

900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor  
Washington, DC 20001  
www.dcrb.dc.gov



Telephone (202) 343-3200  
Facsimile (202) 566-5001  
E-mail: dcrb@dc.gov

**OPEN SESSION**  
**NOTICE OF REGULAR BOARD MEETING**  
**JOSEPH W. CLARK, CHAIR**

**THURSDAY, JANUARY 16, 2020**  
**1:30 PM**

**AGENDA - REVISED**

- 1:30 PM I. **CALL TO ORDER AND ROLL CALL**
- II. **APPROVAL OF BOARD MEETING MINUTES -- ACTION ITEM**  
➤ APPROVAL OF BOARD MEETING MINUTES FOR DECEMBER 19, 2019
- III. **CHAIR'S COMMENTS**  
➤ REVIEW OF BOARD MEETING 2020 SCHEDULE
- REMARKS BY DIRECTOR VENTRIS GIBSON*  
*DISTRICT GOVERNMENT DEPARTMENT OF HUMAN RESOURCES*
- 2:00 PM IV. **AUDIT COMMITTEE REPORT -- ACTION ITEMS**  
➤ PRESENTATION: FY 2019 AUDIT, McCONNELL & JONES LLP  
➤ LEGAL SERVICES CONTRACT  
➤ AUDIT COMMITTEE CHARTER  
➤ INSURANCE UPDATE  
➤ RISK ASSESSMENT
- 3:30 PM V. **EXECUTIVE DIRECTOR'S REPORT**
- VI. **INVESTMENT COMMITTEE REPORT -- ACTION ITEMS**
- VII. **OPERATIONS COMMITTEE REPORT**
- VIII. **BENEFITS COMMITTEE REPORT**
- IX. **LEGISLATIVE COMMITTEE REPORT**
- X. **OTHER BUSINESS**
- 4:00 PM XI. **ADJOURNMENT**



900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor  
 Washington, DC 20001  
[www.dcrb.dc.gov](http://www.dcrb.dc.gov)



Telephone (202) 343-3200  
 Facsimile (202) 566-5000  
 E-mail: [dcrb@dc.gov](mailto:dcrb@dc.gov)

### Chair's Report January 16, 2020

TOPIC	UPDATE	
<b>Trustee Cybersecurity Training</b>	For those DCRB Trustees who did not complete the mandatory cybersecurity training provided by the District Government, computers have been configured in the training room (across from the Executive Director's office) for you to take the online training immediately following the Board meeting. Either Ram Murthy or Wukyanos Gebremeskel can escort you to the training room and assist with login.	
<b>Annual Open Public Meeting Schedule</b>	The Annual Open Public Meeting Schedule of Board meetings for calendar year 2020 will be posted to DCRB's website upon approval by Chair Clark and consensus to move the April Board meeting date from April 16, 2020, Emancipation Day, to another day and time.	
<b>Public Roundtable for Trustees Bress and Warren Reappointments</b>	The District of Columbia Council Committee of the Whole issued a Notice announcing a public roundtable which was held earlier today at 9:30 am in Room 120 of the John A. Wilson Building to confirm the Council's reappointments of Trustees Joseph Bress and Michael Warren as members of the District of Columbia Retirement Board.	
<b>Visit by DCHR Director Ventris Gibson</b>	DCHR Director Ventris Gibson is attending our meeting today. I want to welcome Director Gibson to this meeting. To allow enough time for Director Gibson to speak and for any questions that you may have for her, I will now turn the meeting over to Director Gibson for her remarks.	
<b>Cancellation of Charter School Audit Solicitation</b>	The OCFO and DCRB had different objectives for the audit of the charter schools. OCFO wanted a vendor to audit/verify that the amounts OCFO paid to DCRB were the actual amounts OCFO collected from the charter schools. However, DCRB also required a full audit to ensure that the charter schools were properly including the correct teachers, contributing the correct amounts and compiling the requisite documentation. To ensure the audit meets DCRB's needs, I am referring this matter to the Audit Committee for further action.	
<b>Fraud Inquiry Survey</b>	Thank you for completing the Fraud Inquiry Survey provided by our independent auditor, McConnell & Jones LLP.	
<b>Visit by ODCP Director</b>	This is to advise you that the Nancy Ostrowski, the U.S. Treasury Department's Director of the Office of DC Pensions, will be attending an upcoming Board meeting.	
<b>Board Officer Elections</b>	Board officer elections will take place during next month's Board meeting. The positions are: Chair of the Board, Vice Chair/Secretary of the Board, and Treasurer of the Board.	
<b>Trustee Appointment to NCTR</b>	Trustee Daniels accepted an appointment to serve on the 2020 Teacher Education Committee for the National Council on Teacher Retirement (NCTR). This committee will meet via teleconference in mid-February, as well as at the NCTR	

	annual conference on October 10, 2020. Please join me in offering our congratulations to Trustee Daniels.	
<b>Other</b>	<p><b>For your information:</b></p> <ul style="list-style-type: none"> <li>➤ <b><u>Next Board Meeting:</u></b> The next Board meeting will be held at <b>1:00 p.m. on Thursday, February 20, 2020.</b></li> <li>➤ <b><u>Boardroom Contact Numbers:</u></b> Audio Visual Desk: 202-343-3264 Board Liaison Desk: 202-343-3284</li> <li>➤ <b><u>Quorum:</u></b> To assure that all meetings will have a quorum, DCRB's Office Management staff poll all Committee or Board members prior to the meetings to confirm attendance.</li> <li>➤ <b><u>Parking Garage Changes:</u></b> The parking garage construction continues. You may enter and exit on the 7<sup>th</sup> Street side, but you may not make a left turn into traffic. The "I" Street ramp is now one-way, <b>exit only</b>. These changes are expected to be in place until April 2020.</li> <li>➤ <b><u>Remote Participation Voice Vote:</u></b> Since it is difficult to hear the votes of those participating remotely, I will specifically ask for a voice vote from anyone attending a meeting via telephone.</li> </ul> <p><b>As a reminder:</b></p> <ul style="list-style-type: none"> <li>➤ <b><u>Conference Travel Report:</u></b> In accordance with a provision in the Trustee Travel Policy, following your attendance at a conference, Trustees are asked to complete a report for the record describing what they learned at the conference and its benefit to the Board. Section 4 of the Conference Travel Report for Trustees and Staff provides space for you to list your ideas and insights gained at the conference. Please submit your Travel Report to Johniece Harris when requesting your expense reimbursement.</li> <li>➤ <b><u>Electronic Participation:</u></b> Notice should be provided to the Chair and to Deborah Reaves if you plan to participate at a meeting electronically. Deborah will provide specific WebEx information prior to every meeting.</li> <li>➤ <b><u>Member Complaints:</u></b> Trustees who receive questions or complaints from members on issues administered by DCRB should contact the Executive Director and the Department Chief, who is responsible for the issue rather than departmental staff.</li> <li>➤ <b><u>Use of DCRB-Provided iPads</u></b> DCRB-provided iPads should be used for official government purposes only. No pictures, media, apps, etc. should be loaded onto those devices.</li> </ul>	

**PROPOSED**

**DISTRICT OF COLUMBIA RETIREMENT BOARD**

**ANNUAL OPEN PUBLIC MEETING SCHEDULE**

**As of January 16, 2020**

The District of Columbia Retirement Board (DCRB) holds Open Board of Trustee meetings on the third Thursday of each month at 1:00 p.m., unless specified differently and will be held in the DCRB Board Room (2<sup>nd</sup> floor) at 900 7<sup>th</sup> Street, N.W., Washington, DC 20001. The meeting time is subject to change without prior notice.

*Please call one (1) business day prior to the meeting to ensure the meeting has not been cancelled or rescheduled.* For additional information, please contact Deborah Reaves, Board Liaison, at (202) 343-3200 or email [Deborah.reaves@dc.gov](mailto:Deborah.reaves@dc.gov)

**2020 Annual Open Board Meeting Schedule**

January 16, 2020

February 20, 2020

March 19, 2020

April 16, 2020 (District Government holiday/Emancipation Day)\*

May 21, 2020

June 18, 2020

July 16, 2020

August (No meetings are held in August.)

September 17, 2020

October 15, 2020

November 19, 2020

December 17, 2020

\*Will be rescheduled.



**DC DEPARTMENT OF HUMAN RESOURCES**


**Ventris C. Gibson**  
**Director**

On August 3, 2015, Mayor Muriel Bowser appointed Ventris C. Gibson as the District of Columbia's Director of the Department of Human Resources Director. Ms. Gibson will provide leadership for the development, execution, and management of the District's human resources program that serves 35,500 employees and 650,000 residents.

Prior to her service with the District of Columbia Government, Ms. Gibson, a United States Navy veteran, served as the Associate Deputy Assistant Secretary for Human Resources for the U.S. Department of Health and Human Services. In this capacity, she was responsible for the development, articulation, and delivery of Department-wide human resources policies, plans, and programs.

Ms. Gibson also served in the Federal Aviation Administration as the Assistant Administrator for Human Resources and in the Department of Veterans Affairs (VA) as the Deputy Assistant Secretary for Human Resource Management and its first Deputy Assistant Secretary for Resolution Management. She was VA's highest-ranking woman veteran and directed human resources management and civil rights programs affecting 230,000 employees.

With a career that spans more than 37 years in both human resources executive and professional positions, Ms. Gibson is the recipient of numerous awards and commendations. She has received the Exceptional and Meritorious Service Awards, FAA Manager Association's Leadership Award, National Hispanic Coalition's President's Award, and the Northern New Jersey Metropolitan Area's prestigious "Woman of the Year" award.

A graduate of the Federal Executive Institute, Executive Technique, and Aspen Institute, Ms. Gibson attended the University of Maryland, University College.



# Board Meeting - Chairman's Comments

<b>DISTRICT OF COLUMBIA RETIREMENT BOARD</b> <b>Trustees Conferences Listing</b> <b>As of January 16, 2020</b>					
<b>Sponsor</b>	<b>Name of Conference</b>	<b>Date</b>	<b>Location</b>	<b>Cost</b>	<b>Description</b>
International Foundation of Employee Benefit Plans (IFEBCPs)	New Trustees Institute Level II: Concepts in Practice	February 8-9, 2020	Orlando, FL	Registration \$1,850	Strengthen your knowledge on required responsibilities as a multiemployer trustee by attending the New Trustees Institute-Level II: Concepts in Practice.
	New Trustees Institute Level I: Core Concepts	February 10-12, 2020	Orlando, FL	Registration \$1,850	Offers a great opportunity for trustees and administrators to get the essential knowledge they need to serve and run their pension and health and welfare funds and also explore the latest trends and topics affecting trust funds and their plan participants. The conference will provide knowledge needed to make informed decisions for your funds.
	Trustees and Administrators Institute	February 10-12, 2020	Orlando, FL	Registration \$1,850	Designed to keep experienced trustees informed of the latest industry trends, legal and regulatory changes, and best practices as well as bringing new ideas to light. Also, gain a deeper understanding of how to run their pension and health and welfare funds.
	Investments Institute	April 27-29, 2020	New Orleans, LA	Registration thru 03/16/2020 \$1,550 After \$1,850	In this heightened economic environment, many factors impact whether your fund will reach its return. At the Investments Institute, you will obtain the critical information you need to understand your fund's long-term investment strategy. Offering intermediate-to advanced-level sessions on the latest investment topics, this program gives attendees the opportunity to engage with speakers and peers in an intimate environment.
	The Washington Legislative Update	May 4-5, 2020	Washington, DC	Registration thru 03/23/2020 \$1,280	The Washington Legislative Update will address potential changes to tax policy, entitlement programs, health care and retirement. Also, hear from Washington insiders and experts in their fields at a time when the legislative and regulatory agenda is evolving.
National Conference on Public Employee Retirement Systems (NCPERS)	2020 Legislative Conference	January 26-28, 2020	Washington, DC	Registration \$615	The NCPERS Legislative Conference directs the public pension industry's advocacy effort and legislative strategy to Congress and the Administration by offering sessions with Hill staff, Administration officials, and Washington opinion makers on key issues on Capitol Hill and in federal regulatory agencies that affect pension funds today.
	Annual Conference & Exhibition (ACE)	May 10-13, 2020	Las Vegas, NV	To Be Announced	Attendees benefit from the comprehensive educational programming, dynamic speakers, and networking opportunities with money managers, investment service providers and public fund colleagues from across the nation.
National Association of State Retirement Administrators (NASRA)	Winter System Roundtable and Joint Legislative Conference	February 22-March, 2, 2020	Washington, DC	Registration \$675	The winter meeting and joint legislative conference is an opportunity to learn more about happenings in the States and on Capitol Hill. Also, updates and education on topics affecting the public pension industry, as well as networking with colleagues on the issues of the day.
Council of Institutional Investors (CII)	Spring 2020 Conference & 35th Anniversary	March 9-11, 2020	Washington, DC	Registration thru 03/06/2020	The Council of Institutional Investors members-only conferences offer opportunities to interact and share best practices with and learn from representatives of major institutional investors, regulators, legislators, and other corporate governance professionals.



District of Columbia  
Teachers' Retirement Fund,  
and  
Police Officers and Firefighters'  
Retirement Fund

*Report to the Audit Committee*

*Year Ended September 30, 2019*



McConnell & Jones LLP  
Thursday, January 16, 2020

**AUDIT REQUIRED COMMUNICATION**

Professional standards require the auditor communicate to, or ensure that, the Audit Committee is provided with additional information regarding the scope and results of the audit that may assist the Audit Committee in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications.

AREA	COMMENT
<p><b>Auditor's Responsibilities under Generally Accepted Auditing Standards (GAAS)</b></p> <p>The Funds' combining financial statements as well as supplementary information are the responsibility of management. The Funds' management is responsible for maintaining effective internal control; for ensuring compliance with all applicable laws and regulations; for properly recording transactions in the accounting records; for safeguarding assets; and for the overall fair presentation of the Funds' combining financial statements and supplementary information.</p> <p>Our responsibility, as described by professional standards, is to express an opinion about whether the Funds' combining financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. GAAP. Our audit of the Funds' combining financial statements does not relieve you or management of your responsibilities.</p>	<p><i>We have issued an unmodified opinion on the Fund's combining financial statements for the year ended September 30, 2019. We have also issued an "in relation to" opinion for the Supplementary Information. We did not opine on the Required Supplementary Information, including the Management's Discussion and Analysis.</i></p> <p><i>Our audit was designed in accordance with US GAAS and Government Auditing Standards which provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.</i></p> <p><i>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 Funds' internal control over financial reporting. Accordingly, we express no such opinion.</i></p>
<p><b>Consideration of Fraud in a Financial Statement Audit</b></p> <p>We have performed the procedures required by AU-C Section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, including discussion with Funds' management regarding the policies and procedures to prevent fraud.</p>	<p><i>Fund management has represented to us that they have no knowledge of any fraud or suspected fraud affecting the Funds involving (a) Funds' management, (b) employees who have significant roles in internal control, or (c) others, where the fraud could have a material effect on the Funds' combining financial statements. Funds'</i></p>

**AUDIT REQUIRED COMMUNICATION**

AREA	COMMENT
	<i>management has further represented to us that they have no knowledge of any allegations of fraud or suspected fraud affecting the Funds received in communications from employees, former employees or others.</i>
<p><b>Significant Accounting Policies</b></p> <p>Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards adopted during the year must be reported.</p> <p>Management is responsible for the selection and use of appropriate accounting policies. We will advise management about the appropriateness of accounting policies and their application.</p>	<p><i>The accounting principles followed by the Funds and the methods of applying these principles conform, in all material respects, with US GAAP. We noted no changes in significant accounting policies or their application from the prior year. The Funds' disclosures related to its significant accounting principles are appropriate.</i></p>
<p><b>Management Judgments and Accounting Estimates</b></p> <p>The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.</p>	<p><i>As part of our audit, we reviewed and tested management's process of making these estimates and examined underlying supporting documentation. We concluded that the estimates were within an acceptable range. Significant estimates relate primarily to investment valuations, and pension obligations (assumptions including investment rate of return).</i></p>
<p><b>Significant Audit Adjustments</b></p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p><i>During the course of our audit, we noted no audit adjustments requiring recording that were within our materiality thresholds. Additionally, there were no significant passed audit adjustments.</i></p>

**AUDIT REQUIRED COMMUNICATION**

AREA	COMMENT
<p><b>Other Audit Findings or Issues</b></p> <p>Weaknesses in internal controls noted during the audit must be reported.</p>	<p><i>Significant deficiencies in internal control over financial reporting were noted that have been reported in Schedules of Findings and Responses included as part of our Independent Auditor's Report on compliance in accordance with Government Auditing Standards.</i></p> <p><i>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.</i></p> <p><i>Additionally, control deficiencies were noted and reported in a separate letter to management dated January 16, 2019.</i></p>

**AUDIT REQUIRED COMMUNICATION**

AREA	COMMENT
<b>Disagreements with Management on Financial, Accounting and Reporting Matters</b>	<i>None.</i>
<b>Major Issues Discussed with Management Prior to Appointment</b>	<i>None.</i>
<b>Management Consultation with Other Independent Accountants</b>	<i>None to our knowledge.</i>
<b>Significant Difficulties Encountered in Performing the Audit</b>	<i>None.</i>
<b>Material Errors, Irregularities and Illegal Acts</b>	<i>No material errors, irregularities or illegal acts were identified during the audit.</i>
<b>Independence</b>	<i>In our opinion, our Firm's relationship with the Board and the Funds meets all of the professional standards regarding independence. We currently perform no other services for the Funds.</i>
<b>Other Material Written Communication</b>	<p><i>Below is a listing of written communications that we believe constitute other material written communication between management and us related to the audit of the financial statements for the year ended September 30, 2019. These communications include:</i></p> <ul style="list-style-type: none"> <li><i>– Engagement contractual document</i></li> <li><i>– Independent auditor's reports</i></li> <li><i>– Management representation letter</i></li> <li><i>– Management letter</i></li> </ul>

## FINANCIAL STATEMENT HIGHLIGHTS

Financial Statement Highlights	2019 \$ '000	2018 \$ '000
<b>Contributions – members:</b>	\$ 78,675	\$ 74,802
• Teachers' Retirement Fund	40,432	40,324
• Police Officers & Firefighters Retirement Fund	38,243	34,478
<b>Contributions – District of Columbia</b>	144,627	164,642
• Teachers' Retirement Fund	53,343	59,046
• Police Officers & Firefighters Retirement Fund	91,284	105,596
<b>Investment income, net</b>	318,034	410,971
<b>Benefits paid to members</b>	202,813	185,224
• Teachers' Retirement Fund	81,471	78,430
• Police Officers & Firefighters Retirement Fund	121,342	106,794
<b>Net Position</b>	8,520,845	8,199,876
• Teachers' Retirement Fund	2,264,482	2,176,106
• Police Officers & Firefighters Retirement Fund	6,256,363	6,023,770
<b>Net Pension Liability</b>	(421,981)	(672,135)
• Teachers' Retirement Fund	229,809	85,761
• Police Officers & Firefighters Retirement Fund	(651,790)	(757,896)

- **Contribution from members** increased for both Funds by approximately \$3.9M, or 5.2%, from prior year. The Teachers Ret. Fund increased by \$108K or 0.3%, whereas the Police & Firefighters' Ret. Fund increased by \$3.8M. The overall increase is due to increase in covered payroll from in 2019 from \$260.3 million to \$267.8 million in 2018.
- **Contribution from the District** decreased approximately -\$20M, or -12.2%, from prior year. The Teachers' Ret. Fund decreased by -\$5.7M, or -9.7%, whereas, the Police Officers & Firefighters' Ret. Fund decreased by -\$14.3M, or -13.6%. The actuarial valuation report for both Funds showed a decrease in Employer's contributions, which resulted from primarily from better demographic experience of the member population versus the actuarial assumptions for the demographics.
- **Net investment income** decreased approximately -\$92.9M, or -22.6%, primarily due to lower fair value appreciation in 2019 than in 2018, and the investment expenses increased by \$3.4M, or 23.7% in 2019 as compared to 2018.

## FINANCIAL STATEMENT HIGHLIGHTS

---

- Benefits paid to participants increased overall by approximately \$17.6M, or 9.5%, from the prior year. The Teachers' Ret. Fund increased by \$3M, or 3.9%, whereas, the Police Officers and Firefighters' Ret. Fund increased by \$14.5M, or 13.6%. This increase reflects the combination of a net growth in the number of retirees and survivors receiving benefits, coupled with COLA adjustments. Benefit payments for the growing retiree population in both the Teachers and Police/Firefighters Retirement Funds grew more rapidly than the slower-growing population of active workers.
- Net Position remained stable.
- Per the Actuarial valuation, the change in Net Pension Liability (NPL) is driven primarily by service cost and Interest. For Teachers' Retirement Fund the NPL increased by \$144M, or 168% due to increase in: (1) Service cost from \$67.9M in 2018 to \$72.4M in 2019, and (2) interest costs from \$137.7M in 2018 to \$144.2M in 2019, whereas the Police & Firefighters' Ret. Fund the NPL decreased by 106.1M, or -14% due to decrease in: 1) Service cost from \$182.6M in 2018 to \$180.9M in 2019, and 2) interest costs from \$318.7M in 2018 to \$338.3M in 2019.
- The following sensitivity analysis presents the net pension liability for the Funds, calculated using the discount rate of 6.5%, as well as what the Funds' net pension liability would be if it were calculated using a discount rate 1% lower (5.5%) or 1% higher (7.5%) than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
	<u>\$ '000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Teachers:</b>			
Net Pension Liability	\$ 669,520	\$ 229,809	\$ (117,925)
<b>Police &amp; Firefighters':</b>			
Net Pension Liability	\$ 372,957	\$ (651,790)	\$ (1,460,879)



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees, District of Columbia Retirement Board for  
District of Columbia Teachers' Retirement Fund, and  
District of Columbia Police Officers and Firefighters' Retirement Fund

### ***Report on the Funds' Basic Financial Statements***

We have audited the accompanying combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Firefighters' Retirement Fund (the Funds), Pension Trust Funds of the Government of the District of Columbia (the District), which comprise the Combining Statement of Fiduciary Net Position as of September 30, 2019, and the related Combining Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the Funds combining financial statements, which collectively comprise the Funds' basic financial statements.

### ***Management's Responsibility for the Funds' Basic Financial Statements***

The Funds' management is responsible for the preparation and fair presentation of the Funds' basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Funds' basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Funds' basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Funds' basic financial statements are free from material misstatement.

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

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

5101 Wisconsin Ave. NW  
Suite 210  
Washington, D.C. 20016  
Phone: 202.207.3570  
Fax: 202.846.6310

WWW.McCONNELLJONES.COM



### ***Opinion***

In our opinion, the Funds' basic financial statements referred to above present fairly, in all material respects, the financial position of the Funds, as of September 30, 2019, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, these financial statements are intended to present the financial position and changes in financial position of the Funds, and do not purport to, and do not present fairly the financial position of the District of Columbia, as of September 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### **Prior Period Financial Statements**

The combining financial statements of the Funds as of September 30, 2018, were audited by other auditors whose report dated December 28, 2018, expressed an unmodified opinion on those statements.

#### **Required Supplementary Information**

U.S. GAAP require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns, as listed in the table of contents, be presented to supplement the Funds' basic financial statements. Such information, although not a part of the Funds' basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the Funds' basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the Funds' basic financial statements, and other knowledge we obtained during our audit of the Funds' basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the Funds' basic financial statements. The supplementary information, such as schedules of administrative expenses, schedules of investment expenses and schedules of payments to consultants, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the Funds' basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of the Funds' management and was derived from and relate directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic financial statements



and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' basic financial statements or to the Funds' basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative expenses, schedules of investment expenses and schedules of payments to consultants are fairly stated, in all material respects, in relation to the Funds' basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January XX, 2020, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Funds' internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Washington, D.C.  
January XX, 2020

**DISTRICT OF COLUMBIA  
TEACHERS' RETIREMENT FUND AND  
POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**MANAGEMENT LETTER  
September 30, 2019**

DRAFT

To the Board of Trustees, District of Columbia Retirement Board for  
District of Columbia Teachers' Retirement Fund, and  
Police Officers and Fighters' Retirement Fund

In planning and performing our audit of the combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Firefighters' Retirement Fund (collectively, Funds) as of and for the year ended September 30, 2019 in accordance with auditing standards generally accepted in the United States of America, we considered the Funds' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combining financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. We will be pleased to discuss these matters in further detail at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendation. Our observation and recommendation are follows:

**1. SOC 1 REPORT CONSIDERATIONS/MANAGEMENT REVIEW OF SOC 1 REPORTS**

During our audit, we noted that there is no formal written process for Service Organization Control report (SOC I) for Northern Trust Corporation (the Custodian). Since a significant amount of the processing of Funds' transactions is performed by the Custodian, it is imperative that management review the procedures at these service organizations on a consistent basis and document such review in detail as part of due diligence in operating the Funds.

We recommend documenting the results of the review including the impact on the Funds' of any instances of non-compliance noted by the service auditor. In addition, the SOC 1 report identifies controls for which management is responsible and these are referred to as "Complementary User Entity Control." User entity controls are complementary to the controls of the service organization and are necessary for the service organizations' controls to be achieved.

**DCRB Management's Response**

DCRB will develop and implement written procedures within 120 days for reviewing the Service Organization Control report (SOC 1) for Northern Trust, DCRB's custodian. DCRB will review the custodian's SOC 1 report annually and document the results. The annual review will include a description of their: 1) processes, people and systems; 2) relevant subservice organizations; 3) testing procedures and results; and 4) the Complementary User Entity Controls (CUECs). DCRB will also make note of their noncompliance and the impact on the Funds.

## 2. INVESTMENT UNDERSTANDING AND VALUATION

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

- a) Currently, District of Columbia Retirement Board (DCRB) management relies on the fair value hierarchy reported by the Custodian for financial reporting purposes. The DCRB management is ultimately responsible for the valuation and fair value hierarchy of investments as presented in the Funds' financial statements.

We recommend that DCRB finance and investment teams should work collaboratively to establish procedures to provide guidance on pricing inputs and methodologies used to value the Funds' investments in order to evaluate the fair value hierarchy and properly report and disclose this information.

- b) Valuation of certain investments (private equity funds) at year-end recorded by the custodian did not tie to amounts confirmed by the respective investment managers in letters of confirmation sent directly to us. We are aware that the main reason for the difference is due to the time-lag to collect real time information for partnership investments since the values reported are based on the values of the previous quarter.

A best practice adopted by public pension funds is to obtain direct confirmation from all private equity fund managers at year end and prepare a schedule to evaluate the difference between values reported by the custodian and the fund manager. This will facilitate the DCRB management to make an informed decision regarding any adjustments required to the balance reported in the financial statements.

### **DCRB Management's Response**

DCRB will ascertain pricing inputs and methodologies used to value private equity and real asset funds, and will document the rationale for the fair value leveling classification for each fund. DCRB will work with the custodian to ensure the leveling classification is incorporated in the custodian's system. This will allow the custodian to generate fair value leveling reports at fiscal year-end that reflect the classification work completed by management, instead of a report that leaves most investments unclassified.

DCRB Finance and Investment teams will collaborate to evaluate the balances for fiscal year 2019 all private manager accounts. The process will include sending confirmation letters to all private equity and real asset fund managers within 30 days of the end of the fiscal year, and preparing a schedule to evaluate and reconcile the difference between values reported by the custodian and the fund manager.

### 3. EMPLOYEE CONTRIBUTIONS

We noted during the audit that DCRB receives a listing of member contributions each pay period which is certified by the District of Columbia's Office of Pay and Retirement Services (OPRS). Upon inquiry it was determined that while the OPRS reviews the contributions for completeness, the control for determining the accuracy of the deductions resides with the respective Teacher's and Police and Firefighter's Human Resource group. We also noted, that the member contributions are reviewed and detail by the DCRB at the time the benefit calculations are being prepared.

We recommend that DCRB should obtain or document the process and associated checks and balances from the respective HR groups and perform random checks to ensure that not only are the members contributions deducted and deposited at Northern Trust in total but also verify the completeness and accuracy of the individual contributions.

#### **DCRB Management's Response**

DCRB will establish a methodology to review all contribution data for the active members on a monthly basis. DCRB will review current contribution reports sent by the Office of the Chief Financial Officer so that more enhanced analysis can be completed monthly. DCRB will then analyze the appropriateness of contributions and service data, and report errors to the Office of Pay and Retirement Services and respective HR agencies for resolution.

We want to thank the DCRB's management for their support and assistance during our engagement. This communication is intended solely for the information and use of the DCRB's Board of Trustees, Funds' management and others within DCRB and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Washington, D.C.  
January XX, 2020

## **COMPLIANCE SECTION**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees, District of Columbia Retirement Board for  
District of Columbia Teachers' Retirement Fund, and  
District of Columbia Police Officers and Firefighters' Retirement Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Firefighters' Retirement Fund (the Funds), Pension Trust Funds of the Government of the District of Columbia, which comprise the Combining Statement of Fiduciary Net Position as of September 30, 2019, and the related Combining Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the Funds combining financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated January 15, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Funds' basic financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses summarized as item number 2019-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

**Management's Response to Findings**

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Washington, DC

January 15, 2020

**SECTION 1:**

**SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements:***

- |    |   |            |
|----|---|------------|
| 1. | Type of auditor's report issued:  | Unmodified |
| 2. | Internal control over financial reporting:  |            |
|    | a) Material weaknesses identified?  | No         |
|    | b) Significant deficiencies identified that are not considered to be material weaknesses? | Yes        |
|    | c) Noncompliance material to financial statements noted?                                  | No         |

## **FINDINGS – FINANCIAL STATEMENT AUDIT**

### **Finding No. 2019–001: Significant Deficiency in Internal Control Over Financial Reporting**

**Condition:** During the course of our audit, we considered the Funds' internal controls over financial reporting and noted weaknesses in internal controls when recording transactions in the general ledger which when taken together, are considered as a significant deficiency in internal control over financial reporting. Following matters were noted:

- (1) Management did not incorporate audit adjustments for fiscal year 2018 in the general ledger. The initial trial balance included balances that were not properly reconciled with the fiscal year 2018 audited financial statements. Although, we were able to reconcile opening balances to prior year audited financial statements without any material differences, the potential exists for errors within individual Funds that remain embedded in the Funds' net asset balances that originated in the past years.
- (2) Management does not have a formal written, financial reporting process manual in place that documents process for recording general ledger transactions or captures accounting policies used by Funds. It was also noted that DCRB does not have a capitalization policy to set a threshold, above which qualifying expenditures are recorded as fixed assets, nor is the policy set by the District of Columbia being followed consistently. We found there were no significant capital expenditures charged for the current fiscal year.
- (3) At present, investment managers fees are paid as invoiced and not recalculated to ensure that they comply with the terms of the respective investment management agreements.

**Criteria:** Effective internal controls over financial reporting include process and procedures for proper recording of transactions, timely reconciliation of general ledger account details to control accounts, proper cut-off procedures and effective supervision, review and approval processes to ensure preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

**Effect or Potential Effect:** Deficiencies in internal control over financial reporting could result in a material misstatement of Funds' financial statements or omission of required disclosures under U.S. GAAP. However, necessary adjustments have been made in the financial statements to correct identified misstatements.

**Cause:** Management has relied on practices carried forward from prior years with respect to the preparation of its annual financial statements and have not reviewed and evaluated these practices to ensure all aspects of recording financial transactions and presentation in the financial statements is in accordance with U.S. GAAP.

**Recommendation:** We recommend that the accounting staff complete its analysis related to allocation of investment income and expenses between Funds that were recorded through due to/from accounts within the general ledger to ensure that they were accurately recorded. Additionally, a thorough review of accounts payable and other liabilities is needed to determine whether these represent valid obligations that remain outstanding. Finally, a review process for investment manager fees should be implemented to ensure that fees are calculated in accordance with the agreement in place with investment manager.

It is also recommended that management establish a capitalization policy and record all capital assets in accordance with accounting principles generally accepted in the United States of America. Additionally, management should document its accounting policies, procedures and processes in writing, in the form of an accounting and financial reporting manual, to ensure consistent application and adherence to such policies and processes as well as provision for a means to monitor compliance with such policies and processes.

***View of Responsible Official:***

*DCRB agrees with the finding. DCRB will create an Accounting and Financial Reporting Manual in fiscal year 2020 that will document our accounting policies, processes, and procedures. This document will include a Capital Expenditure Policy that will focus on fixed assets to ensure the Finance staff correctly account for and track fixed assets.*

*DCRB will evaluate companies and procure a consultant to validate the calculation of fees paid to private managers, and in accordance with the investment manager agreements. DCRB also is recruiting for an accountant that will help continue the analysis within the general ledger to ensure that allocations were accurately recorded and further address other aspects of this finding.*

Prior year Findings:

None noted.



# **District of Columbia Teachers' and Police Officers and Firefighters' Retirement Funds**

Financial Statements and Schedules  
(with Independent Auditors' Report thereon)

As of and for the Years Ended September 30, 2019 and 2018



**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
TABLE OF CONTENTS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b>COMBINING FINANCIAL STATEMENTS</b>	
COMBINING STATEMENTS OF FIDUCIARY NET POSITION	11
COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION	12
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS	13
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS	35
SCHEDULES OF EMPLOYER CONTRIBUTIONS	37
SCHEDULE OF INVESTMENT RETURNS	39
<b>SUPPLEMENTARY INFORMATION</b>	
SCHEDULES OF ADMINISTRATIVE EXPENSES	40
SCHEDULES OF INVESTMENT EXPENSES	41
SCHEDULES OF PAYMENTS TO CONSULTANTS	42
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>44</b>
SCHEDULES OF FINDINGS AND RESPONSES	46
SCHEDULES OF PRIOR YEAR FINDINGS AND RESPONSES	49



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees, District of Columbia Retirement Board for  
District of Columbia Teachers' Retirement Fund, and  
District of Columbia Police Officers and Firefighters' Retirement Fund

### ***Report on the Funds' Basic Financial Statements***

We have audited the accompanying combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Firefighters' Retirement Fund (the Funds), Pension Trust Funds of the Government of the District of Columbia (the District), which comprise the Combining Statement of Fiduciary Net Position as of September 30, 2019, and the related Combining Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the Funds combining financial statements, which collectively comprise the Funds' basic financial statements.

### ***Management's Responsibility for the Funds' Basic Financial Statements***

The Funds' management is responsible for the preparation and fair presentation of the Funds' basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Funds' basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Funds' basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Funds' basic financial statements are free from material misstatement.

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

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

5101 Wisconsin Ave. NW  
Suite 210  
Washington, D.C. 20016  
Phone: 202.207.3570  
Fax: 202.846.6310

WWW.McCONNELLJONES.COM



### ***Opinion***

In our opinion, the Funds' basic financial statements referred to above present fairly, in all material respects, the financial position of the Funds, as of September 30, 2019, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, these financial statements are intended to present the financial position and changes in financial position of the Funds, and do not purport to, and do not present fairly the financial position of the District of Columbia, as of September 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### **Prior Period Financial Statements**

The combining financial statements of the Funds as of September 30, 2018, were audited by other auditors whose report dated December 28, 2018, expressed an unmodified opinion on those statements.

#### **Required Supplementary Information**

U.S. GAAP require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns, as listed in the table of contents, be presented to supplement the Funds' basic financial statements. Such information, although not a part of the Funds' basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the Funds' basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the Funds' basic financial statements, and other knowledge we obtained during our audit of the Funds' basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the Funds' basic financial statements. The supplementary information, such as schedules of administrative expenses, schedules of investment expenses and schedules of payments to consultants, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the Funds' basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of the Funds' management and was derived from and relate directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic financial statements



and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' basic financial statements or to the Funds' basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative expenses, schedules of investment expenses and schedules of payments to consultants are fairly stated, in all material respects, in relation to the Funds' basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January XX, 2020, on our consideration of the Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Funds' internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

Washington, D.C.  
January XX, 2020

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

## **INTRODUCTION**

This discussion and analysis provide an overview of the financial activities of the District of Columbia Teachers' Retirement Fund (TRF) and Police Officers and Fire Fighters' Retirement Fund (POFRF), for the years ended September 30, 2019, 2018, and 2017, which collectively will be referred to as the "District Retirement Funds" or the "Fund." This discussion and analysis should be read in conjunction with the financial statements, the notes to the financial statements, the required supplementary information and the supplementary information provided in this report.

The District of Columbia Retirement Board (the Board or DCRB) is an independent agency of the District of Columbia (the District or D.C.) Government. The Board is responsible for managing the assets of the District Retirement Funds. As authorized by D.C. Code, the Board pools the assets of the TRF and the POFRF into a single investment portfolio. The Board allocates the investment returns and expenses, and the administrative expenses of the Board, between the two District Retirement Funds in proportion to their respective net position. The Board maintains financial records of contributions, purchases of service, benefit payments, refunds, investment earnings, investment expenses, and administrative expenses.

Effective September 26, 2005, the Board entered into a Memorandum of Understanding (MOU) with the District of Columbia and the United States Department of the Treasury (the U.S. Treasury) to administer the pension benefits under the TRF and the POFRF for all retirees, survivors and beneficiaries that are the financial responsibility of the District of Columbia (service earned on and after July 1, 1997) and the Federal Government (service through June 30, 1997). In addition to the Board's administrative duties, the U.S. Treasury also provides certain administrative services related to the administration of pension benefits under the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (the Plans). The administrative costs incurred while administering the pension benefits are shared by DCRB and the U.S. Treasury in accordance with an MOU that is agreed to annually between the two parties.

## **OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES**

The following discussion and analysis are intended to serve as an introduction to DCRB's financial statements. The basic financial statements include:

***The Combining Statements of Fiduciary Net Position*** are a point-in-time snapshot of plan fund balances at fiscal year-end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Position (Assets – Liabilities = Net Position) represents the value of assets restricted for pensions net of liabilities owed as of the financial statement date.

***The Combining Statements of Changes in Fiduciary Net Position*** display the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Change in Net Position. This increase (or decrease) in Net Position reflects the change in the value of Net Position Restricted for Pensions.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

**The Notes to Financial Statements** contain disclosures and discussions which support the data presented in the financial statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments. The notes are an integral part of the financial statements and should be considered in conjunction with any review of the financial statements.

**The Required Supplementary Information** consists of schedules of changes of employer's net pension liability and related ratios, employer contributions, and the money-weighted rate of investment returns.

**The Supplementary Information** includes additional information on the District Retirement Funds including schedules of administrative expenses, investment expenses, and payments to consultants. These schedules include more detailed information pertaining to the Plans.

## **ANALYSIS OF FINANCIAL INFORMATION**

DCRB's funding objective is to meet long-term benefit obligations with net investment income and employer and member contributions. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions for the combined Funds.

### **Additions to Net Position (Revenues)**

Additions to net position are comprised of employer contributions, employee contributions, net investment income, and other income. These additions for fiscal year 2019 totaled \$544.7 million, a decrease of \$109.2 million (16.7%) from the fiscal year 2018 amount of \$653.8 million. This decrease was primarily due to the lower investment returns experienced in fiscal year 2019, as part of overall market volatility.

Employer contributions in fiscal year 2019 totaled \$144.6 million, a decrease of \$20.0 million (12.2%) from the fiscal year 2018 amount of \$164.6 million. The actuarial valuation report showed this decrease resulted primarily from better demographic experience of the member population versus the actuarial assumptions for the demographics. The most recent Experience Study was completed in 2017. The fiscal year 2019 employer contribution was derived from the contribution rate calculated in the actuarial valuation report for the period ended October 1, 2017, multiplied by covered payroll and adjusted for timing differences caused by the contribution being calculated 2 years in arrears. This adjustment is required by the D.C. Code.

Plan member contributions in fiscal year 2019 totaled \$78.7 million, an increase of \$3.9 million (5.2%) over the fiscal year 2018 amount of \$74.8 million. Member contributions consist of amounts paid by members for future retirement benefits and increased primarily because of salary increases.

Investment income, net of investment fees, for fiscal year 2019 totaled \$318.0 million and had a return of 3.8%. Net investment income for fiscal year 2018 totaled \$411.0 million and had a return of 5.4%. Other income in fiscal year 2019 totaled \$3.3 million, which was a decrease of \$0.1 million from the fiscal year 2018 amount of \$3.4 million. Other income consists mainly of reimbursements of administrative expenses from the U.S. Treasury.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

**Deductions from Net Position (Expenses)**

The statutory mandate of DCRB is to provide retirement, survivor, and disability benefits to eligible members and their survivors. The costs of such programs include recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the District Retirement Plans.

Deductions from net position are comprised of benefit payments, refunds, and administrative expenses. These deductions for fiscal year 2019 totaled \$223.7 million, an increase of \$14.7 million (7.0%) over the fiscal year 2018 amount of \$209.0 million.

Benefit payments for fiscal year 2019 totaled \$202.8 million, an increase of \$17.6 million (9.5%) over the fiscal year 2018 amount of \$185.2 million. This increase reflects the combination of a net growth in the number of retirees and survivors receiving benefits, coupled with COLA adjustments and an overall increase in the final average salary for new retirees. In fiscal years 2019 and 2018, benefit payments made on behalf of current retirees, survivors and beneficiaries comprised approximately 91% and 89% of the funds' expenses, respectively.

Refunds of member contributions in fiscal year 2019 totaled \$8.0 million, an increase of \$0.3 million (3.2%) over the fiscal year 2018 amount of \$7.7 million. Refunds are typically much higher in the Teachers' Fund than in the Police Officer and Firefighters' Retirement Fund. These refunds of member contributions are at the discretion of the member and vary from year to year.

Administrative expenses in fiscal year 2019 totaled \$12.9 million, a decrease of \$3.1 million (19.5%) from the fiscal year 2018 amount of \$16.0 million. DCRB also serves as the third-party administrator for benefits earned through June 30, 1997, which are the responsibility of the U.S. Department of the Treasury (U.S. Treasury). U.S. Treasury reimburses DCRB for costs incurred for these third-party administrator services. Any reimbursement of administrative expenses from U.S. Treasury offsets the amount required from the Fund each year. In fiscal years 2019 and 2018, the administrative expenses were equivalent to 15 and 20 basis points of the assets under management, respectively.

**Funding Status**

As of September 30, 2019 (the date of the most recent actuarial valuation), the funding status was 105.5% for the combined Teachers' and Police Officer and Firefighters' Retirement Funds. DCRB is a well-funded yet immature system as a result of the 1999 asset split with the U.S. Treasury, in which the U.S. Treasury assumed responsibility for all benefit obligations prior to July 1, 1997. As with all immature systems, a higher percentage of benefits are funded by current contributions. As the system matures, investment income will provide a greater percentage of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to DCRB's long-term funding status.

At September 30, 2019, the actuarial value of assets set aside to pay pension benefits was about \$2.3 billion for the Teachers Retirement Fund (TRF) and about \$6.3 billion for the Police Officers and Firefighters' Retirement Fund (POFRF) for a total of \$8.6 billion. The fair value of these assets at September 30, 2019, included on the financial statements of DCRB, was \$2.3 billion for the TRF and \$6.3 billion for the POFRF for a total of \$8.6 billion. Therefore, when viewing the actuarial funding status in this case, the market value of assets would provide a similar funding position to the actuarial value of assets as of the September 30, 2019 valuation.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

**FINANCIAL ANALYSIS SUMMARY**

Net position may serve over time as a useful indication of DCRB's financial strength. At the close of fiscal years 2019 and 2018, the net position of DCRB totaled \$8.5 billion and \$8.2 billion, respectively. Net position serves to meet DCRB's ongoing obligations to Plan participants and their survivors and beneficiaries.

**SUMMARY OF FINANCIAL INFORMATION**

The following Condensed and Combining Statements of Fiduciary Net Position and Changes in Fiduciary Net Position present financial information for the combined Funds and compares fiscal years 2019, 2018, and 2017.

**Condensed and Combining Statements of Fiduciary Net Position**

*(Dollars in thousands)*

	2019	2018	2017	2019 Percent Change	2018 Percent Change
<b>Assets</b>					
Cash and Short-Term Investments	\$ 76,434	\$ 59,334	\$ 88,216	28.8 %	(32.7)%
Receivables	8,620	8,657	63,684	(0.4)	(86.4)
Prepaid Expenses	151	-	-		
Investments	8,453,602	8,144,235	7,675,417	3.8	6.1
Total Assets	8,538,807	8,212,226	7,827,317	4.0	4.9
<b>Liabilities</b>					
Other Payables	6,977	7,973	6,337	(12.5)	25.8
Investment Commitments Payable	10,985	4,377	65,939	151.0	(93.4)
Total Liabilities	17,962	12,350	72,276	45.4	(82.9)
Net Position Restricted for Pensions	<u>\$ 8,520,845</u>	<u>\$ 8,199,876</u>	<u>\$ 7,755,041</u>	3.9 %	5.7 %

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

**Condensed and Combining Statements of Changes in Fiduciary Net Position**

*(Dollars in thousands)*

	2019	2018	2017	2019 Percent Change	2018 Percent Change
<b>Additions</b>					
Employer Contributions	\$ 144,627	\$ 164,642	\$ 202,412	(12.2)%	(18.7)%
Plan Member Contributions	78,675	74,802	67,788	5.2	10.3
Net Investment Income	318,034	410,971	894,864	(22.6)	(54.1)
Other Income	3,318	3,394	3,375	(2.2)	0.6
Total Additions (Reductions)	544,654	653,809	1,168,439	(16.7)	(44.0)
<b>Deductions</b>					
Benefit Payments	202,813	185,224	164,606	9.5	12.5
Refunds	7,951	7,706	7,813	3.2	(1.4)
Administrative Expenses	12,921	16,044	17,559	(19.5)	(8.6)
Total Deductions	223,685	208,974	189,978	7.0	10.0
<b>Change In Net Position</b>	<u>\$ 320,969</u>	<u>\$ 444,835</u>	<u>\$ 978,461</u>	(27.8)%	(54.5)%

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

**FINANCIAL HIGHLIGHTS**

The Teachers' Retirement Fund financial highlights for fiscal year 2019 are as follows:

- Net position restricted for pensions as of September 30, 2019 was \$2.3 billion, an increase of \$88.4 million (4.1%) over fiscal year 2018.
- Investment income, net of investment expenses, for fiscal year 2019 was \$85.0 million, a time-weighted return of 3.8%. Investment income, net of investment expenses, for fiscal year 2018 was \$94.1 million, a time-weighted return of 5.4%.
- Total additions for fiscal year 2019 were \$179.7 million, a decrease of \$14.8 million (7.6%) from fiscal year 2018. In fiscal year 2018, there was a total decrease of \$137.1 million from fiscal year 2017. Employer contributions for fiscal year 2019 were \$53.3 million, a decrease of \$5.7 million (9.7%) from fiscal year 2018. Teachers' Plan member contributions for fiscal year 2019 were \$40.4 million, an increase of \$0.1 million (0.3%) over fiscal year 2018. Other income for fiscal year 2019 was \$0.9 million, which decreased \$155 thousand from the fiscal year 2018 amount of \$1.0 million.
- Total deductions for fiscal year 2019 were \$91.3 million, an increase of \$2.3 million (2.6%) over fiscal year 2018. Pension benefit payments for fiscal year 2019 were \$81.5 million, an increase of \$3.0 million (3.9%) over fiscal year 2018. Refunds of member contributions for fiscal year 2019 were \$6.4 million, an increase of \$292 thousand (4.8%) over fiscal year 2018. Administrative expenses for fiscal year 2019 were \$3.4 million, which was a decrease of \$1.1 million (23.1%) from the fiscal year 2018 amount of \$4.5 million.
- The Board's funding objective is to meet long-term pension benefit obligations. As of September 30, 2019, the date of the latest actuarial valuation, the TRF's ratio of plan net position to total pension liability (at September 30, 2019) was 90.79%. In general, this means that for each dollar's worth of future pension liability, the TRF has accumulated \$0.91 to meet that obligation. This ratio decreased 5.42% over the prior year funded ratio of 96.21%.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018**

The Police Officers and Firefighters' Retirement Fund financial highlights for fiscal year 2019 are as follows:

- Net position restricted for pensions as of September 30, 2019 was \$6.3 billion, an increase of \$232.6 million (3.9%) over fiscal year 2018.
- Investment income, net of investment expenses, for fiscal year 2019 was \$233.0 million, with a return of 3.8%. Investment income, net of investment expenses, for fiscal year 2018 was \$316.8 million, a return of 5.4%.
- Total additions for fiscal year 2019 were \$364.9 million, a decrease of \$94.3 million from fiscal year 2018. In fiscal year 2018, there was a total decrease of \$377.6 million from fiscal year 2017. Employer contributions for fiscal year 2019 were \$91.3 million, a decrease of \$14.3 million (13.6%) from fiscal year 2018. Police and Firefighters' Plan member contributions for fiscal year 2019 were \$38.2 million, an increase of \$3.8 million (10.9%) over fiscal year 2018. Other income for fiscal year 2019 was \$2.4 million, which was unchanged as compared to the fiscal year 2018 amount of \$2.4 million.
- Total deductions for fiscal year 2019 were \$132.4 million, an increase of \$12.4 million (10.3%) over fiscal year 2018. Pension benefit payments for fiscal year 2019 were \$121.3 million, an increase of \$14.5 million or 13.6% over fiscal year 2018. Refunds of member contributions for fiscal year 2019 were \$1.5 million, a decrease of \$47.0 thousand (3.0%) from fiscal year 2018. Administrative expenses for fiscal year 2019 were \$9.5 million, a decrease of \$2.1 million (18.1%) from the fiscal year 2018 amount of \$11.6 million.
- The Board's funding objective is to meet long-term pension benefit obligations. As of September 30, 2019, the date of the latest actuarial valuation, the POFRF's ratio of plan net position to total pension liability (at September 30, 2019) was 111.63%. In general, this means that for each dollar's worth of future pension liability, the POFRF has accumulated about \$1.12 to meet that obligation. This ratio decreased 2.76% over the prior year ratio of 115.17%.

**ADDITIONAL INFORMATION.**

These financial statements of the District Retirement Funds are presented in accordance with accounting principles generally accepted in the United States of America. Questions about these financial statements or other inquiries should be directed to the Executive Director, District of Columbia Retirement Board, 900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor, Washington, D.C. 20001.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
COMBINING STATEMENTS OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2019 AND 2018  
(DOLLAR AMOUNTS IN THOUSANDS)**

	2019			2018		
	Teachers' Retirement Fund	Police Officers and Fire Fighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Fire Fighters' Retirement Fund	Total
<b>ASSETS</b>						
Cash and Short-Term Investments	\$ 20,298	\$ 56,136	\$ 76,434	\$ 15,735	\$ 43,599	\$ 59,334
Receivables:						
Federal Government	437	1,161	1,598	568	1,054	1,622
Investment Sales Proceeds	252	695	947	272	752	1,024
Interest and Dividends	2	6	8	2	6	8
Employee Contributions	3,227	2,840	6,067	3,196	2,807	6,003
Total Receivables	3,918	4,702	8,620	4,038	4,619	8,657
Prepaid Expenses	41	110	151	-	-	-
Investments at Fair Value:						
Domestic Equity	606,643	1,677,696	2,284,339	585,891	1,623,381	2,209,272
International Equity	618,471	1,710,408	2,328,879	615,500	1,700,514	2,316,014
Fixed Income	714,375	1,975,633	2,690,008	676,194	1,873,591	2,549,785
Real Assets	181,943	503,170	685,113	183,811	509,300	693,111
Private Equity	123,558	341,705	465,263	98,427	277,626	376,053
Total Investments at Fair Value	2,244,990	6,208,612	8,453,602	2,159,823	5,984,412	8,144,235
Total Assets	2,269,247	6,269,560	8,538,807	2,179,596	6,032,630	8,212,226
<b>LIABILITIES</b>						
Accounts Payable and Other Liabilities	1,704	4,733	6,437	2,170	5,348	7,518
Due to Federal Government	144	396	540	159	296	455
Investment Commitments Payable	2,917	8,068	10,985	1,161	3,216	4,377
Total Liabilities	4,765	13,197	17,962	3,490	8,860	12,350
<b>Net Position Restricted for Pensions</b>	<b>\$2,264,482</b>	<b>\$6,256,363</b>	<b>\$8,520,845</b>	<b>\$2,176,106</b>	<b>\$6,023,770</b>	<b>\$8,199,876</b>

See accompanying Notes to Basic Combining Financial Statements.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018  
(DOLLAR AMOUNTS IN THOUSANDS)**

	2019			2018		
	Teachers' Retirement Fund	Police Officers and Fire Fighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Fire Fighters' Retirement Fund	Total
<b>Additions</b>						
Contributions:						
District Government	\$ 53,343	\$ 91,284	\$ 144,627	\$ 59,046	\$ 105,596	\$ 164,642
Plan Members	40,432	38,243	78,675	40,324	34,478	74,802
Total Contributions	93,775	129,527	223,302	99,370	140,074	239,444
Investment Income:						
Net Appreciation in Fair						
Value of Investments	74,878	204,976	279,854	84,279	288,839	373,118
Interest and Dividends	14,908	41,072	55,980	13,863	38,381	52,244
Total Gross Investment						
Income	89,786	246,048	335,834	98,142	327,220	425,362
Less:						
Investment Expenses	4,739	13,061	17,800	4,013	10,378	14,391
Net Investment Income	85,047	232,987	318,034	94,129	316,842	410,971
Other Income	883	2,435	3,318	1,038	2,356	3,394
Total Additions	179,705	364,949	544,654	194,537	459,272	653,809
<b>Deductions</b>						
Annuitant Benefit Payments	81,471	121,342	202,813	78,430	106,794	185,224
Refunds of Member Contributions	6,418	1,533	7,951	6,126	1,580	7,706
Administrative Expenses	3,440	9,481	12,921	4,474	11,570	16,044
Total Deductions	91,329	132,356	223,685	89,030	119,944	208,974
Change in Net Position	88,376	232,593	320,969	105,507	339,328	444,835
<b>Net Position Restricted for Pensions:</b>						
<b>Beginning of Year</b>	2,176,106	6,023,770	8,199,876	2,070,599	5,684,442	7,755,041
<b>End of Year</b>	<u>\$2,264,482</u>	<u>\$6,256,363</u>	<u>\$8,520,845</u>	<u>\$2,176,106</u>	<u>\$6,023,770</u>	<u>\$8,199,876</u>

See accompanying Notes to Basic Combining Financial Statements.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION**

The District of Columbia Teachers' Retirement Fund (TRF) and the District of Columbia Police Officers and Firefighters' Retirement Fund (POFRF), collectively referred to as the Fund or the District Retirement Funds, are two separate single-employer defined benefit pension plans that were established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96- 122, D. C. Code § 1-701 et seq.). The Fund holds in trust the assets available to pay pension benefits to teachers, police officers, and firefighters of the District of Columbia Government. The Reform Act also established the District of Columbia Retirement Board.

The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act, Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the District Retirement Funds to the Federal Government. The Revitalization Act transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government were intended to partially fund this liability.

On September 18, 1998, the Council of the District of Columbia (the Council) enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (the Replacement Act). The Replacement Act established the District Retirement Funds for employee service earned after June 30, 1997 and provided for full funding of these benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia government that is responsible for managing the assets of the TRF and the POFRF. Although the assets of these funds are commingled for investment purposes, each fund's assets may only be used for the payment of benefits to the participants of that fund and certain administrative expenses.

The District Retirement Funds are included in the District's Comprehensive Annual Financial Report as a pension trust fund.

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION**

**District of Columbia Retirement Board**

The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected by the active and retired participants. Included are one active and one retired representative each, from the police officers, firefighters, and teachers. Each of the six representatives of the Plans' participants is elected by the respective groups of active and retired employees. In addition, the District's Chief Financial Officer or his designee serves as a nonvoting, ex-officio trustee.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**District of Columbia Retirement Board (Continued)**

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, reviews all issues brought before it. The Board has six standing committees: Benefits, Audit, Fiduciary, Investments, Legislative, and Operations. To implement its policies, the Board retains an executive director and other staff who are responsible for the day-to-day management of the District Retirement Funds and the administration of the benefits paid from the Funds.

**Teachers' Retirement Fund**

***Other Entities involved in Plan Administration*** – The District of Columbia Public School's (the DCPS) Office of Human Resources makes decisions regarding voluntary and involuntary retirement, survivor benefits, and annual medical and income reviews.

***Benefits Calculation*** – DCRB's Benefits Department receives the approved retirement applications for all active Plan members found eligible for retirement by the DCPS Office of Human Resources and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service.

***Eligibility*** – Permanent, temporary, part-time and probationary teachers and certain other employees of the District of Columbia public day schools are automatically enrolled in the Teachers' Retirement Fund on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. However, substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2021.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the District City Council. For employees hired before November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 1.5% for each of the first five years of service, plus 1.75% for each of the second five years; plus 2% for each additional year over 10 years. For employees hired on or after November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 2% for each year of service. The average salary is the highest average consecutive 36 months of pay.

The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receiving retirement benefits receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the annual increase may not exceed 3% for participants hired on or after November 1, 1996. Participants may select from among several survivor options.

Participants who have 5 years of school service (by working for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Such disability retirement benefits are calculated in the same manner as a retirement benefit, however, a minimum disability benefit applies.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Teachers' Retirement Fund (Continued)**

Voluntary retirement is available for teachers who have a minimum of 5 years of school service and who achieve the following age and length of service requirements:

- at age 62 with 5 years of service;
- at age 60 with 20 years of service; and
- at age 55 with 30 years of service; if hired before November 1, 1996; or
- at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

Employees who are involuntarily separated other than for cause and who have 5 years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

An involuntary retirement benefit is reduced if, at the time of its commencement, the participant is under the age of 55.

**Police Officers and Fire Fighters' Retirement Fund**

***Other Entities involved in Plan Administration*** – The District of Columbia Police Officers and Firefighters' Retirement and Relief Board makes findings of fact, conclusions of law, and decisions regarding eligibility for retirement and survivor benefits, determines the extent of disability, and conducts annual medical reviews. The Police and Fire Clinic determines medical eligibility for disability retirement.

***Benefits Calculation*** – DCRB's Benefits Department receives the retirement orders for retirement benefit calculations for all active Plan members found eligible for retirement by the District of Columbia Police Officers and Firefighters' Retirement and Relief Board and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service. Effective 2013, DCRB began conducting annual disability income reviews.

***Eligibility*** – A participant becomes a member when he/she begins work as a police officer or firefighter in the District. Cadets are not eligible to join the Fund.

Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act" (D.C. Code § 5-701 et seq. (2001 Ed.)).

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Police Officers and Fire Fighters' Retirement Fund (Continued)**

***Members Hired Before February 15, 1980*** – Members are eligible for optional retirement with full benefits at any age after 20 years of departmental service, or for deferred retirement at age 55 after five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 12 months of base pay, multiplied by departmental service through 20 years; plus 3% of average base pay multiplied by average base pay times departmental service over 20 years; plus 2.5% of average base pay multiplied by years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retirement benefits are increased by the same percentage in base pay granted to active participants.

Members with a service-related disability receive a disability retirement benefit of 2.5% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 66⅔% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

Members with a nonservice related disability and at least five years of departmental service receive a disability retirement benefit of 2% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 40% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

***Members Hired On or After February 15, 1980 and Before November 10, 1996*** –Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service, or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by the number of years of creditable service through 25 years; plus 3% of average base pay multiplied by the number of years of departmental service over 25 years; plus 2.5% of average base pay multiplied by the number of years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members separated from the Police or Fire Department after five years of departmental service are entitled to a deferred pension beginning at age 55.

Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members who retired after February 15, 1980 receive annual benefit increases proportional to changes in the Consumer Price Index.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Police Officers and Fire Fighters' Retirement Fund (Continued)**

***Members Hired on or After November 10, 1996*** – Members are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the average base pay. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index, however, the increase is capped at 3%.

Members with a service-related disability receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 40% of base pay applies.

Members with a nonservice related disability and at least five years of departmental service receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 30% of base pay applies.

Prior to reaching age 50, a disability retirement benefit will be reduced or terminated if outside earnings exceed a certain limit.

**Participant Data**

The number of participants for the years ended September 30 was as follows:

<u>TRF</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retirees and Survivors Receiving Benefits (Post June 30, 1997)	4,059	3,990	3,899
Active Plan Members	5,226	5,066	5,199
Vested Terminations	1,446	1,429	1,330
Total Participants	<u>10,731</u>	<u>10,485</u>	<u>10,428</u>
<u>POFRF</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retirees and Survivors Receiving Benefits (Post June 30, 1997)	3,699	3,441	3,215
Active Plan Members	5,406	5,349	5,312
Vested Terminations	261	315	340
Total Participants	<u>9,366</u>	<u>9,105</u>	<u>8,867</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)****Participant Data**

The combined number of participants for both Funds for the years ended September 30 was as follows:

<b>Total</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Retirees and Survivors Receiving Benefits (Post June 30, 1997)	7,758	7,431	7,114
Active Plan Members	10,632	10,415	10,511
Vested Terminations	1,707	1,744	1,670
Total Participants	<u>20,097</u>	<u>19,590</u>	<u>19,295</u>

**Contributions**

As a condition of participation, members are required to contribute certain percentages of salaries as authorized by statute. Fund members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7% (or 8% for Teachers and Police Officers and Firefighters hired on or after November 1, 1996 and November 10, 1996, respectively) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the amounts necessary to finance the Plan benefits of its members through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The amount of the District contributions for fiscal years 2019 and 2018 were equal to the amounts computed, if any, by the Board's independent actuary.

Contribution requirements of members are established by D.C. Code §5-706 and requirements for District of Columbia government contributions to the Fund are established at D.C. Code §1-907.02 (2001 Ed.), which may be amended by the City Council.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

DCRB's financial statements were prepared in accordance with accounting principles generally accepted in the United States (GAAP) using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. Employee contributions are recognized at the time compensation is paid to Plan members. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement Plan's commitment.

**Federal Income Tax Status**

The District Retirement Funds are qualified plans under section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under section 501(a).

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position restricted for pensions and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

**Investment Expenses**

The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the District Retirement Funds was \$17,800,245 in 2019 and \$14,390,879 in 2018. A significant number of the alternative investment managers provide account valuations net of management expenses. Those expenses are netted against investment income and, because they are not separable, are recorded and reported net of management expenses in the net (depreciation) appreciation in the fair value of investments.

**Reclassification**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS**

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the District Retirement Funds to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C), (2001 Ed.).

**Master Trust** – The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1-903(b), (2001 Ed.), with a master custodian under a master trust arrangement (the Master Trust). Using an investment pool, each Fund owns an undivided proportionate share of the pool.

District and employee contributions are deposited in the respective Retirement Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate net position in the pool.

The fair values of investments of the Investment Pool as of September 30 are as follows:

	2019	2018
	(Dollars in Thousands)	
Cash and short-term investments	\$ 76,434	\$ 59,334
Investments:		
Domestic Equity	2,284,339	2,209,272
International Equity	2,328,879	2,316,014
Fixed Income	2,690,008	2,549,785
Real Assets	685,113	693,111
Private Equity	465,263	376,053
Total Investments	<u>8,453,602</u>	<u>8,144,235</u>
Total	<u>\$ 8,530,036</u>	<u>\$ 8,203,569</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Annual money-weighted rate of return** – The money-weighted rate of return shows investment performance when taking into account the impact of cash infusion into and disbursements from the pension system. The rates are shown net of fees. The rate for 2018, in the prior-year financial statements, were shown gross of fees, and it is restated in these financial statements. For the years ended September 30, 2019 and 2018, the money-weighted rates of return, as calculated by the custodian based on a month-end net flow weighting method, were as follows:

	<u>FY 2019</u>	<u>FY 2018</u>
Total Portfolio	3.84%	5.34%

**Debt Instruments** – As of September 30, 2019, the Investment Pool held the following debt instruments:

*(Dollars in Thousands)*

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Segment</u>	<u>Duration (Years)</u>	<u>Rating*</u>
US Agency	\$ 25,753	0.96 %	3.39	AA+
Asset Backed	11,387	0.42	2.73	AAA
Bank Loans	396,347	14.73	0.02	B
Cash Equivalent	26,757	0.99	-	A-1+
CMBS	18,919	0.70	5.09	AA+
CMO	279	0.01	0.96	AA+
Corporate - US	295,936	11.00	6.87	BBB+
Corporate - Euro	16,518	0.61	3.79	A-
Foreign	507,563	18.87	6.23	BBB+
Mortgage Pass-Through	249,308	9.27	2.55	AA+
Municipal	5,685	0.21	11.41	AA-
Options	11,258	0.42	-	
Private Placement	141,086	5.24	2.69	CCC+
US Treasury	980,713	36.46	7.34	AA+
Unclassified	2,499	0.09	-	BB-
	<u>\$ 2,690,008</u>	<u>100.00 %</u>		
Total Fixed Income	<u>\$ 2,690,008</u>	<u>100.00 %</u>		

\* Using quality ratings provided by Standard & Poor's

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

As of September 30, 2018, the Investment Pool held the following debt instruments:

*(Dollars in Thousands)*

Investment Type	Fair Value	% of Segment	Duration (Years)	Rating*
US Agency	\$ 28,265	1.11 %	3.62	AA+
Asset Backed	14,031	0.55	2.44	AAA
Bank Loans	336,943	13.21	0.03	B-
Cash Equivalent	52,470	2.06	-	A-1+
CMBS	16,866	0.66	5.09	AA+
CMO	722	0.03	1.07	AA+
Corporate - US	307,830	12.07	6.03	BBB
Corporate - Euro	15,918	0.62	2.23	BBB+
Foreign	446,869	17.53	5.71	A
Mortgage Pass-Through	251,733	9.87	4.91	AA+
Municipal	5,592	0.22	10.77	AA-
Options	15,949	0.63	-	
Private Placement	108,984	4.27	3.29	CCC+
US Treasury	944,221	37.03	7.00	AA+
Unclassified	3,392	0.13	-	BB-
Total Fixed Income	<u>\$ 2,549,785</u>	<u>100.00 %</u>		

\* Using quality ratings provided by Standard & Poor's

**Interest Rate Risk** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. The Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. As a general rule, the risk and return of the Board's fixed income segment of the portfolio is compared to the Barclays Capital U.S. Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

**Credit Risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Unless specifically authorized otherwise in writing by the Board, fixed income managers invest in investment grade instruments rated in the top four rating categories by a recognized statistical rating service.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Custodial Credit Risk** – The Funds had custodial credit risk exposure during fiscal 2019 totaling \$2,739,253. Investments held by the custodian on behalf of DCRB were held in an account in the name of DCRB. Funds not invested at the end of a given day were placed in overnight instruments in the name of DCRB.

**Foreign Currency Risk** – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As a general policy, investment managers with authority to invest in issuers denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise. For the years ended September 30, 2019 and 2018, the Investment Pool held amounts in commingled funds which invested in foreign currencies totaling approximately \$3.2 billion and \$3.1 billion, respectively.

As of September 30, 2019, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class				
	Cash	Equities	Fixed Income	Private Equity	Total
	(Dollars in Thousands)				
Canadian Dollar	\$ -	\$ -	\$ -	\$ 18,057	\$ 18,057
British Sterling	-	-	-	13,808	13,808
Euro	-	-	-	40,961	40,961
Total Foreign	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,826</u>	<u>\$ 72,826</u>

As of September 30, 2018, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class				
	Cash	Equities	Fixed Income	Private Equity	Total
	(Dollars in Thousands)				
Canadian Dollar	\$ -	\$ -	\$ -	\$ 6,036	\$ 6,036
British Sterling	-	-	-	8,371	8,371
Swiss Franc	-	-	-	109	109
Euro	199	-	-	58,084	58,283
Total Foreign	<u>\$ 199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,600</u>	<u>\$ 72,799</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

***Securities Lending Transactions*** – The Board's policies permit the District Retirement Funds to participate in securities lending transactions by relying on a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

The Board may participate in securities lending through its custodian in the future; however, it did not do so in fiscal years 2019 and 2018.

***Derivative Investments*** – Derivatives are generally defined as contracts in which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty). Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2019 and 2018, the District Retirement Funds, in accordance with the policy of the Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses.

TBAs (to-be-announced, sometimes referred to as dollar rolls) are used by the District Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The selected TBAs are used because they are expected to behave the same in duration and convexity as mortgage-backed securities with identical credit, coupon, and maturity features. Credit risk is managed by limiting these transactions to primary dealers.

Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forwards, futures contracts, and foreign currency options, when used, are generally used by the District Retirement Funds for defensive purposes. These contracts hedge a portion of the District Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the District Retirement Funds. Credit risk is managed by limiting transactions to

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk for currency options is also managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

**NOTE 4 INVESTMENTS (CONTINUED)**

Equity index futures were also used by the District Retirement Funds in order to gain exposure to equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures may pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the District Retirement Funds. The notional amounts of the contracts are not included in the derivatives holdings disclosed. Credit risk is managed by dealing with member firms of the futures exchanges.

Exchange-traded and over-the-counter bond futures and options were used by the District Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these futures and options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment-grade ratings or by trading with member firms of organized exchanges.

Warrants were used by the District Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Rights are a security that gives the holder the entitlement to purchase new shares issued by a corporation at a predetermined price in proportion to the number of shares already owned.

Market risk for warrants and rights is limited to the purchase cost. Credit risk for warrants and rights is similar to the underlying equity and/or bond holdings. Again, all such risks are monitored and managed by the District Retirement Funds' external investment managers who have full discretion over such investment decisions.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. The District Retirement Funds utilize swaps for several different reasons: to manage interest rate fluctuations, to protect against a borrower default, and to gain market exposure without having to actually own the asset.

The District Retirement Funds may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

The District Retirement Funds may also hold derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available. The following is a list of derivatives as of September 30, 2019; there were no derivatives as of September 30, 2018.

## Derivatives - Futures (dollars in thousands)

	Market Value September 30, 2019
Equity index futures	\$ 10,582
Fixed Income - convertible bonds	2
Fixed Income futures	2
Synthetic equity swaps	235
Warrants	2,031
Swaps	25,714
Total	<u>\$ 38,566</u>

**Fair Value Measurements** - DCRB categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

*Level 1* – Unadjusted quoted prices for identical instruments in active markets.

*Level 2* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

*Level 3* – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the Net Asset Value (NAV) per share (or its equivalent) are not classified in the fair value hierarchy as they do not have a readily determinable fair value.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. DCRB's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

***Changes in Fair Value Levels***

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Plan management has evaluated the significance of transfers between levels based upon the nature of the investments and size of the transfer relative to total net assets available for benefits. For the year ended September 30, 2019, investments in private equity securities were placed under Level 3 as compared to the previous year based on management's re-evaluation of its valuation methodology.

The tables on pages 29 and 30 show the fair value leveling of the investments for the Investment Pool.

Equity securities classified in Level 1 of the fair value hierarchy are valued at the last sale price or official close price as of the close of trading on the applicable exchange where the security principally trades.

Equity and fixed income securities classified in Level 2 of the fair value hierarchy are valued at prices provided by independent pricing vendors. The vendors provide these prices after evaluating observable inputs including, but not limited to: quoted prices for similar securities, the mean between the last reported bid and ask prices (or the last bid price in the absence of an asked price), yield curves, yield spreads, credit ratings, deal terms, tranche level attributes, default rates, cash flows, prepayment speeds, broker/dealer quotations, inflation and reported trades.

Equity securities classified in Level 3 are valued with last trade data having limited trading volume. Real assets classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

***Investments measured at the Net Asset Value (NAV)*** – The unfunded commitment and redemption frequency and notice period for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the tables on pages 30 and 31.

**NOTE 4 INVESTMENTS (CONTINUED)**

***Real Assets (Real Estate) and Private Equity*** – DCRB has made commitments to purchase partnership interests in private equity and real estate funds as part of its long-term asset allocation plan for private markets. As shown in the table on page 30, the unfunded commitments totaled \$365.9 million, as of September 30, 2019. This represents global investments in 39 real asset funds. The unfunded commitments totaled \$389.7 million, as of September 30, 2018 as shown in the table on page 31. This represented global investments in 35 real asset funds.

In general, investments in the private markets program are illiquid and redemptions are structurally limited over the life of the investment. The private equity program spans a range of underlying strategies including buyouts, growth equity/venture, private debt, secondaries, and fund-of-funds. The real asset program includes investments in a broad range of real estate strategies (i.e., core, value-added, opportunistic), infrastructure, and natural resources funds.

***Domestic and International Equities*** – DCRB has investments in 3 funds with a domestic focus and 5 funds with an international focus, in which the equity securities maintain some level of market exposure; however, the level of market exposure may vary through time.

***Fixed income*** – DCRB has investments in 6 funds, including corporate bonds, and U.S. Treasury obligations, with redemption notifications not greater than 30 days.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

Investments measured at Fair Value (Dollars in 000s)				
	September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Domestic Equity	\$ 288,973	\$ 278,237	\$ 10,736	\$ -
International Equity	206,937	206,937	-	-
Fixed Income	623,222	-	623,222	-
Real Assets	421,396	-	-	421,396
Private Equity	465,263	-	-	465,263
Total Investments by Fair Value Level	2,005,791	\$ 485,174	\$ 633,958	\$ 886,659
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Domestic Equity	1,995,366			
International Equity	2,121,942			
Fixed Income	2,066,786			
Real Assets	263,717			
Total Investments Measured at NAV	6,447,811			
Total Investments	\$ 8,453,602			

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

Additional information for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the table below:

	September 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Equity	\$ 1,995,366	\$ -	Daily	None
International Equity	2,121,942	-	3 times per month, monthly	2-5 days
Fixed Income	2,066,786	-	Daily, Monthly	3-30 days
Real Assets	263,717	365,899	None	N/A
Total Investments Measured at NAV	<u>\$ 6,447,811</u>	<u>\$ 365,899</u>		

## Investments measured at Fair Value (Dollars in 000s)

	September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Domestic Equity	\$ 312,861	\$ 297,016	\$ 15,845	\$ -
International Equity	166,670	166,670	-	-
Fixed Income	265,651	-	265,651	-
Real Assets	42,113	-	-	42,113
Private Equity	376,055	-	-	376,055
Total Investments by Fair Value Level	<u>1,163,350</u>	<u>\$ 463,686</u>	<u>\$ 281,496</u>	<u>\$ 418,168</u>

**Investments Measured at the Net  
Asset Value (NAV)**

Domestic Equity	1,896,422
International Equity	2,149,344
Fixed Income	2,284,134
Real Assets	650,998
Total Investments Measured at NAV	<u>6,980,898</u>
Total Investments	<u>\$ 8,144,248</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 INVESTMENTS (CONTINUED)**

Additional information for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the table below:

	September 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Equity	\$ 1,896,422	\$ -	Daily	None
International Equity	2,149,344	-	3 times per month, monthly	2-5 days
Fixed Income	2,284,134	-	Daily, Monthly	3-30 days
Real Assets	650,998	389,696	None	N/A
Total Investments Measured at NAV	<u>\$ 6,980,898</u>	<u>\$ 389,696</u>		

**NOTE 5 NET PENSION LIABILITY (ASSET)**

The components of the net pension liability (asset) of the District Retirement Funds at September 30, 2019 and 2018 were as follows:

	2019		2018	
	TRF	POFRF	TRF	POFRF
	<i>(Dollars in thousands)</i>			
Total Pension Liability	\$ 2,494,291	\$ 5,604,573	\$ 2,261,867	\$ 5,265,874
Fiduciary Net Position	<u>2,264,482</u>	<u>6,256,363</u>	<u>2,176,106</u>	<u>6,023,770</u>
Net Pension Liability (Asset)	<u>\$ 229,809</u>	<u>\$ (651,790)</u>	<u>\$ 85,761</u>	<u>\$ (757,896)</u>
Ratio of Fiduciary Net Position to Total Pension Liability	90.79%	111.63%	96.21%	114.39%

**Actuarial Assumptions** - The total pension liability was determined based on an actuarial valuation as of September 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 5 NET PENSION LIABILITY (ASSET) (CONTINUED)**

**Teachers' Retirement Fund**

Inflation	3.5%
Salary increases	5.50% - 8.63%, includes wage inflation of 4.25%
Investment rate of return	6.5%, net of pension plan investment expense
Mortality	Pre-retirement and post-retirement mortality rates were based on the RPH 2014 Blue Collar Mortality Table projected generationally with Scale BB, set back 1 year for males. Post-disability mortality rates were based on the RPH-2014 Disabled Mortality Table set back 6 years for males and set forward 7 years for females.
Cost of Living Adjustments	3.00% for those hired on or after 11/1/1996, 3.50% for those hired before 11/1/1996

**Police and Firefighters' Retirement Fund**

Inflation	3.5%
Salary increases	4.25% - 6.34%, includes wage inflation of 4.25%
Investment rate of return	6.5%, net of pension plan investment expense
Mortality	Pre-retirement and post-retirement mortality rates were based on the RPH 2014 Blue Collar Mortality Table projected generationally with Scale BB, set back 1 year for males. Post-disability mortality rates were based on the RPH-2014 Disabled Mortality Table set back 6 years for males and set forward 7 years for females.
Cost of Living Adjustments	3.00% for those hired on or after 11/1/1996, 3.50% for those hired before 11/1/1996

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 5 NET PENSION LIABILITY (ASSET) (CONTINUED)**

All assets and liabilities are computed as of September 30, 2019. Demographic information was collected as of June 30, 2019. The actuarial assumptions used were based on the results of the most recent actuarial experience investigation for the period October 1, 2011 to September 30, 2015, dated July 18, 2017.

The discount rate used to measure the total pension liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the District contributions will be made in accordance with the Board's funding policy adopted in 2012 and revised in 2017. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019 and 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	20.0 %	7.8%
Foreign Equity (Developed)	16.0	8.1%
Foreign Equity (Emerging)	10.0	10.5%
U.S. Core Fixed Income	11.0	4.4%
Treasury Inflation-Protected Securities (TIPS)	6.0	3.3%
High Yield Bonds	4.0	6.8%
Bank Loans	3.0	5.7%
Foreign Bonds (Developed)	2.0	2.6%
Emerging Markets Debt (Local)	4.0	5.9%
Real Estate	6.0	7.1%
Natural Resources (Private)	2.0	7.8%
Infrastructure	3.0	7.8%
Private Equity	9.0	9.4%
Absolute Return	4.0	5.6%
Total	<u>100.0 %</u>	

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
NOTES TO BASIC COMBINING FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 5    NET PENSION LIABILITY (ASSET) (CONTINUED)**

***Disclosure of the sensitivity of the net pension liability to changes in the discount rate***

The following presents the net pension liability of the Teachers' Retirement Fund and the Police Officers and Firefighters' Retirement Fund, calculated using the discount rate of 6.5%, as well as what the Plan's net pension liability calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate (dollar amounts in thousands):

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
<u>FY 2019</u>			
Teachers' Plan's			
Net Pension Liability/(Asset)	\$    669,520	\$    229,809	\$    (117,925)
Police and Firefighters' Plan's			
Net Pension Liability/(Asset)	\$    372,957	\$    (651,790)	\$    (1,460,879)
<u>FY 2018</u>			
Teachers' Plan's			
Net Pension Liability/(Asset)	\$    477,094	\$    85,761	\$    (224,803)
Police and Firefighters' Plan's			
Net Pension Liability/(Asset)	\$    232,199	\$    (757,896)	\$    (1,536,649)

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
YEARS ENDED SEPTEMBER 30  
(DOLLAR AMOUNT IN THOUSANDS)**

**Teachers' Retirement Fund**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 72,429	\$ 67,877	\$ 65,911	\$ 61,599	\$ 53,297	\$ 50,409
Interest	144,165	137,704	131,657	124,370	118,378	112,204
Difference Between Expected and Actual Experience	103,719	(19,505)	(37,230)	2,656	(7,246)	-
Changes of Assumptions	-	-	14,106	-	-	-
Benefit Payments	(81,471)	(78,430)	(72,069)	(69,093)	(64,076)	(59,832)
Refunds	(6,418)	(6,126)	(6,166)	(6,205)	(5,576)	(5,790)
Net Change in Total Pension Liability	232,424	101,520	96,209	113,327	94,777	96,991
Total Pension Liability - Beginning	2,261,867	2,160,347	2,064,138	1,950,811	1,856,034	1,759,043
Total Pension Liability - Ending (a)	2,494,291	2,261,867	2,160,347	2,064,138	1,950,811	1,856,034
<b>Plan Net Position</b>						
Contributions - District Government	53,343	59,046	56,781	44,469	39,513	31,636
Contributions - Plan Member	40,432	40,324	34,364	33,591	31,621	28,751
Net Investment (Loss) Income	85,047	94,129	239,554	152,262	(72,647)	132,086
Benefit Payments	(81,471)	(78,430)	(72,069)	(69,093)	(64,076)	(59,832)
Administrative Expense	(3,440)	(4,474)	(4,721)	(4,746)	(4,543)	(3,787)
Refunds	(6,418)	(6,126)	(6,166)	(6,205)	(5,576)	(5,790)
Other Income	883	1,038	907	1,033	385	522
Change in Net Position	88,376	105,507	248,650	151,311	(75,323)	123,586
Plan Net Position - Beginning	2,176,106	2,070,599	1,821,949	1,670,638	1,745,961	1,622,375
Plan Net Position - Ending (b)	2,264,482	2,176,106	2,070,599	1,821,949	1,670,638	1,745,961
Net Pension Liability - Ending (a) - (b)	\$ 229,809	\$ 85,761	\$ 89,748	\$ 242,189	\$ 280,173	\$ 110,073
Ratio of Plan Net Position to Total Pension Liability - (b) / (a)	90.79%	96.21%	95.85%	88.27%	85.64%	94.07%
Covered Payroll	\$ 466,792	\$ 470,749	\$ 447,762	\$ 438,079	\$ 417,090	\$ 378,926
Net Pension Liability (Asset) as a Percentage of Covered Payroll	49.23%	18.22%	20.04%	55.28%	67.17%	29.05%

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (CONTINUED)  
YEARS ENDED SEPTEMBER 30  
(DOLLAR AMOUNT IN THOUSANDS)**

**Police and Firefighters' Retirement Fund**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 180,928	\$ 182,641	\$ 196,629	\$ 198,020	\$ 192,114	\$ 176,102
Interest	338,288	318,719	300,626	282,285	257,943	235,097
Difference Between Expected and Actual Experience	(57,642)	(84,452)	(188,549)	(106,840)	(2,477)	-
Changes of Assumptions	-	-	67,256	-	-	-
Benefit Payments	(121,342)	(106,794)	(92,537)	(79,137)	(63,634)	(52,784)
Refunds	(1,533)	(1,580)	(1,647)	(2,179)	(1,396)	(1,637)
Net Change in Total Pension Liability	338,699	308,534	281,778	292,149	382,550	356,778
Total Pension Liability - Beginning	5,265,874	4,957,340	4,675,562	4,383,413	4,000,863	3,644,085
Total Pension Liability - Ending (a)	5,604,573	5,265,874	4,957,340	4,675,562	4,383,413	4,000,863
<b>Plan Net Position</b>						
Contributions - District Government	91,284	105,596	145,631	136,115	103,430	110,766
Contributions - Plan Member	38,243	34,478	33,424	32,785	33,679	32,821
Net Investment (Loss) Income	232,987	316,842	655,310	415,157	(187,283)	338,894
Benefit Payments	(121,342)	(106,794)	(92,537)	(79,137)	(63,634)	(52,784)
Administrative Expense	(9,481)	(11,570)	(12,838)	(12,918)	(11,939)	(9,730)
Refunds	(1,533)	(1,580)	(1,647)	(2,179)	(1,396)	(1,637)
Other Income	2,435	2,356	2,468	2,810	1,012	1,342
Change in Net Position	232,593	339,328	729,811	492,633	(126,131)	419,672
Plan Net Position - Beginning	6,023,770	5,684,442	4,954,631	4,461,998	4,588,129	4,168,457
Plan Net Position - Ending (b)	6,256,363	6,023,770	5,684,442	4,954,631	4,461,998	4,588,129
Net Pension Liability (Asset) - Ending (a) - (b)	\$ (651,790)	\$ (757,896)	\$ (727,102)	\$ (279,069)	\$ (78,585)	\$ (587,266)
Ratio of Plan Net Position to Total Pension Liability (Asset) - (b) / (a)	111.63%	114.39%	114.67%	105.97%	101.79%	114.68%
Covered Payroll	\$ 460,686	\$ 454,209	\$ 441,904	\$ 438,114	\$ 446,201	\$ 426,135
Net Pension Liability (Asset) as a Percentage of Covered Payroll	(141.48)%	(166.86)%	(164.54)%	(63.70)%	(17.61)%	(137.81)%

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
YEARS ENDED SEPTEMBER 30  
(DOLLAR AMOUNTS IN THOUSANDS)**

**Teachers' Retirement Fund**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Employer Contribution	\$ 53,343	\$ 59,046	\$ 56,781	\$ 44,469	\$ 39,513	\$ 31,636	\$ 6,407	\$ -	\$ -	\$ -
Actual Employer Contributions	53,343	59,046	56,781	44,469	39,513	31,636	6,407	-	-	-
Annual Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 466,792	\$ 470,749	\$ 447,762	\$ 438,079	\$ 417,090	\$ 378,926	\$ 369,071	\$ 381,235	\$ 384,455	\$ 337,516
Actual Contributions as a Percentage of Covered Payroll	11.43%	12.54%	12.68%	10.15%	9.47%	8.35%	1.74%	0.00%	0.00%	0.00%

**Notes to Schedule:**

Valuation Date: For the fiscal years on and before FY 2019, actuarially determined contributions amounts are calculated as of the beginning of the fiscal year.

Actual contributions are based on valuations as of October 1, two years prior to end of fiscal year in which contributions are reported.

Actuarial valuations are performed every year. The assumptions shown below are from the currently approved assumptions and assumptions used to determine all contributions in the past would not have been the same.

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Remaining amortization periods range from 12 to 20 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	5.50% to 8.63%; includes wage inflation of 4.25%
Investment rate of return	6.50%, net of pension plan investment expense
Mortality	Pre-retirement and post-retirement mortality rates were based on the RPH 2014 Blue Collar Mortality Table projected generationally with Scale BB, set back 1 year for males. Post-disability mortality rates were based on the RPH-2014 Disabled Mortality Table set back 6 years for males and set forward 7 years for females.
Cost of Living Adjustments	3.50% for those hired before 11/1/1996 (Limited to 3.0% for those hired on or after 11/1/1996)

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF EMPLOYER CONTRIBUTIONS (CONTINUED)  
YEARS ENDED SEPTEMBER 30  
(DOLLAR AMOUNTS IN THOUSANDS)**

**Police and Firefighters' Retirement Fund**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Employer Contribution	\$ 91,284	\$ 105,596	\$ 145,631	\$ 136,115	\$ 103,430	\$ 110,766	\$ 96,314	\$ 116,700	\$ 127,200	\$ 132,300
Actual Employer Contributions	91,284	105,596	145,631	136,115	103,430	110,766	96,314	116,700	127,200	132,300
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 460,686	\$ 454,209	\$ 441,904	\$ 438,114	\$ 446,201	\$ 426,135	\$ 413,380	\$ 414,877	\$ 421,221	\$ 423,854
Actual Contributions as a Percentage of Covered Payroll	19.81%	23.25%	32.96%	31.07%	23.18%	25.99%	23.30%	28.13%	30.20%	31.21%

**Notes to Schedule:**

Valuation Date: For the fiscal years on and before FY 2019, actuarially determined contributions amounts are calculated as of the beginning of the fiscal year.

Actual contributions are based on valuations as of October 1, two years prior to end of fiscal year in which contributions are reported.

Actuarial valuations are performed every year. The assumptions shown below are from the currently approved assumptions and assumptions used to determine all contributions in the past would not have been the same.

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Remaining amortization periods range from 12 to 20 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.25% to 6.34%; includes wage inflation of 4.25%
Investment rate of return	6.50%, net of pension plan investment expense
Mortality	Pre-retirement and post-retirement mortality rates were based on the RPH 2014 Blue Collar Mortality Table projected generationally with Scale BB, set back 1 year for males. Post-disability mortality rates were based on the RPH-2014 Disabled Mortality Table set back 6 years for males and set forward 7 years for females.
Cost of Living Adjustments	3.50% for those hired before 11/1/1996 (Limited to 3.0% for those hired on or after 11/1/1996)

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENT RETURNS  
YEARS ENDED SEPTEMBER 30**

Annual Money-Weighted Rates of Return, based on a month-end net flow weighting method, as calculated by the custodian.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Portfolio	3.840 %	5.340 %	12.970 %	9.346 %	(4.006)%	8.178 %

Note: The rates are shown net of fees. The rates in the prior-year financial statements were shown gross of fees for FY 2017 and 2018, and are restated in these financial statements. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF ADMINISTRATIVE EXPENSES  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
<b>Personal Services</b>		
Salaries	\$ 6,057,962	\$ 6,419,916
Fringe Benefits	1,481,507	1,832,363
Total Personal Services	<u>7,539,469</u>	<u>8,252,279</u>
<b>Nonpersonal Services</b>		
Office Supplies	70,296	93,484
Telephone	45,611	96,286
Rent	1,967,723	1,823,864
Travel	183,023	193,704
Professional Fees	1,148,521	3,666,166
Postage	14,239	65,538
Printing	8,846	78,173
Insurance	116,875	148,879
Dues and Memberships	41,038	39,963
Audit Costs	290,680	191,450
Actuarial Fees	137,533	169,855
Legal Fees	322,963	531,913
Investment Fees	16,807,130	13,076,317
Contractual Services (STAR)	1,967,689	1,808,130
Equipment and Rental	59,474	198,734
Total Nonpersonal Services	<u>23,181,641</u>	<u>22,182,456</u>
Total Administrative Expenses	30,721,110	30,434,735
Investment Expenses	<u>(17,800,245)</u>	<u>(14,390,879)</u>
Net Administrative Expenses	<u>\$ 12,920,865</u>	<u>\$ 16,043,856</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF INVESTMENT EXPENSES  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
Investment Managers*	\$ 15,766,206	\$ 12,417,567
Investment Administrative Expense	879,187	753,088
Investment Consultants	751,428	882,058
Investment Custodian	403,424	338,166
Total Investment Expenses	<u>\$ 17,800,245</u>	<u>\$ 14,390,879</u>

\* Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities. A significant number of alternative investments are presented net of expenses. Management expenses are netted against investment income and because they are not readily separable from specific investment income as of the financial statement reporting date, amounts are recorded and reported net of management expenses and, therefore, are not included on this schedule.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF PAYMENTS TO CONSULTANTS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

<u>Professional/Consultant</u>	<u>Nature of Service</u>	<u>FY 2019</u>	<u>FY 2018</u>
<b><u>Administrative Consultants</u></b>			
U.S. Treasury Office of D.C. Pensions	Benefit Payment Processing	1,967,689	1,792,130
Morgan, Lewis & Bockius	Legal Counsel	322,963	505,857
Software Information Resource Corp.	Information Technology Consulting	\$ 275,015	\$ 220,383
Softech & Associates, Inc.	Information Technology Consulting	142,000	190,000
Cavanaugh Macdonald Consulting	Actuarial Services	137,533	174,855
Office of Contract and Procurement	Procurement Services	136,971	-
Equinix, Inc.	Information Technology Consulting	109,311	132,954
Mobomo, LLC	Information Technology Consulting	72,382	386,124
CliftonLarsonAllen LLC	Financial Audit	68,000	57,200
Convergence, Inc.	Investment Consulting	60,000	60,000
DC Net	Information Technology Consulting	56,082	31,968
ODGroup, Inc. dba Orion Development Group	Professional Services	53,556	53,649
NGEN LLC	Audit Costs	44,750	134,250
International Foundation of Employee Benefits	CAPPP Training for Trustees	44,000	-
Capitol Document Solutions	Information Technology Consulting	40,980	38,961
DLT Solutions, Inc.	Information Technology Consulting	40,289	116,462
Advent Software, Inc.	Investment Consulting	39,552	42,337
Diligent Corp	Information Technology Consulting	31,575	31,575
XO Holdings	Information Technology Consulting	27,860	26,469
Election-America, Inc.	Trustee Elections	25,842	-
Kofax, Inc.	Information Technology Consulting	23,874	-
D.C. Office of the Chief Technology Officer	Information Technology Consulting	22,507	-
eVestment Alliance	Online Investment Service	20,689	20,087
TW Telecom	Information Technology Consulting	20,203	40,976
RSM US LLP formerly RSM McGladrey, Inc.	Financial System Consulting	19,314	22,468
SecureAuth Corporation	IT Software Maintenance	18,585	-
Networking for Future, Inc.	Information Technology Consulting	14,155	109,253
Harris, Mackessy & Brennan, Inc.	Information Technology Consulting	13,685	33,010
D.C. Department of Human Resources	Information Technology Consulting	11,882	-
The Newberry Group, Inc.	Information Technology Consulting	9,434	13,353
Incapsulate, LLC	IT Software Maintenance	8,725	-

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUNDS  
SUPPLEMENTARY INFORMATION  
SCHEDULES OF PAYMENTS TO CONSULTANTS (CONTINUED)  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

<u>Professional/Consultant</u>	<u>Nature of Service</u>	<u>FY 2019</u>	<u>FY 2018</u>
<b><u>Administrative Consultants (continued)</u></b>			
HBP, Inc.	Graphic Design for Publications	5,906	97,119
Phoenix Graphics, Inc.	Professional Services	3,550	7,200
Groom Law Group	Legal Counsel	5,390	6,306
Treyniqua Dickey	Professional Services	2,840	-
Oquendo Computer Services	Professional Services	2,825	2,175
Neal R. Gross & Co, Inc.	Professional Services	1,089	-
Corporate Investigations, Inc.	Professional Services	1,072	2,565
KMC, Inc.	Information Technology Consulting	-	232,107
Ectam, LLC	Information Technology Consulting	-	177,120
Mark Jackson	Information Technology Consulting	-	99,355
ASI Government, Inc.	Temporary Staffing Services	-	97,718
Yared Desta	Information Technology Consulting	-	83,711
Vonage Business formerly Icore Networks, Inc	Information Technology Consulting	-	67,135
Diamond Toles dba Dime Solutions, LLC	Professional Services	-	45,990
PRM Consulting, Inc.	Professional Services	-	40,000
American Arbitration Association	Arbitration Services	-	36,876
CenturyLink Formerly Level 3 Communications	Professional Services	-	33,041
CEM Benchmarking, Inc.	Investment Consultant	-	30,000
Taborda Solutions, Inc.	Professional Services	-	25,976
SHI International Corporation	Information Technology Consulting	-	22,995
Midtown Personnel Inc.	Benefits Consulting	-	21,760
Korn Ferry Hay Group, Inc.	Professional Services	-	7,262
Armstrong Teasdale	Legal Counsel	-	4,223
Emergent Systems Exchange, LLC	Professional Services	-	3,500
Total Administrative Consultants		3,902,075	5,378,455
<b><u>Investment Consulting</u></b>			
CEM Benchmarking	Investment consultant	-	30,000
Meketa Investment Group	Traditional investment consulting	620,000	620,000
Insightful Pension Consulting Group, LLC	Investment consultant	113,928	214,558
Abel Solutions	Traditional investment consulting	17,500	-
Zeno Consulting Group, LLC	Traditional investment consulting	-	17,500
Total Investment Consultants		751,428	882,058
Total Payments to Consultants		<u>\$ 4,653,503</u>	<u>\$ 6,260,513</u>

## **COMPLIANCE SECTION**

DRAFT



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees, District of Columbia Retirement Board for  
District of Columbia Teachers' Retirement Fund, and  
District of Columbia Police Officers and Firefighters' Retirement Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combining financial statements of District of Columbia Teachers' Retirement Fund and District of Columbia Police Officers and Firefighters' Retirement Fund (the Funds), Pension Trust Funds of the Government of the District of Columbia, which comprise the Combining Statement of Fiduciary Net Position as of September 30, 2019, and the related Combining Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the Funds combining financial statements, which collectively comprise the Funds' basic financial statements, and have issued our report thereon dated January XX, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Funds' basic financial statements, we considered the Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses summarized as item number 2019-001 that we consider to be a significant deficiency.

5101 Wisconsin Ave. NW  
Suite 210  
Washington, D.C. 20016  
Phone: 202.207.3570  
Fax: 202.846.6310

WWW.MCCONNELLJONES.COM

**Compliance and Other Matters**

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

**Management's Response to Findings**

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Washington, D.C.  
January XX, 2020

**DISTRICT OF COLUMBIA TEACHERS' AND POLICE OFFICERS AND  
FIREFIGHTERS' RETIREMENT FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**SECTION 1:**

**SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements:***

- |    |  |            |
|----|--|------------|
| 1. | Type of auditor's report issued:   | Unmodified |
| 2. | Internal control over financial reporting:   |            |
| a) | Material weaknesses identified?  | No         |
| b) | Significant deficiencies identified that are not considered to be material weaknesses? | Yes        |
| c) | Noncompliance material to financial statements noted?                                  | No         |

**DISTRICT OF COLUMBIA TEACHERS' AND POLICE OFFICERS AND  
FIREFIGHTERS' RETIREMENT FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding No. 2019–001: Significant Deficiency in Internal Control Over Financial Reporting**

**Condition:** During the course of our audit, we considered the Funds' internal controls over financial reporting and noted weaknesses in internal controls when recording transactions in the general ledger which when taken together, are considered as a significant deficiency in internal control over financial reporting. Following matters were noted:

- (1) Management did not incorporate audit adjustments for fiscal year 2018 in the general ledger. The initial trial balance included balances that were not properly reconciled with the fiscal year 2018 audited financial statements. Although, we were able to reconcile opening balances to prior year audited financial statements without any material differences, the potential exists for errors within individual Funds that remain embedded in the Funds' net asset balances that originated in the past years.
- (2) Management does not have a formal written, financial reporting process manual in place that documents process for recording general ledger transactions or captures accounting policies used by Funds. It was also noted that DCRB does not have a capitalization policy to set a threshold, above which qualifying expenditures are recorded as fixed assets, nor is the policy set by the District of Columbia being followed consistently. We found there were no significant capital expenditures charged for the current fiscal year.
- (3) At present, investment managers fees are paid as invoiced and not recalculated to ensure that they comply with the terms of the respective investment management agreements.

**Criteria:** Effective internal controls over financial reporting include process and procedures for proper recording of transactions, timely reconciliation of general ledger account details to control accounts, proper cut-off procedures and effective supervision, review and approval processes to ensure preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

**Effect or Potential Effect:** Deficiencies in internal control over financial reporting could result in a material misstatement of Funds' financial statements or omission of required disclosures under U.S. GAAP. However, necessary adjustments have been made in the financial statements to correct identified misstatements.

**Cause:** Management has relied on practices carried forward from prior years with respect to the preparation of its annual financial statements and have not reviewed and evaluated these practices to ensure all aspects of recording financial transactions and presentation in the financial statements is in accordance with U.S. GAAP.

**Recommendation:** We recommend that the accounting staff complete its analysis related to allocation of investment income and expenses between Funds that were recorded through due to/from accounts within the general ledger to ensure that they were accurately recorded. Additionally, a thorough review of accounts payable and other liabilities is needed to determine whether these represent valid obligations that remain

**DISTRICT OF COLUMBIA TEACHERS' AND POLICE OFFICERS AND  
FIREFIGHTERS' RETIREMENT FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

outstanding. Finally, a review process for investment manager fees should be implemented to ensure that fees are calculated in accordance with the agreement in place with investment manager.

It is also recommended that management establish a capitalization policy and record all capital assets in accordance with accounting principles generally accepted in the United States of America. Additionally, management should document its accounting policies, procedures and processes in writing, in the form of an accounting and financial reporting manual, to ensure consistent application and adherence to such policies and processes as well as provision for a means to monitor compliance with such policies and processes.

*View of Responsible Official:*

DRAFT

**DISTRICT OF COLUMBIA TEACHERS' AND POLICE OFFICERS AND  
FIREFIGHTERS' RETIREMENT FUNDS**

**SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Prior year Findings:

None noted.

DRAFT

900 7th Street, NW, 2nd Floor  
Washington, DC 20001  
www.dcrb.dc.gov



Telephone (202) 343-3200  
Facsimile (202) 566-5000  
E-mail: dcrb@dc.gov

## **DISTRICT OF COLUMBIA RETIREMENT BOARD**

### **MOTION:**

TO CONVENE IN CLOSED SESSION WITH REPRESENTATIVES FROM McCONNELL & JONES, LLP (“AUDITOR”), TO DISCUSS DCRB’S FISCAL YEAR 2019 AUDITED FINANCIAL STATEMENTS, INCLUDING BUT NOT LIMITED TO THE FINDINGS AND REPORT OF THE AUDITOR, THE DISCLOSURE OF WHICH WOULD RESTRICT THE BOARD’S CANDID AND DETAILED DISCUSSION THEREOF.

**PRESENTED TO THE BOARD ON JANUARY 16, 2020**



900 7th Street, NW, 2nd Floor  
Washington, DC 20001  
[www.dcrb.dc.gov](http://www.dcrb.dc.gov)



Telephone (202) 343-3200  
Facsimile (202) 566-5000  
E-mail: [dcrb@dc.gov](mailto:dcrb@dc.gov)

## **DISTRICT OF COLUMBIA RETIREMENT BOARD**

### **MOTION:**

**TO ACCEPT THE FISCAL YEAR 2019 AUDITED FINANCIAL STATEMENTS, INCLUDING THE MANAGEMENT LETTER AND REPORT OF INTERNAL CONTROLS, AS PRESENTED TO THE AUDIT COMMITTEE OF THE DISTRICT OF COLUMBIA RETIREMENT BOARD.**

**PRESENTED TO THE BOARD ON JANUARY 16, 2020**





# Approval of Legal Services Contract

Meeting of the Audit Committee  
January 16, 2020



## Investment Counsel Services

- The General Counsel's Office requests the approval of a three-year extension of its legal services contract with Morgan, Lewis & Bockius, LLP to continue to provide investment counsel to the Board. The extension to the fixed labor hour contract is not expected to exceed the budgeted \$380,000 per year.
- Morgan Lewis provides the Board with an external legal resource with extensive background in investment fund management and private fund investments including private equity, venture, hedge, mezzanine, distressed debt, real estate, infrastructure funds, and transactions or disputes related thereto.
- The General Counsel's Office assesses the legal services provided by Morgan Lewis to be beyond satisfactory and recommends the Board's approval of the legal services contract extension.



## Investment Counsel Services

### MOTION:

- To approve a three-year extension of the District of Columbia Retirement Board's legal services contract with Morgan, Lewis & Bockius, LLP to continue to provide investment counsel to the Board, in an amount not to exceed the budgeted \$380,000 per year.



900 7th Street, NW, 2nd Floor  
Washington, DC 20001  
www.dcrb.dc.gov



Telephone (202) 343-3200  
Facsimile (202) 566-5000  
E-mail: dcrb@dc.gov

## **DISTRICT OF COLUMBIA RETIREMENT BOARD**

### **MOTION:**

TO APPROVE A THREE-YEAR EXTENSION OF THE DISTRICT OF COLUMBIA RETIREMENT BOARD'S LEGAL SERVICES CONTRACT WITH MORGAN, LEWIS & BOCKIUS, LLP TO CONTINUE TO PROVIDE INVESTMENT COUNSEL TO THE BOARD, IN AN AMOUNT NOT TO EXCEED THE BUDGETED \$380,000 PER YEAR.

**PRESENTED TO THE BOARD ON JANUARY 16, 2020**





**CHARTER  
DISTRICT OF COLUMBIA RETIREMENT BOARD  
AUDIT COMMITTEE**

***DRAFT: January 15, 2020***

**Introduction**

The Audit Committee has been established as an independent and objective body to assist the District of Columbia Retirement Board ("Board") in fulfilling its fiduciary oversight responsibilities with a focus on the following: (1) the financial reporting process; (2) the risk management and internal control system; (3) the internal and external audit process; (4) the process for monitoring compliance with respect to laws, regulations and internal policies; and (5) ensuring that there is an appropriate mechanism in place to address special investigations and whistleblower matters.

**Authority**

The Audit Committee will strive to maintain an environment where transparency sets the foundation for free and open communication among its members, internal and external auditors, and the management of the Board. In discharging its oversight role, the Committee has the authority to direct the internal auditor, external auditors and/or consultants retained to conduct an audit, review and/or investigation of any matter within the scope of their responsibility and will be granted access to all books, records, facilities and personnel.

The Audit Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The organization's management and staff should cooperate with Audit Committee requests.

The Audit Committee is empowered to:

- Engage independent counsel and/or other advisors it deems necessary to carry out its duties; and
- Resolve any disagreements between management and the external auditor regarding financial reporting and other matters.

**Proposed Changes to Composition**

The Committee shall be composed of a minimum of three members with a maximum of five. All members shall be appointed by the Chair of the Board. Where practical, members shall serve for three years and may be reappointed for two additional three-year terms. A member may be removed only by the Board as a whole and not by the Chair alone. Each

Committee member will be independent from management and at least one member should be designated as the Audit Committee “financial expert”<sup>1</sup> as defined by the Securities and Exchange Commission and possess an understanding of accounting principles generally accepted in the United States for public pension funds issued by the Governmental Accounting Standards Board. The Chair may also consider other qualifications in the appointment of members to the Committee such as whether they have practical and working knowledge in the areas of finance and familiarity with accounting practices aligned with US standards and have experience in the areas of risk management including the performance of risk assessments.

### **Meetings**

The Committee will meet at least three times a year, with the authority to convene additional meetings as circumstances require; the time frame between meetings should not exceed four months. The Committee will invite members of management and staff, internal and external auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems necessary to fulfill their responsibilities. The Director of Internal Audit, General Counsel, and Chief Financial Officer are required to attend all meetings. Subject to open meetings laws, the Committee will hold executive sessions with the internal and external auditors including the General Counsel and management as prescribed herein.

Minutes will be prepared in accordance with applicable laws, regulations, policies, procedures, and/or other applicable requirements. Meeting minutes will be provided in draft form to the Chair for approval approximately two weeks after the meeting. The Director of Internal Audit will facilitate and coordinate meetings as well as provide ancillary support to the Committee, as time and resources permit.

### **Responsibilities**

The Audit Committee will foster an environment that encourages continuous training and/or education in the respective areas noted below. Specific responsibilities shall include the following:

### **Financial Reporting Process**

- Review and understand significant accounting and reporting issues, including complex or unusual transactions requiring judgement and understand their impact on the financial statements.

---

<sup>1 1</sup> In defining the term “financial expert” for purposes of the Sarbanes-Oxley Act of 2002, the Board should consider whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions: (a) an understanding of generally accepted accounting principles and financial statements; (b) experience in-- (1) the preparation or auditing of financial statements of generally comparable issuers; and (2) the application of such principles in connection with the accounting for estimates, accruals, and reserves; (c) experience with internal accounting controls; and (d) an understanding of audit committee functions. Sarbanes-Oxley Act of 2002. *See*, 107 P.L. 204, Title IV, § 407, 116 Stat. 745.

- Review with management all financial statements and consider whether they are complete and consistent with information known to Committee members and reflect appropriate accounting principles.
- Review with management any recent accounting pronouncements and understand their impact on the financial statements.
- Review with the General Counsel the status of legal matters that may have an impact on the financial statements.
- Review, in consultation with the external and internal auditor, the integrity of the organization's financial reporting processes.

#### **Risk Management and Internal Control System**

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.
- Consider the effectiveness of the organization's system for assessing, monitoring and controlling material risks related to financial controls, the operating environment, and the investment portfolio.
- Review management's reports on risk and mitigation.
- Ensure management maintains an effective system of internal controls and provides the mechanisms for periodic assessments.
- Review controls over the information systems, including security access as well as contingency and business continuity plans.
- Review the scope of the internal and the external auditors' reviews of internal controls over financial reporting and other processes, and obtain reports on significant findings and recommendations, together with written responses from management.
- Provide oversight of the adequacy of the combined assurance being provided.

#### **Internal Audit Process**

- Review and approve the Internal Audit Department ("IAD") Charter.
- Review and confirm, through organizational structure and by other means, the independence of the internal audit process and ensure that there are no unjustified restrictions or limitations on the internal audit function.
- Review annually with the Director of Internal Audit the IAD Charter, objectives, plans, activities, staffing, qualifications, and organizational structure of the internal audit function.
- Ensure that the internal auditor has access to all documents, personnel, information and systems in the organization that are reasonably needed to accomplish the purpose of the audit, unless such information is subject to a legally applicable and properly asserted privilege.
- Ensure that all contracts for the procurement of goods or services contains a right to audit clause.
- Review and approve the internal audit plan.
- Review all internal audit reports and management responses.

- Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported findings and recommendations.
- Authorize special audits into any matters within the committee's scope of responsibilities.
- Inquire of the Director of Internal Audit about steps taken to ensure that the internal audit activity conforms with auditing standards.
- Ensure that the internal audit activity has an external quality assurance review every three years.
- Designate the Director of Internal Audit as the primary point of contact for handling and addressing all audit matters including external examinations, investigations, or inquiries that are of an audit nature from District of Columbia agencies and other third parties.
- Provide time to privately meet with the Director of Internal Audit at each of its meetings.

#### **External Audit Process**

- Ensure the independence of the auditor and approve all auditing, other attestation services, and pre-approve non-audit services performed by the external auditor.
- Oversee the external auditor procurement process, recommend award to the Board, assess the performance, and periodically recommend to the Board the issuance of an RFP for an independent auditor.
- Discuss with the independent auditor the overall scope and plans for the audit.
- Review the audited financial statements, associated management letters, attestations on the effectiveness of the internal control structure and procedures for financial reporting.
- Review the independent auditor's reports and management's response. The Committee shall forward a separate committee report of its review for the Board.
- Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported findings and recommendations.
- Provide time to privately meet with the external auditor after the completion of the annual audit.

#### **Process for Monitoring Compliance**

- Review and approve the Compliance Department Charter.
- Ensure the organization has a framework for compliance with laws, regulations and internal policies and a mechanism for periodic assessment of compliance, including compliance by service providers, consultants, and investment managers.
- Consider the effectiveness of the system for monitoring compliance with laws, regulations, and internal policies and the results of any internal and/or external reviews of any instance of non-compliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.
- Review the process for communicating applicable ethics requirements and standards of conduct to the Board and the DCRB staff, and for monitoring compliance therewith.

- Obtain regular updates from management and the General Counsel regarding compliance matters.
- Obtain updates and reports from management concerning significant findings and recommendations related to governance, risk and investment compliance matters regarding external investment managers and internal investment policies and practices.

#### **Special Investigations and Whistleblower Mechanism**

- Institute and oversee any special investigations and/or reviews in consultation with the General Counsel, where appropriate.
- Ensure the organization has an effective process and confidential mechanism in place for whistleblowers to provide information on potentially fraudulent financial reporting, cases of fraud, waste, and abuse, or other material breaches of internal control to the Committee.
- Designate the General Counsel as the primary point of contact for handling and addressing all matters related to external examinations, investigations, or inquiries from District of Columbia agencies and other third parties except those specifically related to audit.

#### **Reporting and Other Responsibilities**

- Report Committee activities, findings and related recommendations to the Board, following each committee meeting as appropriate.
- Encourage the continuous education of Committee members to maintain their financial and risk expertise relative to the financial management and operations of the organization.
- Provide for unanimous consent approvals of actions taken outside of normal scheduled meetings, if any are necessary.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the Committee's and individual Committee member's performance on a regular basis.
- Review and assess the adequacy of the Audit Committee Charter every two years or as deemed necessary by the Board.
- Schedule, and hold if necessary, a private session with the Executive Director, Chief Financial Officer, General Counsel, and with any other officials that the Audit Committee may deem appropriate at each of its meetings.
- Perform other activities related to this Charter as requested by the Board.



900 7th Street, NW, 2nd Floor  
Washington, DC 20001  
[www.dcrb.dc.gov](http://www.dcrb.dc.gov)



Telephone (202) 343-3200  
Facsimile (202) 566-5000  
E-mail: [dcrb@dc.gov](mailto:dcrb@dc.gov)

## **DISTRICT OF COLUMBIA RETIREMENT BOARD**

### **MOTION:**

**TO APPROVE CERTAIN SUBSTANTIVE AND TECHNICAL AMENDMENTS TO  
THE DCRB AUDIT COMMITTEE CHARTER.**

**PRESENTED TO THE BOARD ON JANUARY 16, 2020**



## RISK ASSESSMENT OF THE DCRB FINANCE DEPARTMENT

Prepared by: Monica Houston, CPA, CGMA, CFE, CIDA

December 6, 2019

### Cash Management

Risk	Rating
There are no comprehensive policies and procedures for cash forecasting	R
There is no coordination between cash forecasting with the cash management program of the accounting or investment division/agency	R
There is no accurate forecast of the sources and uses of cash	R
Sources and uses of cash are not included in the forecast	O
Cash is not available to pay benefits and operational expenses	Y
Cash forecasts are not updated to reflect benefit structure changes	R
Investment returns are not maximized due to poor cash forecasting	Y

#### Controls to mitigate the risks:

- Assign a cash flow manager
- Develop comprehensive written policies and procedures for cash forecasting including the required coordination between accounting and investment divisions/agency
- Create a comprehensive listing of disbursements for benefits (retirement, disability, or death), refunds, and operational expenses. Create a comprehensive listing of various cash receipts such as employer contributions, member contributions, and service purchases
- Hire staff who are knowledgeable in cash forecasting
- Perform an asset/liability study (see section XIII, Actuary)
- Prepare and document cash forecasts at least two years into the future
- Compare and document actual cash flows with the cash forecast monthly; adjust remaining cash forecasts and the cash forecasting process as appropriate
- Monitor employment cycles, external events, and governing body actions which may affect cash flows

**LEGEND:** R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

## Managerial Accounting and Reporting

Risk	Rating
Pension plan is costly and inefficiently run because various processes are inefficient, ineffective or not needed. Costs of various processes are not calculated	R
Costs relevant to various processes are grouped and inappropriately hidden in general classifications such as overhead and administration	R
Public pension system does not have an activity-based cost accounting system that tracks the costs of various processes	R
Public pension system does not have staff that are knowledgeable and current in cost/managerial accounting and GASB requirements	Y

### Controls to mitigate the risks

- Create a charter that includes the objectives of cost/managerial accounting
- Perform costing studies of existing processes and reengineer as appropriate
- Perform costing studies as new processes are created
- Hire staff who are knowledgeable and current in cost/managerial accounting
- Encourage existing staff to obtain training in and certifications in cost/managerial accounting. The most relevant certifications are the Certified Management Accountant (CMA), Certified Financial Manager (CFM), Certified Government Auditing Professional (CGAP), and Certified Public Accountant (CPA)
- Implement an activity-based costing system
- Send periodic internal financial reports to an independent Board/Audit Committee

## Financial Accounting and Reporting

Risk	Rating
Financial statements, both interim and year-end, do not provide useful information for the various groups of users	Y
Financial information is not relevant and reliable	G
Financial statements do not fully disclose all material items	G

**LEGEND:** R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

Financial statements do not disclose sufficient detail (statements, footnotes, and required supplementary information) to permit analyses and understanding of each area	G
Financial statements are not organized and formatted to permit analyses and understanding	G
Financial statements have material errors and/or irregularities	Y
Financial statements do not conform to generally accepted accounting principles (GAAP/GASB)	Y
Financial statements are not fully informative because they present only the minimum disclosures required by GAAP/GASB	Y
Management's Discussion and Analysis does not explain the reasons behind the numbers and the changes in these numbers from prior periods (i.e., transparency)	G
Financial statements are not provided in a timely manner for auditing	O
Adequate controls may not be in place for maintaining and monitoring general ledger accounts	R
General ledger accounts are not reconciled timely and accurately	R
Journal entries are not recorded or classified in accordance with applicable accounting standards	R
Management does not review and approve the financial reports that are produced	Y

#### Controls to mitigate the risks:

- Create a charter that includes the objectives of financial reporting, including both interim and year-end financial statements, and ad hoc reports
- Hire staff with relevant training and professional certifications and encourage and facilitate existing staff in obtaining training and professional certifications. Appropriate certifications include the CPA, CMA, CFM, Chartered Financial Analyst (CFA), CGAP, and Certified Government Financial Manager (CGFM)
- Pay for professional exams, professional meetings, continuing professional education, and annual certification maintenance fees
- Encourage accounting staff to participate in professional societies and sit on boards of these societies
- Provide continuing education for staff involved with preparation of financial statements
- Hire reputable independent, external CPA firm knowledgeable of public pension plans and rotate external auditors on a periodic basis
- Compare reporting to applicable standards (e.g., GASB, American Institute of CPAs (AICPA), etc.) and other public pension system reports

**LEGEND:** R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

- Compare reports to other reports receiving the GFOA Certificate of Achievement for Excellence in Financial Reporting
- Perform interim closings (for example, quarterly) to improve the timeliness and efficiency of year-end closings
- Perform and approve general ledger account reconciliations regularly
- Have all journal entries documented, reviewed, and approved by financial management prior to posting
- Require that at least one member of the Audit Committee have financial experience equivalent to that required of financial experts by the SEC

## Cash Receipts

Risk	Rating
There are no comprehensive policies and procedures for receiving and depositing cash, checks, and electronic forms of payment	R
There is inadequate separation of duties for receiving and recording cash receipts	Y
Payments are not deposited the same day as received	R
Investment division/agency is not notified of cash deposits	G
Cash may be embezzled or payments redirected	Y
Affected general ledger accounts are not reconciled regularly	R

### Controls to mitigate the risks:

- Create comprehensive written policies and procedures for receiving/depositing cash
- Create adequate separation of duties for handling cash receipts and cash accounting
- Use a bank lock box for receiving cash and checks
- Reconcile cash receipts to the appropriate source documents to ensure that the correct payment amount has been received
- Track deposits to determine if 100% of receipts are deposited same day
- Reconcile cash received to cash deposited to ensure all receipts are deposited intact and not misappropriated
- Require employees to take annual vacation.

**LEGEND:** R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

- Notify the investment division/agency of deposits received, if necessary
- Perform periodic account reconciliation

## Accounts Payable

Risk	Rating
Payments are made that are inappropriate, unauthorized, or lacking adequate supporting documentation (including duplicate payments)	Y
Vendor invoices are not paid timely	G
Payments are made to an unauthorized vendor	O
Modifications are made to master vendor list without prior approval	G
Affected general ledger accounts are not reconciled on a routine basis	R

### Controls to mitigate the risks:

- Review payment requests for appropriate authorization and supporting documentation prior to payment processing. A list of authorized signors should be maintained and updated regularly
- Ensure that the accounting system restricts duplicate invoices and duplicate payments to the same invoice
- Have the master vendor list modifications approved by an appropriate level of management that are independent of the payables process
- Ensure that vendor master file update capabilities are restricted to appropriate users
- Perform periodic account reconciliation

**LEGEND:** R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

## Cash Management

Risk	Rating
There are no comprehensive policies and procedures for cash forecasting	R
There is no coordination between cash forecasting with the cash management program of the accounting or investment division/agency	R
There is no accurate forecast of the sources and uses of cash	R
Sources and uses of cash are not included in the forecast	O
Cash is not available to pay benefits and operational expenses	Y
Cash forecasts are not updated to reflect benefit structure changes	R
Investment returns are not maximized due to poor cash forecasting	Y

### Management's Response:

The conversation related to Cash Management and cash forecasting centered on the lack of written policies and procedures associated with managing cash, and no discussion of cash management between Investments and Finance. Regular conversations and coordination take place between the CIO (Acting CIO) and the CFO regarding cash requirements. The individuals discuss cash outflows—which take place in the form of benefits payments, capital calls, and administrative payments, for example—and cash inflows, which primarily are made up of employee contributions and capital disbursements by managers during the year (the substantial employer contribution occurs once, annually).

While management knows and understands the significant monthly cash disbursements, the timing of capital calls is far more difficult to predict. Management will develop written procedures that detail who reviews data and information, the type of information evaluated, and how often the discussions take place. Management will also assign the task of cash flow projections, and make projections for six months, with the ultimate goal of having cash forecasts for two years into the future.

### Controls to mitigate the risks:

- Assign a cash flow manager
- Develop comprehensive written policies and procedures for cash forecasting including the required coordination between accounting and investment divisions/agency
- Create a comprehensive listing of disbursements for benefits (retirement, disability, or death), refunds, and operational expenses. Create a comprehensive listing of various cash receipts such as employer contributions, member contributions, and service purchases

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

- Hire staff who are knowledgeable in cash forecasting
- Perform an asset/liability study (see section XIII, Actuary)
- Prepare and document cash forecasts at least two years into the future
- Compare and document actual cash flows with the cash forecast monthly; adjust remaining cash forecasts and the cash forecasting process as appropriate
- Monitor employment cycles, external events, and governing body actions which may affect cash flows

## Managerial Accounting and Reporting

Risk	Rating
Pension plan is costly and inefficiently run because various processes are inefficient, ineffective or not needed. Costs of various processes are not calculated	R
Costs relevant to various processes are grouped and inappropriately hidden in general classifications such as overhead and administration	R
Public pension system does not have an activity-based cost accounting system that tracks the costs of various processes	R
Public pension system does not have staff that are knowledgeable and current in cost/managerial accounting and GASB requirements	Y

### Management's Response:

DCRB, like all District government agencies, has a traditional financial accounting or cost accounting-based system. Cost accounting systems aggregate accounting information in the balance sheet and income statement accounts, and this information eventually rolls up into the financial statements. In managerial accounting, internal processes are used to account for business transactions, and program managers then use this information for better decision-making. Activity-Based Costing (ABC) systems are sometimes used to track these cost details differently; this method assigns costs to services, based on the activities that go into them.

Many entities that use an activity-based cost approach need to identify the cost of as many activities as possible, then assign those costs directly to the programs which consume the goods, services, or use space. The activity-based costing model strives to decrease indirect costs—such as administrative costs—as much as possible, and allocate those to the direct costs of the programs, or departments. Rent and photocopier expenses are good examples of expenses that are typically allocated.

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

Management has submitted a budget that includes funding for a new financial system. Management will research a variety of systems, including enterprise resource planning (ERP) systems that can include contract and budget tracking, and select the system that is best for DCRB.

**Controls to mitigate the risks**

- Create a charter that includes the objectives of cost/managerial accounting
- Perform costing studies of existing processes and reengineer as appropriate
- Perform costing studies as new processes are created
- Hire staff who are knowledgeable and current in cost/managerial accounting
- Encourage existing staff to obtain training in and certifications in cost/managerial accounting. The most relevant certifications are the Certified Management Accountant (CMA), Certified Financial Manager (CFM), Certified Government Auditing Professional (CGAP), and Certified Public Accountant (CPA)
- Implement an activity-based costing system
- Send periodic internal financial reports to an independent Board/Audit Committee

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

## Financial Accounting and Reporting

Risk	Rating
Financial statements, both interim and year-end, do not provide useful information for the various groups of users	Y
Financial information is not relevant and reliable	G
Financial statements do not fully disclose all material items	G
Financial statements do not disclose sufficient detail (statements, footnotes, and required supplementary information) to permit analyses and understanding of each area	G
Financial statements are not organized and formatted to permit analyses and understanding	G
Financial statements have material errors and/or irregularities	Y
Financial statements do not conform to generally accepted accounting principles (GAAP/GASB)	Y
Financial statements are not fully informative because they present only the minimum disclosures required by GAAP/GASB	Y
Management's Discussion and Analysis does not explain the reasons behind the numbers and the changes in these numbers from prior periods (i.e., transparency)	G
Financial statements are not provided in a timely manner for auditing	O
Adequate controls may not be in place for maintaining and monitoring general ledger accounts	R
General ledger accounts are not reconciled timely and accurately	R
Journal entries are not recorded or classified in accordance with applicable accounting standards	R
Management does not review and approve the financial reports that are produced	Y

### Management's Response:

Management will create an Accounting and Financial Reporting Manual in fiscal year 2020 and document our accounting policies, processes, and procedures. Management will also develop clear processes related to accounting processes and account reconciliation. The procedures will discuss which accounts will be reconciled monthly and those that will be reconciled quarterly. There is now a Controller in place who will manage the team performing the journal entries and reconciliations, and provide regular guidance, instruction, and review. In addition, management is recruiting for another accounting position that will also help with the work necessary to perform a "hard close" quarterly. The Finance department will continue to research accounts that have been a mystery and have had no activity for many years yet have small balances or amounts that appear to be incorrect. Management will also provide access to training and continued professional education and development for the members of the Finance team.

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

**Controls to mitigate the risks:**

- Create a charter that includes the objectives of financial reporting, including both interim and year-end financial statements, and ad hoc reports
- Hire staff with relevant training and professional certifications and encourage and facilitate existing staff in obtaining training and professional certifications. Appropriate certifications include the CPA, CMA, CFM, Chartered Financial Analyst (CFA), CGAP, and Certified Government Financial Manager (CGFM)
- Pay for professional exams, professional meetings, continuing professional education, and annual certification maintenance fees
- Encourage accounting staff to participate in professional societies and sit on boards of these societies
- Provide continuing education for staff involved with preparation of financial statements
- Hire reputable independent, external CPA firm knowledgeable of public pension plans and rotate external auditors on a periodic basis
- Compare reporting to applicable standards (e.g., GASB, American Institute of CPAs (AICPA), etc.) and other public pension system reports
- Compare reports to other reports receiving the GFOA Certificate of Achievement for Excellence in Financial Reporting
- Perform interim closings (for example, quarterly) to improve the timeliness and efficiency of year-end closings
- Perform and approve general ledger account reconciliations regularly
- Have all journal entries documented, reviewed, and approved by financial management prior to posting
- Require that at least one member of the Audit Committee have financial experience equivalent to that required of financial experts by the SEC

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

## Cash Receipts

Risk	Rating
There are no comprehensive policies and procedures for receiving and depositing cash, checks, and electronic forms of payment	R
There is inadequate separation of duties for receiving and recording cash receipts	Y
Payments are not deposited the same day as received	R
Investment division/agency is not notified of cash deposits	G
Cash may be embezzled or payments redirected	Y
Affected general ledger accounts are not reconciled regularly	R

### Management's Response:

DCRB does not receive cash. Checks accepted from members—largely for purchases of service credit—are received in the Benefits department. DCRB does not currently have a separate operating account with a local bank, and the Agency forwards all checks that makeup cash receipts to Northern Trust via federal express. As a result, it is currently impossible to deposit checks on the same day. Finance stores checks received from the Benefits department in a safe, and bundles checks for express mail, typically once or twice weekly.

Management will create procedures for handling checks, from the time they are received in the Benefits Department, where that department will develop a process for logging and tracking the checks. Those checks will then be carried to Finance, where they will be placed in the safe until deposited. Management will also investigate having a local bank for certain transactions and will establish a reasonable schedule for deposits.

### Controls to mitigate the risks:

- Create comprehensive written policies and procedures for receiving/depositing cash
- Create adequate separation of duties for handling cash receipts and cash accounting
- Use a bank lock box for receiving cash and checks
- Reconcile cash receipts to the appropriate source documents to ensure that the correct payment amount has been received
- Track deposits to determine if 100% of receipts are deposited same day
- Reconcile cash received to cash deposited to ensure all receipts are deposited intact and not misappropriated

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

- Require employees to take annual vacation.
- Notify the investment division/agency of deposits received, if necessary
- Perform periodic account reconciliation

## Accounts Payable

Risk	Rating
Payments are made that are inappropriate, unauthorized, or lacking adequate supporting documentation (including duplicate payments)	Y
Vendor invoices are not paid timely	G
Payments are made to an unauthorized vendor	O
Modifications are made to master vendor list without prior approval	G
Affected general ledger accounts are not reconciled on a routine basis	R

### Management's Response:

Dynamics GP already restricts duplicate invoicing; however, management will ensure the update process for the vendor master file is restricted so that only one staff person (and one alternate) can enter new vendors.

As analyzes financial systems, management will ensure the next system has a way to verify the vendor's contract status during the accounts payable process. Finance staff will perform quarterly reconciliation of the accounts payable subledger to the general ledger, as part of the "hard close" discussed in Financial Accounting and Reporting section above. DCRB is currently recruiting an Accountant position that will help the Finance team perform analysis within the general ledger and to help with reconciliations on an ongoing basis and help with other aspects of the recommendations.

### Controls to mitigate the risks:

- Review payment requests for appropriate authorization and supporting documentation prior to payment processing. A list of authorized signors should be maintained and updated regularly
- Ensure that the accounting system restricts duplicate invoices and duplicate payments to the same invoice

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk

- Have the master vendor list modifications approved by an appropriate level of management that are independent of the payables process
- Ensure that vendor master file update capabilities are restricted to appropriate users
- Perform periodic account reconciliation

LEGEND: R – Almost certain; condition exists at all levels and no mitigating controls exist to prevent or detect risk

O – Likely; condition exists at some level and existing controls do not appear to adequately prevent or detect risk

Y – Probable; condition currently exists at some level and existing controls may be subject to circumvention or override

G – Unlikely; condition does not currently exist and controls exist to prevent or detect risk



900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor  
Washington, DC 20001



Telephone (202) 343-3200  
Facsimile (202) 566-5000  
E-mail: dcrb@dc.gov

## EXECUTIVE DIRECTOR'S REPORT

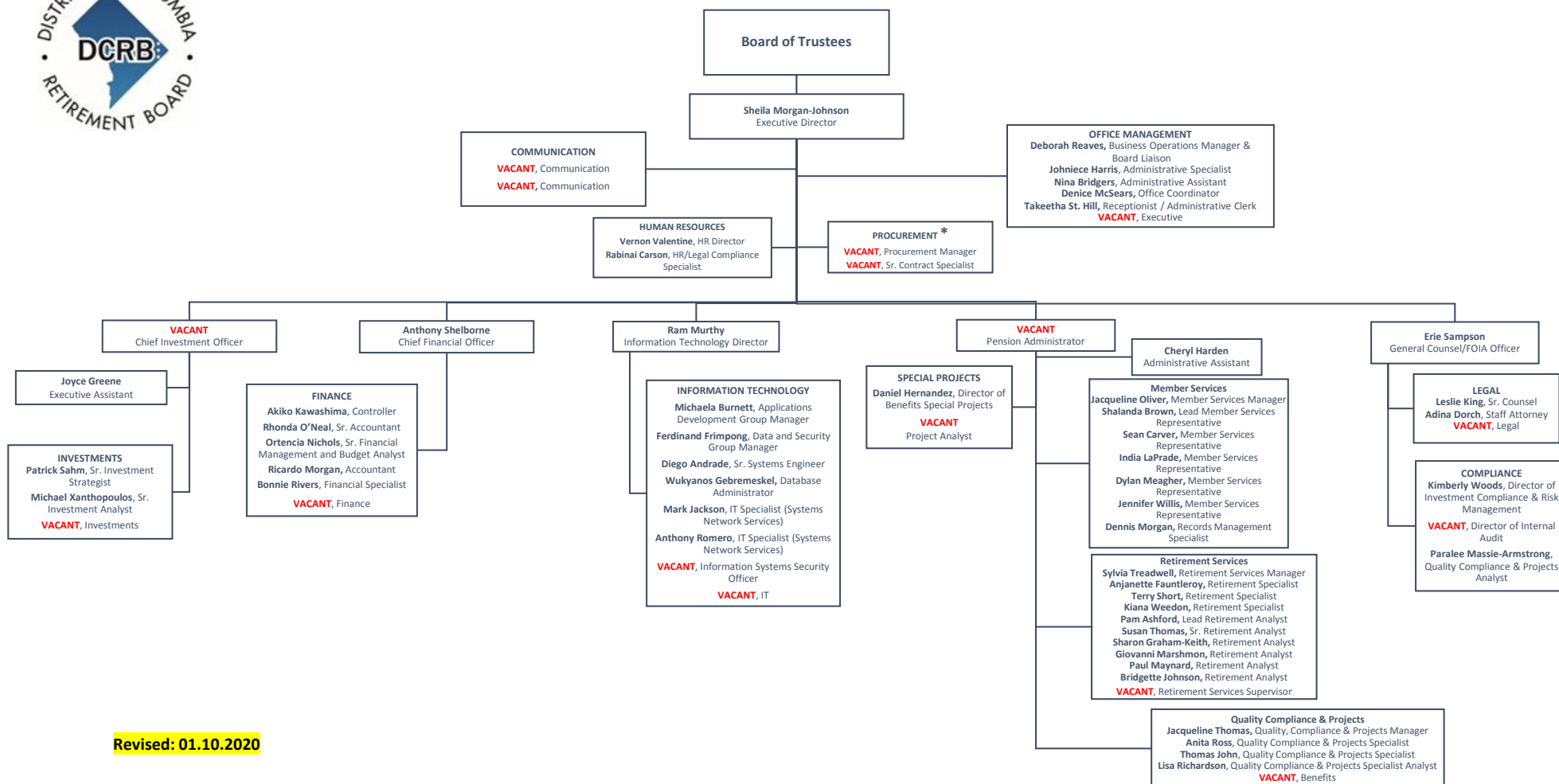
### January 16, 2020

Activities	Updates
<b>Trustee Bios</b>	Trustee bios have been standardized for uniformity. They will be distributed at the Board meeting for your review. Please let us know if there are changes you would like us to make.
<b>MOU for STAR and FileNet Connection</b>	The Office of DC Pensions (Treasury) and DCRB entered into an updated MOU for the interconnections with STAR and FileNet. The MOU sets forth the understanding of the parties concerning the requirements for protecting STAR's PII data.
<b>MLK Holiday</b>	The office will be closed Monday, January 20, 2020 in observance of the Martin Luther King, Jr. Holiday.
<b>Surplus Property Program</b>	DCRB participates in the District's Surplus Property Program managed by the Office of Contracting and Procurement's Surplus Property Division (SPD) that is responsible for the fair and equitable distribution of surplus property. All DCRB surplus property is evaluated and disposed of in accordance with standards established by the Federal Property and Administrative Service Act and followed by SPD. Please note that DCRB cannot donate surplus computers, iPads, laptops, telephones or any other property to individuals, organizations or others.
<b>Reasonable Accommodations</b>	Please note that DCRB received 0 accommodation requests in fiscal year 2019, as reported to the District's Office of Disability Rights.
<b>Staff Attendance at Board Meetings</b>	As noted previously, Staff are invited to Board meetings to educate them on the Board and how it functions. Staff in attendance at this Board meeting today are Joyce Greene and Mark Jackson:  Joyce, who is an Executive Assistant in the Investment Department, joined DCRB on <b>05/17/2004</b> .  Mark, who is an IT Specialist in the IT Department, joined DCRB on <b>09/18/2018</b> .
<b>Staffing Changes</b>	<b>Retirements:</b>  <b>Joan Passerino</b> , Director of Stakeholder Communication and Outreach, retired on December 31, 2019.  <b>Valerie Chandler</b> , Business Analyst, retired on January 3, 2020.

<b>Staff Vacancy Announcements</b>	<p>We are actively recruiting for:</p> <ol style="list-style-type: none"> <li>1. Chief Investment Officer</li> <li>2. Pension Administrator (formerly Chief Benefits Officer)</li> <li>3. Information System Security Officer</li> <li>4. Internal Auditor</li> <li>5. Accountant III (new position)</li> <li>6. Project Analyst (new position)</li> <li>7. Quality Analyst</li> <li>8. Attorney</li> <li>9. Retirement Supervisor (new position).</li> </ol>
<b>Informational Documents</b>	<ul style="list-style-type: none"> <li>• DCRB Organizational Chart as of January 10, 2020</li> <li>• Trustees and Staff Travel &amp; Training Log (December-January 2020)</li> </ul>



## The District of Columbia Retirement Board (DCRB)



Revised: 01.10.2020

\*Staffed by Sasha Bradford, DC Office of Contracting & Procurement (OCP)



Board Meeting - Executive Director's Report

DISTRICT OF COLUMBIA RETIREMENT BOARD Training & Travel Report (For the period of December 2019 thru January 16, 2020)					
Name	Description	Sponsor/Vendor	Location	Dates	
				From	To
Trustees					
No Trustee Travel					
Staff					
No Staff Travel					



**WILL BE PROVIDED AT THE MEETING.**



# **NO WRITTEN REPORT PROVIDED**



900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor  
Washington, DC 20001  
[www.dcrb.dc.gov](http://www.dcrb.dc.gov)



Telephone (202) 343-3200  
Facsimile (202) 566-5001  
E-mail: [dcrb.@dc.gov](mailto:dcrb.@dc.gov)

**TO: BOARD OF TRUSTEES**  
**FROM: MARY COLLINS, CHAIR**  
**DATE: JANUARY 16, 2020**  
**SUBJECT: BENEFITS COMMITTEE REPORT**

---

The previously scheduled January Benefits Committee was postponed, so there is no formal report this month. This meeting will be rescheduled within the next month.



900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor  
Washington, DC 20001  
www.dcrb.dc.gov



Telephone (202) 343-3200  
Facsimile (202) 566-5001  
E-mail: dcrb@dc.gov

TO: BOARD OF TRUSTEES  
FROM: LYLE BLANCHARD, CHAIRMAN  
DATE: JANUARY 16, 2020

SUBJECT: LEGISLATIVE COMMITTEE REPORT

---

The following report reflects activities of interest since the December Board Meeting:

**COUNCIL OF THE DISTRICT OF COLUMBIA**

**B23-0606, “Diversity in Fund Management Amendment Act of 2020”**

The bill proposes to amend the Police Officers, Fire Fighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (“Replacement Plan Act”) to require the District of Columbia Retirement Board to report annually on the affirmative steps it has taken to hire diverse fund managers including minorities, women, and disabled individuals, beginning January 1, 2021.

Status: The bill, B23-0606, was introduced on January 7, 2020, and was referred to the Committee of the Whole.

**PR23-0073, “District of Columbia Retirement Board Michael J. Warren Reappointment Resolution of 2019”**

The proposed resolution reappoints Michael J. Warren to the District of Columbia Retirement Board for a four-year term, to expire January 27, 2023, effective immediately upon publication of the proposed resolution in the District of Columbia Register.

Status: The proposed resolution was introduced by Chairman Mendelson on January 7, 2019. The proposed resolution was referred to the Committee of the Whole.

**PR23-00635, “District of Columbia Retirement Board Joseph M. Bress Reappointment Resolution of 2020”**

The proposed resolution reappoints Joseph M. Bress to the District of Columbia Retirement Board for a four-year term, to expire January 27, 2024, effective immediately upon publication of the proposed resolution in the District of Columbia Register.

Status: The proposed resolution was introduced by Chairman Mendelson on January 2, 2020. The proposed resolution was referred to the Committee of the Whole.

**FEDERAL LEGISLATIVE UPDATE**

**Setting Every Community up for Retirement Enhancement Act of 2019 (SECURE Act)**

The bill is considered by reform advocates to be the most comprehensive retirement security legislation since the Pension Protection Act of 2006 and necessary to help address the retirement plan coverage and

savings gap impacting millions of American workers. The SECURE Act primarily focuses on the defined contribution plan space with measures intended to continue to expand opportunities to save for retirement; increase access to lifetime income products; and help savers make more-informed decisions about their finances with enhancements such as repealing of the maximum age for traditional IRA contributions (age 70½) and increasing the required minimum distribution (RMD) age from 70½ to 72 for defined contribution plans and IRAs.

Status: In December 2019, the Senate voted 71-23 in favor of the fiscal year 2020 appropriations bills, to which the SECURE Act was attached. The House approved the same measure by a vote of 297-120.

**NO WRITTEN REPORT PROVIDED**