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Assets							
Treasury	Fund Balance with Treasury	\$ 15	302	317	\$ 15	239	254
Treasury	Investments in GAS securities, net	124,750	3,702,559	3,827,309	120,209	3,701,106	3,821,315
Treasury	Interest receivable from GAS securities	1,090	30,416	31,506	1,430	32,693	34,123
Treasury	Advances to Others	7	66	73	7	65	72
	Total intra-governmental assets	\$ 125,862	3,733,343	3,859,205	\$ 121,661	3,734,103	3,855,764
Liabilities							
Treasury	Accounts Payable	\$ 7	36	43	\$ 3	26	29
GSA	Accounts Payable	—	3	3	—	3	3
Gen Fund	Accrued Payroll and Benefits	—	6	6	—	4	4
OPM	Accrued Payroll and Benefits	2	15	17	2	11	13
	Total intra-governmental liabilities	\$ 9	60	69	\$ 5	44	49
Revenues							
Treasury	Interest earned/loss from GAS Securities, Net	\$ 4,481	145,544	150,025	\$ 6,218	153,017	159,235
OPM	Imputed Financing Sources	11	98	109	12	110	122
	Total intra-governmental revenues	\$ 4,492	145,642	150,134	\$ 6,230	153,127	159,357
Expenses							
Treasury	Salaries and related benefits	\$ (1)	(9)	(10)	\$ 1	12	13
OPM	Salaries and related benefits	43	396	439	43	387	430
Gen Fund	Salaries and related benefits	13	118	131	12	107	119
Treasury	Contractual Services	299	2,327	2,626	250	2,077	2,327
OPM	Contractual Services	1	9	10	—	—	—
Treasury	Rent	79	710	789	78	702	780
GPO	Other	—	66	66	—	—	—
Treasury	Other	(5)	(42)	(47)	11	57	68
	Total intra-governmental expenses	\$ 429	3,575	4,004	\$ 395	3,342	3,737

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Investments in GAS Securities - Net By Fund**  
**As of September 30, 2008 and 2007**  
**(in thousands)**

	2008				2007			
	Cost	Unamortized Premium Net	Investments Net	Market Value	Cost	Unamortized Premium Net	Investments Net	Market Value
<i>D. C. Judicial Retirement and Survivors Annuity Fund:</i>								
<i>Intragovernmental Securities</i>								
Non-marketable Par Value	\$ 4,062	-	4,062	4,062	\$ 3,981	-	3,981	3,981
Non-marketable Market-based	117,728	2,960	120,688	123,763	114,304	1,924	116,228	116,428
Total	<u>\$ 121,790</u>	<u>2,960</u>	<u>124,750</u>	<u>127,825</u>	<u>\$ 118,285</u>	<u>1,924</u>	<u>120,209</u>	<u>120,409</u>
<i>D.C. Federal Pension Fund:</i>								
<i>Intragovernmental Securities</i>								
Non-marketable Par Value	\$ 176,156	-	176,156	176,156	\$ 257,839	-	257,839	257,839
Non-marketable Market-based	3,463,313	63,090	3,526,403	3,661,274	3,388,290	54,977	3,443,267	3,458,287
Total	<u>\$ 3,639,469</u>	<u>63,090</u>	<u>3,702,559</u>	<u>3,837,430</u>	<u>\$ 3,646,129</u>	<u>54,977</u>	<u>3,701,106</u>	<u>3,716,126</u>



**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity**  
**As of September 30, 2008 and 2007**  
*(in thousands)*

	2008			2007		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
<i>Time of Maturity</i>						
Less than or equal to 1 year	\$ 30,744	696,884	727,628	\$ 44,939	480,641	525,580
More than 1 year and less than or equal to 5 years	43,975	2,128,041	2,172,016	62,532	2,433,136	2,495,668
More than 5 years and less than or equal to 10 years	45,969	701,478	747,447	8,757	529,490	538,247
Total	\$ <u>120,688</u>	<u>3,526,403</u>	<u>3,647,091</u>	\$ <u>116,228</u>	<u>3,443,267</u>	<u>3,559,495</u>

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Administrative Expenses - By Fund**  
**For the years ended September 30, 2008 and 2007**  
**(in thousands)**

	2008			2007		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
<b>Intragovernmental Expenses</b>						
Salaries and Related Benefits	\$ 55	505	560	\$ 56	506	562
Contractual Services	300	2,336	2,636	250	2,077	2,327
Rent	79	710	789	78	702	780
Noncapitalized Equipment/Software	-	2	2	4	-	4
Other	(5)	22	17	7	57	64
Total intragovernmental expenses	\$ 429	3,575	4,004	\$ 395	3,342	3,737
<b>Public Expenses</b>						
Salaries and Related Benefits	\$ 204	1,901	2,105	\$ 201	1,787	1,988
Contractual Services	45	6,919	6,964	39	2,833	2,872
Rent	-	-	-	-	1	1
Noncapitalized Equipment/Software	3	-	3	1	41	42
Amortization/Depreciation	230	5,083	5,313	454	6,542	6,996
Other	3	22	25	2	15	17
Total public expenses	\$ 485	13,925	14,410	\$ 697	11,219	11,916
Total administrative expenses	\$ 914	17,500	18,414	\$ 1,092	14,561	15,653

**Department of the Treasury**  
**Department Offices**  
**Office of D.C. Pensions**  
**Pension Expense - By Fund**  
**For the years ended September 30, 2008 and 2007**  
**(in thousands)**

	<b>2008</b>			<b>2007</b>		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Normal Cost	\$ 4,200	-	4,200	\$ 4,500	-	4,500
Actuarial (Gains) Losses During the Period	5,724	(104,964)	(99,240)	(1,542)	(121)	(1,663)
Interest on Pension Liability During the Period	8,800	405,900	414,700	8,600	418,400	427,000
Total Pension Expense	<u>\$ 18,724</u>	<u>300,936</u>	<u>319,660</u>	<u>\$ 11,558</u>	<u>418,279</u>	<u>429,837</u>

**Department of the Treasury**  
**Departmental Offices**  
**Office of D.C. Pensions**  
**Reconciliation of Net Cost of Operations to Budget**  
**For the Years Ended September 30, 2008 and 2007**  
**(in thousands)**

	2008			2007		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
<i>Budgetary Resources Obligated</i>						
Obligations Incurred	\$ 14,936	864,978	879,914	\$ 15,224	885,410	900,634
Less: Spending Authority from Offsetting Collections and Adjustments	41	37,509	37,550	35	31,192	31,227
Obligations Net of Offsetting Collections and Recoveries	14,895	827,469	842,364	15,189	854,218	869,407
Less: Offsetting Receipts	5,077	142,248	147,325	6,887	191,083	197,970
Net Obligations	9,818	685,221	695,039	8,302	663,135	671,437
Imputed Financing from Costs Absorbed by Others	11	98	109	12	110	122
Total Resources Used to Finance Activities	9,829	685,319	695,148	8,314	663,245	671,559
<i>Resources Used to Finance Items Not Part of the Net Cost of Operations</i>						
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	101	(2,096)	(1,995)	21	(888)	(867)
Resources That Fund Expenses Recognized in Prior Periods	-	176,157	176,157	-	79,347	79,347
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(59)	(48)	(107)	-	4,169	4,169
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	6,980	340,200	347,180	7,380	345,400	352,780
Total Resources used to Finance Items not part of the Net Cost of Operations	7,022	514,213	521,235	7,401	428,028	435,429
Total Resources Used to Finance Net Cost of Operations	2,807	171,106	173,913	913	235,217	236,130
<i>Components Requiring or Generating Resources in Future Periods</i>						
Increase in Exchange Revenue Receivable from the Public	-	-	-	1	-	1
Future Funded Expenses	11,525	-	11,525	4,394	(1)	4,393
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	11,525	-	11,525	4,395	(1)	4,394
<i>Components not Requiring or Generating Resources</i>						
Depreciation and Amortization	(429)	3,868	3,439	578	8,204	8,782
Other	656	(2,081)	(1,425)	(32)	36,404	36,372
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	227	1,787	2,014	546	44,608	45,154
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	11,752	1,787	13,539	4,941	44,607	49,548
Net Cost of Operations	\$ 14,559	172,893	187,452	\$ 5,854	279,824	285,678