

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**DISTRICT OF COLUMBIA**

**ANNUITANTS' HEALTH AND LIFE INSURANCE  
EMPLOYER CONTRIBUTION TRUST FUND**

**Financial Statements and  
Management's Discussion and Analysis  
(With Independent Auditors' Report Thereon)  
Years Ended September 30, 2008, and 2007**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



August 7, 2009

The Honorable Adrian M. Fenty  
Mayor  
District of Columbia  
The John A. Wilson Building  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Vincent C. Gray  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

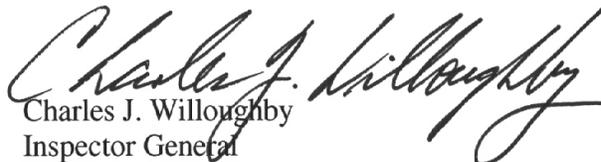
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2008, BDO Seidman, LLP (BDO) submitted the enclosed final report on the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund (Fund).

BDO opined that the financial statements present fairly, in all material respects, the financial position of the Fund, for the year ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America. The financial statements of the Fund as of and for the year ended September 30, 2007, were audited by other auditors whose report, dated March 26, 2008, expressed an unqualified opinion on those financial statements. In accordance with *Government Accounting Standards*, BDO has also issued its report on consideration of the Fund's internal control over financial reporting and on its tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,

  
Charles J. Willoughby  
Inspector General

Enclosures

CJW/ws

Mayor Fenty and Chairman Gray  
FY 2008 and 2007 District of Columbia Annuitants'  
Health and Life Insurance Employer Contribution  
Trust Fund, (with Independent Auditor's Report  
Thereon)  
OIG No. 09-1-35RH – Final Report  
August 7, 2009  
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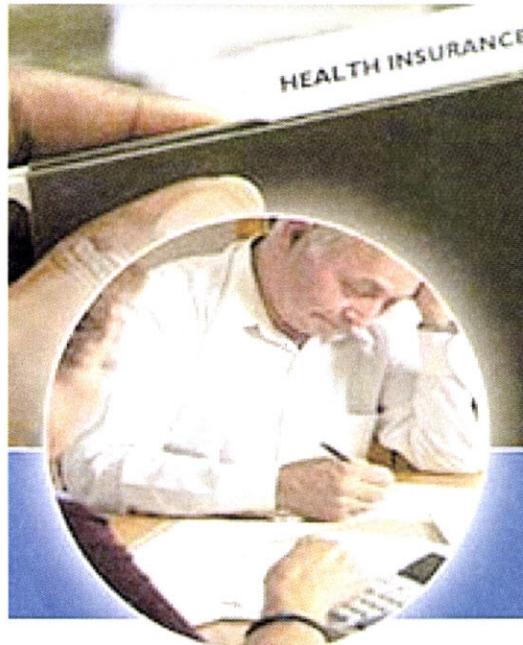
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Mayor Fenty and Chairman Gray  
FY 2008 and 2007 District of Columbia Annuitants'  
Health and Life Insurance Employer Contribution  
Trust Fund, (with Independent Auditor's Report  
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August 7, 2009  
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**Government of the District of Columbia  
Annuitants' Health and Life Insurance Employer  
Contribution Trust Fund**



**Financial Statements and Management's  
Discussion and Analysis  
(With Independent Auditors' Report Thereon)  
Years Ended September 30, 2008 and 2007**

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

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## **Independent Auditors' Report**

To the Mayor, Members of the Council, and the  
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the **Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund** (the Fund) as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended September 30, 2007, were audited by other auditors whose report dated March 26, 2008, expressed an unqualified opinion on those financial statements.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the **Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund** and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia, as of September 30, 2008, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund** as of September 30, 2008, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2009, on our consideration of the Fund's 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.



**BDO Seidman, LLP**  
Accountants and Consultants

Management's Discussion and Analysis on pages 4 through 9 and the required supplementary information on page 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

*BDO Seidman, LLP*

Washington, D.C.  
June 1, 2009

# Government of the District of Columbia

## Annuitants' Health and Life Insurance Employer Contribution Trust Fund

### Management's Discussion and Analysis

#### Introduction

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia (the District) Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) for the period October 1, 2007 through September 30, 2008. This discussion and analysis should be read in conjunction with the attached Statements of Plan Net Assets, Statements of Changes in Plan Net Assets, and Notes to the Financial Statements.

#### Reporting Entity

The District established the Fund, which is a single employer defined benefit plan on October 1, 1999. As of September 30, 2008, the District had not finalized all of the terms and provisions of the Fund. A Trust Agreement, dated September 30, 2006, designated the Chief Financial Officer of the District as the trustee of the Fund. The Trust became operational in fiscal year 2007 and the Fund is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987 who retire under the Teachers Retirement System and the Police Officers and Firefighters Retirement System, or those employees who are eligible for retirement benefits under the Social Security Act, are eligible to participate.

The Fund is administered jointly by the District's Office of Human Resources and the District's Office of Finance and Treasury. The Fund is included as a fiduciary fund in the District's financial statements. These financial statements present only the additions to net assets, deductions to net assets, and related assets, liabilities, and net assets available for postemployment benefits of the Fund.

#### Using This Annual Financial Report

The Fund is required to follow the Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, for financial statement presentation. Under GASB 43, the Fund's financial statements must consist of two basic financial statements: (a) Statement of Plan Net Assets and (b) Statement of Changes in Plan Net Assets. The Statement of Plan Net Assets presents the Fund's assets, liabilities, and net assets available for postemployment benefits as of the end of the fiscal year.

# Government of the District of Columbia

## Annuitants' Health and Life Insurance Employer Contribution Trust Fund

### Management's Discussion and Analysis

The Statement of Changes in Plan Net Assets provides information about additions to, deductions from, and net increases or decreases in the Fund's net assets available for postemployment benefits during the fiscal year.

#### Financial Highlights

- As of September 30, 2008 and 2007, the Fund's cash and investments totaled \$219,684,850 and \$220,459,541, respectively.
- The District's contributions to the Plan were \$110,906,663 and \$147,199,024 for the years ended September 30, 2008 and 2007, respectively.
- The District adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* on October 1, 2007. As such, the District began paying the Annual Required Contributions (ARC) based on an actuarially determined valuation using the parameters of GASB 45. Prior to fiscal year 2008, the District had funded the Plan on a pay-as-you-go basis.

#### Financial Analysis of the Fund, as a Whole

*Table I: Summary of Plan Net Assets*

	2008	2007
<b>Assets</b>		
Cash	\$ 1,602,639	\$ 2,718,797
Investments	<u>218,082,211</u>	<u>217,740,744</u>
Total Assets	219,684,850	220,459,541
<b>Liabilities</b>		
Advance contributions received from the District	<u>-</u>	<u>56,278,463</u>
Net assets held in trust for other postemployment benefits	\$ 219,684,850	\$ 164,181,078

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Management's Discussion and Analysis**

*Assets*

The majority of the Fund's assets were investments which totaled \$218,082,211 and \$217,740,744 at September 30, 2008 and 2007, respectively. The Plan's investments were included in several different funds with three managers: BlackRock, Legg Mason, and Sanford Bernstein. The funds were invested in equity mutual funds (59%) and bond mutual funds (41%). The fair values of each portfolio at September 30, 2008 and 2007, respectively, were as follows:

	2008	2007
BlackRock	\$ 45,381,832	\$ 43,454,231
Legg Mason	64,477,029	50,598,317
Sanford Bernstein	108,223,350	123,688,196
	\$ 218,082,211	\$ 217,740,744

*Liabilities*

The Plan's liabilities as of September 30, 2008 and 2007 were \$0 and \$56,278,463, respectively, on account of advance contributions received from the District and/or used to offset future contribution funding requirements.

- As of October 1, 2006, the Fund had \$53,473,242 in the investment account with Sanford Bernstein. This investment amount was made up of the District's contributions from the General Fund during fiscal years 2001 through 2007 to this Fund, plus the related investment earnings.
- The District subsequently determined that \$37,142,657 of these contributions should not have been transferred from the General Fund to this Fund. These contributions plus estimated income through September 30, 2007 totaled \$51,695,030 and was included in the District contribution advances liability account and was used to offset future contribution funding requirements.
- The District also made pay-as-you-go life and health insurance premium contributions for fiscal years 2002 through 2007 using funds from the General Fund. Such payments should have been made out of this Fund's assets. Total payments of \$4,583,433 from the General Fund were included in the District contribution advances liability account and were used to offset future contribution funding requirements.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Management's Discussion and Analysis**

*Table II: Summary of Changes in Plan Net Assets*

	2008	2007
<b>Additions</b>		
District (employer) contributions	\$ 110,906,663	\$ 147,199,024
Net (depreciation) appreciation in fair value of investments	<u>(53,470,060)</u>	<u>19,787,275</u>
Total additions	<u>57,436,603</u>	<u>166,986,299</u>
<b>Deductions</b>		
Insurance premiums	1,932,831	-
Repayment of contributions received from the District	<u>-</u>	<u>56,278,463</u>
Total deductions	<u>1,932,831</u>	<u>56,278,463</u>
<b>Increase in net assets</b>	<b>55,503,772</b>	<b>110,707,836</b>
<b>Net assets held in trust for other postemployment benefits:</b>		
Beginning of year	<u>164,181,078</u>	<u>53,473,242</u>
End of year	\$ 219,684,850	\$ 164,181,078

***Contributions Received and Contributions Refunded to the District***

During the years ended September 30, 2008 and 2007, the District contributed \$110,906,663 and \$147,199,024, respectively, to the Fund to cover current and future benefits. In fiscal year 2007, the District determined that \$56,278,463 in contributions and accrued investment income from prior years were made to the Fund without the proper budgetary authority. Those funds were set off against the fiscal year 2008 ARC appropriation of \$110,906,663. The resulting net contribution of \$54,628,200 was made directly into the Fund's investments by the District.

The net contribution received from the District in fiscal year 2008 was deposited with the Fund's three investment managers in accordance with the Plan agreement as follows:

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Management's Discussion and Analysis**

BlackRock	\$	14,261,296	26%
Legg Mason		14,407,340	26%
Sanford Bernstein		<u>25,959,564</u>	48%
Total Contribution	\$	54,628,200	

***Changes in Investment Values***

The Fund's investments had a net (depreciation) appreciation for the fiscal years ended September 30, 2008 and 2007 in the amount of (\$53,470,060) and \$19,787,275, respectively. The largest components making up this net change, for the year ended September 30, 2008, were dividend and interest income of \$6,495,198 and net realized and unrealized losses of \$58,715,214 from adverse stock market conditions.

For the year ended September 30, 2008, the Fund's investment accounts held at BlackRock, Legg Mason, and Sanford Bernstein had average negative rates of return of approximately (23.6%), (7.8%), and (24.7%), respectively. For the year ended September 30, 2007, the BlackRock and Legg Mason investments had average rates of return of 12.4% and 1.1%, respectively, while average returns from investments with Sanford Bernstein ranged from 4.6% to 22.9%. Dividend and interest income for the year ended September 30, 2007 totaled \$8,956,484.

***Management Fees***

Management fees charged by the investment fund managers during the fiscal years ended September 30, 2008 and 2007 were \$1,250,044 and \$697,270, respectively. During fiscal year 2008, management fees paid to Sanford Bernstein, Legg Mason, and BlackRock were \$765,985, \$236,984, and \$247,075, respectively.

***Insurance Premiums***

Insurance premiums represent amounts paid to the Fund's health and life insurance carriers for employees' postemployment health and life insurance coverage. Premium expenses for the years ended September 30, 2008 and 2007 were \$1,932,831 and \$0, respectively.

**Government of the District of Columbia  
Annuitants' Health and Life Insurance Employer  
Contribution Trust Fund**

**Management's Discussion and Analysis**

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There was no premium payment made from the Fund in fiscal year 2007, as this was paid for by the District.

**Contact Information**

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer, Government of the District of Columbia, 1350 Pennsylvania Avenue NW, Washington, D.C. 20004.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Statements of Plan Net Assets**

	<i>AS OF SEPTEMBER 30,</i>	
	2008	2007
<b>Assets</b>		
Cash	\$ 1,602,639	\$ 2,718,797
Investments, at fair value:		
Equity mutual funds	128,411,792	146,147,795
Bond mutual funds	<u>89,670,419</u>	<u>71,592,949</u>
Total investments	<u>218,082,211</u>	<u>217,740,744</u>
Total assets	219,684,850	220,459,541
<b>Liabilities</b>		
Advance contributions received from the District	<u>-</u>	<u>56,278,463</u>
Net assets held in trust for other postemployment benefits	<u>\$ 219,684,850</u>	<u>\$ 164,181,078</u>

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

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Statements of Changes in Plan Net Assets**

*FOR THE YEARS ENDED SEPTEMBER 30,*

	2008	2007
<b>Additions to net assets attributable to:</b>		
District (employer) contributions	\$ 110,906,663	\$ 147,199,024
Investment income:		
Dividends and interest	6,495,198	8,956,484
Net (depreciation) appreciation in fair value of investments	(58,715,214)	11,528,061
Management fees	<u>(1,250,044)</u>	<u>(697,270)</u>
Total investment income	<u>(53,470,060)</u>	<u>19,787,275</u>
Total additions	<u>57,436,603</u>	<u>166,986,299</u>
<b>Deductions in net assets attributable to:</b>		
Insurance premiums	1,932,831	-
Repayment of contributions received from the District	<u>-</u>	<u>56,278,463</u>
Total deductions	<u>1,932,831</u>	<u>56,278,463</u>
<b>Net increase</b>	<b>55,503,772</b>	<b>110,707,836</b>
<b>Net assets held in trust for other postemployment benefits:</b>		
Beginning of year	<u>164,181,078</u>	<u>53,473,242</u>
End of year	<u><u>\$ 219,684,850</u></u>	<u><u>\$ 164,181,078</u></u>

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

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Notes to Financial Statements**

**NOTE 1: FUND ADMINISTRATION AND DESCRIPTION**

*a) Description*

Act 13-149 of the Government of the District of Columbia (the District) established the Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) on October 1, 1999. The Fund holds in trust the assets available to pay the District's contribution for health and life insurance for employees hired after September 30, 1987 who retire under the Teachers' and Police Officers' and Firefighters' Retirement Systems or who are eligible for retirement benefits under the Social Security Act. The trust agreement dated September 30, 2006 designated the Chief Financial Officer of the District as the trustee.

The Fund is a single employer defined benefit plan. As of September 30, 2008, the District has not finalized all the terms and provisions of the Fund and a Plan Document has not been completed.

The Fund is administered jointly by the District of Columbia Office of Finance and Treasury (OFT) and the District of Columbia Office of Human Resources (DCHR). OFT is also responsible for investment of the Fund's assets. OFT invests the Fund's assets with three different contracted investment managers: BlackRock, Legg Mason, and Sanford Bernstein. DCHR is responsible for collecting the health and life insurance premiums from regular District retirees, distributing the premium payments to the health and life insurance carriers, and reimbursing the Bureau of Public Debt, a federal government agency, for the District's share of the teacher, police officer, and firefighter premiums. Although not part of the administration of the Fund, the Bureau of Public Debt collects the teacher, police officer, and fire fighter retiree contributions from their paychecks and remits the premiums to the health and life insurance carriers.

*b) Eligibility*

To continue insurance benefits into retirement, employees must have been continuously enrolled (or covered as a family member) under the D.C. Employees Health Benefits (DCEHB) program or the D.C. Employees Group Life Insurance (DCEGLI) program for five years prior to retirement.

# Government of the District of Columbia

## Annuitants' Health and Life Insurance Employer Contribution Trust Fund

### Notes to Financial Statements

If the participant was employed less than five years, then the participant must have been enrolled for his/her length of employment. Coverage under Medicare does not count in determining continuous coverage. Dependents are also covered if the employee elects family coverage.

The Fund's actuary used the latest available census data, which was April 1, 2008, to determine the Fund's actuarial liability at September 30, 2008. The number of retirees, who were active Fund members and who were receiving benefits per the census as of April 1, 2008 totaled 298. These included 16 firefighters, 130 policemen, 44 general workers, and 108 teachers.

#### *c) Funding Policy*

In addition to the District's contributions, Fund members are also required to make contributions. The contribution requirements of the Fund's members and the District are established and may be amended by the Mayor and the Council of the District.

The first actuarial valuation of the Fund's assets and liabilities using Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* parameters was performed in fiscal year 2007, and the District began paying contributions based on the actuarially determined valuation using the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in fiscal year 2008.

No employee contributions to the Fund are required prior to retirement. After retirement, the participant pays 25% of his or her health premium coverage and the District pays the remaining 75%. The participant also pays \$0.3575 per \$1 of life insurance coverage until age 65 for the 75% reduction option. Participants can also elect a 50% or a 0% reduction, which require additional retiree contributions.

The following table shows the schedule of employer contributions for the year ended September 30, 2008:

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Notes to Financial Statements**

	<b>Annual Required Contribution (ARC)</b>	<b>Percentage of ARC Contributed in 2008</b>
2008	\$103,400,000	107.3%

The amount contributed by the District was more than the required contribution, with an objective of prefunding the postemployment liability in 2008. As a result, the excess contribution made by the District in 2008 was approximately \$7,507,000.

***d) Long-term Contracts for Contributions to the Fund***

As of September 30, 2008 and 2007, there were no long-term contracts for contributions to the Fund. Consequently, no amount was outstanding.

***e) Presentation***

The Fund is included in the District's Comprehensive Annual Financial Report as a fiduciary fund. These financial statements present only the additions to net assets, deductions to net assets, and related assets, liabilities, and net assets available for postemployment benefits of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***a) Basis of Accounting***

The Fund's financial statements are prepared using the accrual basis of accounting. The Fund's policy is to recognize member contributions in the period in which the contributions are due. District (employer) contributions to the Fund are recognized when due and when the District has made a formal commitment to provide the contributions. Benefit related expenses and refunds are recognized when due and payable in accordance with the terms of the Fund. Administrative costs of the Fund are paid for by the District.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Notes to Financial Statements**

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***b) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements and the actuarial present value of accumulated benefits during the reporting period. Actual results could differ from these estimates.

Further, actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, interest rates, inflation rates, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

***c) Investment Valuation and Income Recognition***

Investments are reported at fair value with realized and unrealized gains and losses included in the Statements of Changes in Plan Net Assets. Fair value of marketable securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the Fund, with the assistance of a valuation service.

***d) Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the plan (the plan as understood by the District (employer) and the members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the District and members to that point.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Notes to Financial Statements**

Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. A summary of the assumptions used are as follows:

Valuation Date:	September 30, 2008 (based on the April 1, 2008 census)
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent Open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market Value
Investment Rate of Return:	7.25%
Discount Rate:	6.50%
Rate of Salary Increase:	5.0% (plus merit scale)
Rate of Medical Inflation:	10.0% (pre-Medicare) and 9% (post Medicare) grading to 5.25% over 15 years.

***e) Determination of the Annual Required Contribution (ARC)***

The District's (employer) annual contribution expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For purposes of calculating the GASB Annual Required Contribution (ARC), which the Fund has to report each year, the rate of District (employer) contributions to the Fund is composed of the Normal Cost plus amortization of the Unfunded Actuarial Accrued Liability (UAAL).

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
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**Notes to Financial Statements**

The Normal Cost is a portion of the actuarial present value of Fund benefits and expenses which is allocated to a valuation year by the actuarial cost method. The Actuarial Liability is that portion of the Present Value of Projected Benefits that will not be paid by future District normal costs or active member contributions. The difference between this liability and the funds accumulated as of the same date is the UAAL. Also see Note 5.

*f) Reclassifications*

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 financial statement presentation.

**NOTE 3: INVESTMENTS**

The Fund's investments are held by counterparties and are stated at fair value. As of September 30, 2008 and 2007, the Fund's investments were as follows:

	2008	2007
Equity mutual funds	\$ 128,411,792	\$ 146,147,795
Bond mutual funds	<u>89,670,419</u>	<u>71,592,949</u>
Total investments	<u>\$ 218,082,211</u>	<u>\$ 217,740,744</u>

The change in the value of the investments for the fiscal years ended September 30, 2008 and 2007 was (\$53,470,060) and \$19,787,275, respectively.

Management fees charged by the investment funds during the fiscal years ended September 30, 2008 and 2007 were \$1,250,044 and \$697,270, respectively.

The Governmental Accounting Standards Board (GASB) issued Statement No 40, *Deposit and Investment Risk Disclosures*, which requires the disclosure of certain common risks of investments of state and local governments. The Fund's investments are subject to the following risks: custodial credit risk, credit risk, interest rate risk, and foreign currency risk.

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**Notes to Financial Statements**

*Custodial Credit Risk* is the risk that the Fund will not be able to recover the value of its investments or collateral securities if the counterparty fails. The Fund's investments are subject to custodial credit risk because the investments are uninsured and are held by the counterparty not in the Fund's name.

As of September 30, 2008, the Fund did not have any specific operational plan to mitigate this custodial credit risk.

*Credit Risk* is the risk that an issuer to an investment will not fulfill its obligations. The Fund does not invest more than 15% of the Fund's investments in securities rated below "A". As of September 30, 2008, the average quality rating of the Legg Mason and Sanford Bernstein portfolios were AA. BlackRock investments representing approximately 21% of the total investments, are not rated.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund does not have any policies in place to address interest rate risk. However, the average time to maturity of the Legg Mason and Sanford Bernstein portfolios was 5.50 and 5.86 years, respectively at September 30, 2008.

*Foreign currency risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Fund does not have a formal policy for limiting its exposure to changes in exchange rates. Only the Sanford Bernstein portfolio invests in foreign companies. In its attempt to protect against the inherent exchange rate risks involved with foreign investments, Sanford Bernstein employs an "active currency management" approach, which tracks trends in currency prices and combines statistical analysis with quality market research to forecast future currency movements. The Fund uses this information to buy and sell currencies to its advantage, capitalizing on the added premium from the differences in interest rates and net currency value.

This strategy not only protects against the risks involved with foreign currency transactions, but also adds to the net value of the portfolio over time.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
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**Notes to Financial Statements**

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**NOTE 4: ADVANCE CONTRIBUTIONS RECEIVED FROM THE DISTRICT**

District contribution advances, received in 2007, included \$37.1 million of contributions made to the Fund from the District's General Fund during fiscal years 2003 through 2007, which did not have Congressionally approved budget authority. Also included are estimated investment earnings related to these contributions through September 30, 2007 totaling \$14.6 million plus \$4.6 million of claims payments disbursed out of the District's General Fund during fiscal years 2002 through 2007, which should have been disbursed from this Fund.

These District contribution advances amounting to approximately \$56 million were used to offset the fiscal year 2008 annual required contribution of \$110,906,663. The resulting net contribution of \$54,628,200 was made directly into the Fund's investments. As such, the balance for advance contributions at September 30, 2008 was \$0.

**NOTE 5: FUNDED STATUS AND FUNDING PROGRESS**

As of September 30, 2008, the most recent actuarial valuation date, this postemployment plan was 29.5% funded. The actuarial accrued liability for benefits was approximately \$745,200,000 and the actuarial value of assets was approximately \$219,700,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$525,500,000. The covered payroll (annual payroll of active employees covered by the Fund) was \$1,107,100,000 and the ratio of UAAL to the covered payroll was 47.5%.

Governmental Accounting Standards Board Statement (GASB) No. 43 only requires disclosure of the above unfunded liability and does not require the Fund to record the entire UAAL on the accompanying Statements of Plan Net Assets.

The required supplementary information following the notes to the financial statements, provides a multi-year comparison of the assets used for funding purposes to the comparable liabilities to determine how well this postemployment plan is funded, and how this status has changed over the past several years.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Notes to Financial Statements**

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Calculations are based on the types of benefits provided under the terms of the Fund at the time of each valuation and on the pattern of sharing of costs between the District (employer) and Fund members at that point. In addition, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the District and Fund members in the future.

**NOTE 6: DISCOUNTING RATE**

In 2009, the District will have to contribute \$109,110,000 as determined by the actuary in accordance with the actuarial computation made at October 1, 2008. However, the District plans to fund only \$81,100,000 over and above the PayGo cost, which is approximately 75% of the amount required to be contributed. As a result the discounting rate at September 30, 2008 has been adjusted by the actuary to reflect a higher liability in future years. The actuary determined that the range of the discount rate to be used would be between 4.50% and 7.25%. Given the aforementioned facts, the actuary determined that the resulting discounting rate for the actuarial liability computation at September 30, 2008 would be 6.50%.

**NOTE 7: RISKS AND UNCERTAINTIES**

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system triggered significant events and substantial volatility in world financial markets and the banking system that have had a significant negative impact on foreign and domestic financial markets.

Due to the level of risk associated with certain mutual funds, it is at least reasonably possible that changes in the values of mutual funds will occur in the near term and that such changes could materially affect Fund member account balances and the amounts reported in the accompanying Statements of Plan Net Assets.

However, because the values of the Fund's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

**Government of the District of Columbia**  
**Annuitants' Health and Life Insurance Employer**  
**Contribution Trust Fund**

**Required Supplementary Information**

*Schedule of Funding Progress (\$ in millions):*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) (b)	Unfunded Actuarial Accrued Liabilities (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
September 30, 2008	\$219.7	\$745.2	\$525.5	29.5%	\$1,107.1	47.5%
September 30, 2007	\$164.2	\$600.1	\$435.9	27.4%	\$1,090.9	40.0%

Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* became effective for the District in fiscal year 2007. The first actuarial valuation was prepared in 2007 using the required parameters of GASB 43.

*Schedule of Employer Contributions (\$ in millions):*

Fiscal Year Ended September 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	\$103.40	107.3%
2007	N/A	N/A
2006	N/A	N/A

N/A – Information is not available because the District (employer) began paying contributions based on an actuarially determined valuation using GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* parameters in fiscal year 2008.



**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 Mayor, Members of the Council, and the  
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the **Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund** (the Fund) as of and for the year ended September 30, 2008 and have issued our report thereon dated June 1, 2009. 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. The financial statements of the Fund as of September 30, 2007, were audited by other auditors whose report dated March 26, 2008, expressed an unqualified opinion on those statements.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control. We consider the deficiencies listed below and described in greater detail in Appendix A to be significant deficiencies in internal control over financial reporting.

- Plan Investments.
- Contribution and Premium Payments.
- Plan Governance.
- Participant Data and Retiree Folders.
- Accounting for Daily Activity.
- Data in Actuary Report.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following to be material weaknesses.

- Plan Investments.
- Contribution and Premium Payments.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The status of prior year instances of significant deficiencies, material weaknesses, and material noncompliance is presented in Appendix B.

The Fund's responses to the findings identified in our audit are included in Appendix A. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Council, the Inspector General, and management of the Fund, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BDO Seidman, LLP*

Washington, D.C.  
June 1, 2009

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

Plan Investments

Currently, the Plan (also referred to as the Trust) maintains an investment policy which appears insufficient to monitor activities. While it does outline an investment allocation and segregation of duties, it lacks documentation for regular recordkeeping, custodial processes, and management processes. We also noted a variety of other concerns in connection with the administration of the investments. Specifically, we noted the following:

- 1) The investment policy does not consider accounting treatment requirements and valuation risks associated with various types of financial instruments.
- 2) The District did not follow its own investment policy parameters. We noted that while the policy only allows for up to 10% in alternative investments, almost 21% of the funds were invested in alternative investments.
- 3) A team of 2 members at the Office of Finance and Treasury (OFT) made all investment decisions for FY 2008.
- 4) OFT relies on quarterly investment reviews from a third party, and yearly evaluations from each of the fund managers for assessment of fund performance and valuation. OFT does not review these for reasonableness. In particular, we noted that investment income had not been reviewed for reasonableness, accuracy, or completeness.
- 5) Despite confirmation that the BlackRock investment is an alternative investment type, OFT did not perform valuation procedures required by the accounting standards to have sufficient information to evaluate and independently challenge the fund's valuation and assess the composition of the underlying assets. Management is responsible for the fair value of alternative investment amounts as presented in the financial statements, and OFT currently outsources this responsibility to a third party. Outsourcing this function does not eliminate management's responsibility.

As a result, management did not appear to have sufficient information to evaluate and independently challenge the fund's valuation. Management also did not have a documented process for determining the estimated fair value of the investments. Audited financial statements for alternative investments should have been obtained and evaluated by management. The Plan was not able to produce BlackRock's audited financial statements.

- 6) Management fees are charged for each of the funds in the Trust, but they are not regularly monitored, recorded, or reviewed.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

Investment management activities carried out during the year were not sufficient to monitor the different funds in the Trust. We recommend an amendment to the investment policy in order to clearly define controls and processes. This will help ensure that funds are allocated appropriately to achieve the greatest benefit and that investment income is accurate, complete, and reasonable. The investment policy should also include provisions for the preparation of monthly reconciliations, the recording of all management fees and investment income, and appropriate managerial valuation of alternative investments.

The District may consider the establishment of an investment committee which would be entrusted with the task of managing the funds.

Consideration may also be given to external consulting with investment specialists. As the securities markets have become more volatile, the District has to more closely and frequently monitor interest rate and market changes, maturity dates, interest and dividend receipts, economic developments, etc., and make decisions about how to invest new money or maturing instruments.

***Management's Response:***

The investment policy was not intended to cover administrative issues such as recordkeeping and the custody of assets. We will review the written procedures we developed for the Plan and adjust them to include record keeping and the custody of assets. We are in process of amending our investment policy and we will consider the suggestions made to include provisions regarding the accounting and valuation of our financial assets. Investment decisions were properly reviewed and approved in 2008. The investment of available cash is reviewed with our investment advisor and its recommendations are then reviewed at OFT. Investments are made in accordance with investment policy and our asset allocation guidelines. The Trust Fund's Investment Policy clearly establishes authority and responsibility by assigning duties to senior members of the Office of the Chief Financial Officer (OCFO). In Section 2, it assigns the responsibility for the approval of investment strategies to the Deputy Chief Financial Officer and Treasurer. This Section also assigns responsibility for the review and reporting of the financial condition of the fund to the Associate Treasurer for Asset Management. A new Associate Treasurer with extensive investment experience was hired in September 2008 and he has augmented the investment team.

We disagree with the statement that the District did not follow its investment policy. We assume that this statement refers to the investment in the BlackRock Growth Fund. We do not consider this an alternative investment, and this conclusion is supported by our investment advisor. Sections 7 and 8 of the Investment Policy clearly outline asset allocation procedures, the criteria for determining approved investments and the use of appropriate benchmarks.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Annuitants' Health and Life Insurance  
Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

Investments in assets such as mutual funds and collective investment funds are specifically authorized investments and are considered a potential investment vehicle to implement designated asset classes e.g., equity mutual funds or collective funds are considered equities for the purposes of asset allocation. We will, however, clarify how the asset allocation strategy takes into consideration various investment vehicles and their underlying assets when we amend the investment policy.

The Plan has an independent investment advisor who reviews investment performance on a monthly and quarterly basis. The quarterly review is more comprehensive in nature including an analysis of the performance of individual investment managers including specific analysis of the underlying holdings within the portfolios. It also provides a review of the total fund performance relative to the market and peers by using a custom benchmark and peer universe comparisons. The report will review the current asset allocation of the Plan to be sure it is compliant with the target policy ranges.

BlackRock's custodian independently values the holdings in the fund. During the preparation of the quarterly reports, the consultant independently reviews the valuation of the securities held in the BlackRock Fund. Copies of this review are distributed to senior management. Audited financial statements are available for BlackRock. The fund holds large capitalization, widely traded companies such as Walt Disney Co., Wal-Mart Stores, Exxon Mobil, and Johnson and Johnson. We have a copy of the audited 2007 financial statements and a draft of the 2008 report. The final 2008 audit is expected shortly. The availability of financial audited financial statements and input from our independent consultant provides us with the basis to judge the adequacy of the fund's valuation process.

We meet with the investment managers at least annually. Our investment advisor attends these meetings to provide an independent perspective on the presentations. Our investment advisor holds periodic meetings separate from our collective meetings to monitor the firm and performance and provides formal due diligence write-ups to the OCFO. OFT remains abreast of the current market environment through conference calls and topical research pieces from the investment consultant in addition to discussions at quarterly meetings.

Fund reports are reviewed by management and formal presentations by fund managers are also reviewed by management and a representative from our investment consulting firm. OFT cannot and does not delegate its responsibilities to a third party. We use a consultant to provide an independent perspective on the performance of the investment managers and their funds. The responsibility to make changes based on this input rests with us.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

Management fees are calculated separately for only two of our investments. These are the Bernstein Growth and Value Funds. Bernstein provides invoices on a quarterly basis and they are reviewed by OFT. The remaining fees are charged through mutual fund expenses and they are reviewed as part of the annual audit of the trust fund.

During FY 2008, we began reconciling the investment accounts on a monthly basis. These reconciliations are sent to the Associate Treasurer for review. We will consider establishing a formal Investment Committee to review investment policy, fund performance, and conformity to the fund's Investment Policy. However, we feel that our current processes are effective.

Contribution and Premium Payments

*Premium Payments*

During our procedures over premium payments (employer portion), we noted the following:

- 1) For the first ten months of the fiscal year, premium payments were not paid from the Trust's account, even though that was one of the purposes of establishing the Trust. The Bureau of Public Debt (BPD) received bills from the insurance carriers and paid them as they were received. The District's Office of Personnel Management (OPM) and Office of Finance and Resource Management (OFRM) reimbursed BPD for the monthly employer premium payments. In some months, the insurance providers billed the District directly, and those payments were also made from OFRM and OPM. In essence, the District was paying for the premiums on behalf of the Plan.
- 2) Money was contributed to the Trust specifically to make premium payments under the provisions of the Plan. However, the District was paying for these retiree benefits without any requests for repayment. Additionally, these expenditures were not approved or allowed for within the District's budget and the premium payments were made without proper verification of budgetary authority.
- 3) Payment from the District's General Fund as opposed to payments from the Trust results in a liability from the Plan to the District which had not been established on the books of the Plan.
- 4) The total amount of payments made by the District on behalf of the Plan is estimated to be approximately \$1,800,000.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

- 5) A proper chain of responsibility over insurance billings has not been established, as invoices were sent to and paid by different agencies at different times of the year.

*Contribution Payments*

Under new standards issued by the Governmental Accounting Standards Board, the District had its postretirement Health and Life Insurance Contribution Trust Fund (the Plan) audited for the first time in FY 2007. The District is required by law to ensure that any funds earmarked from the General Fund which are to be contributed to a benefit plan are included in the approved budget and properly reserved.

- 1) We noted that over \$37,000,000 of contributions to the Plan were made since 2003 without proper budgetary authorization. These contributions were made from the accumulated General Fund "budgetary savings" which were a result of the District funding a significant portion of its required contributions to the separate 401(a) Plan from various 401(a) Plan forfeitures. We also noted that pay-as-you-go employer contributions in the amount \$4,583,433 made since 2002 were paid out of the General Fund. The District's pay-as-you-go contributions should be paid out of the Plan's assets.
- 2) In an attempt to correct this, during FY 2008, the Plan offset the aforementioned unapproved contributions, including interest earned for a total amount of \$56,000,000 from the \$110,000,000 set aside to fund the Plan for FY 2008.
- 3) However, the \$56,000,000 owed to the District remained with the Plan for an additional 9 months through the end of June 2008. The Plan did not calculate and submit any additional interest incurred during this additional holding period.
- 4) During FY 2008, another unapproved and unreserved for payment was made by the District to the Plan and amounted to \$5,400,000. The Plan did refund the money in June 2008, but did not repay the interest accrued on the investment.

The District should verify that budget authority for all proposed payments exists before transfers are made from the General Fund. We recommend management ensure adequate controls are in place over the contributions and disbursement process.

*Management's Response:*

This issue was corrected in FY 2008. The District was reimbursed for expenses incurred in FY 2008. Requests for reimbursements are sent directly to the Office of Finance and Treasury (OFT) for processing.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Annuitants' Health and Life Insurance  
Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

All pay-as you go contributions were paid out of the Plan assets in FY 2008 and we continue to pay these costs from the trust fund. The plan to reimburse the District for unapproved contributions was made as a result of last year's audit. The interest on these contributions was calculated by our investment advisor, EAI. Interest was calculated through September 30, 2007 and once the calculations were completed, we processed the transaction as soon as possible.

The comments related to this problem were made at the end of March 2008 and the correction was made in June 2008. The \$5,400,000 million investment was made at a price of \$11.26 per share and we purchased 476,808.682 shares of the BlackRock fund. The redemption in June was made at \$9.88 per share. We sold an additional 66,600 shares to make the District whole on this transaction.

If we sold the original number of shares, we would have incurred a loss of \$658,000. Selling additional shares more than offset any interest accrued on the investment. Please note that BlackRock's financial report indicated that the fund earned net investment income of \$.04 per share per year while these monies were in the fund.

Transfers are not made from the General Fund unless an appropriation has been authorized.

Plan Governance

For any retirement and other employee benefit plans, the Plan Document is the legally binding document that defines the benefits, eligibility, and administration of the Plan's activity. The Plan Document further defines the responsibilities of the Plan Sponsor and Administrator.

The District, the Plan Sponsor, has not completed a Plan Document for the Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Plan). As of April 1, 2008, the Plan has 254 teachers, police officers, and firefighter retirees and 44 regular District retirees. Teachers, police officers, and firefighter retirees are administered by the District of Columbia Retirement Board (DCRB) and others are administered by the District's Department of Human Resources (DCHR).

Due to the lack of a Plan Document, the responsibilities of the administration of the Plan are not clearly defined and retirees may not be fully aware of the postretirement benefits that are available to them. The lack of a Plan Document results in unclear processes and administration responsibilities within the District. It can also increase the risk of disputes over benefit entitlements, enrollment eligibility, and participants' responsibilities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

We noted that the District has set up an irrevocable trust for the Plan, effective September 30, 2006. However, the trust does not define the terms of the Plan. We continue to recommend that a comprehensive Plan Document be prepared and implemented as soon as possible.

***Management's Response:***

A primary reason that a Plan Document has not been completed is that the level of post-employment benefits has been under review and consideration by the City Administrator and the Department of Human Resources (DCHR) for possible revision. This review should be completed during FY 2009, and once the level of benefits is confirmed or revised, a formal Plan Document can and will be developed. However, the D.C. Code outlines eligibility requirements, the level of post-employment health and life insurance benefits, and the respective portions of the cost of these benefits to be covered by the District and the former employee(s).

In addition, employees complete an application to continue or discontinue their benefits into post-retirement at the end of their employment tenure. Those who elect to continue benefits into post-employment receive a letter from DCHR outlining the benefits selected, the cost, and the procedure they should follow to make premium payments.

Administrative and investment responsibilities are divided between the Office of Finance and Treasury (OFT) and DCHR. OFT is responsible for the investment and management of trust fund assets as stated in the written trust agreement. Trust fund assets are invested in accordance with a written Investment Policy and are reviewed on a regular basis with an investment consulting firm and the Plan's investment managers. DCHR works with employees transitioning to retirement status and provides them with the counseling and information needed to maintain their benefits.

**Participant Data and Retiree Folders**

The Postretirement Health and Life Insurance Trust (the Plan) needs to improve its record-keeping over retirees and active personnel. During our procedures, we noted the following:

- 1) We were not provided with adequate support for 6 of the 72 sample items requested by us for testing participants and active employees.
- 2) For all the participant's files reviewed, the hire data listed in the database did not exactly agree to the hire date per the retirees' file.
- 3) Several of the participant folders reviewed did not have the benefits enrollment form.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
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Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

- 4) For some participant files reviewed, the date of birth per the files did not agree with the date of birth per the database used by the actuary for valuation purposes.
- 5) The District of Columbia Retirement Board was unable to locate 2 files and the Metropolitan Police Department was unable to locate 1 file.
- 6) The database did not include proper employees' ID or Social Security Numbers, which is necessary to uniquely identify each annuitant or survivor.
- 7) There are no records of whether the general retiree portion of premium payments, which are mailed to the District's Department of Human Resources (DCHR) were received and recorded by the Office of Finance and Treasury (OFT), and forwarded onto insurance carriers. OFT was unable to confirm the amount due from retirees.
- 8) Completeness of data used for actuarial calculation purposes is problematic since the actuary obtains the data from multiple sources and then modifies it for inclusion in the actuarial valuation.

We recommend a formal oversight process be implemented over the Plan to resolve these issues.

***Management's Response:***

Management concurs with some of the issues and understands there are some control deficiencies. OFT management will work closely with the District of Columbia Human Resources (DCHR) and the District of Columbia Retirement Board (DCRB) to ensure that personnel data, retiree premium payments, and other information that is included in the actuarial calculations is complete and accurate. We will look to incorporate audit recommendations into policies and procedures for FY 2009.

**Accounting for Daily Activity**

During our audit process, we noted the following:

- 1) Several assets and liabilities were not recorded or were improperly recorded. The liability related to premiums payable to insurance carriers was initially not reflected on the books and records. This was due to the District's policy of recording expenses when paid as opposed to when they were incurred. Further, although deemed insignificant to overall operations, the District did not record any receivables related to contributions from retirees.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Annuitants' Health and Life Insurance  
Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

- 2) The financial statements were not prepared in a timely manner and the balances were changed several times during the course of the audit. Further, auditable support for certain balances included in the financial statements was difficult to obtain and alternate methods were required to satisfy audit procedures.
- 3) Amounts related to beginning of year net assets, investment income, and investment losses were not correctly presented or reported on the financial statements provided for our review. In addition, several required note disclosures were missing, along with certain required supplemental information.

We recommend that management should strengthen its processes to ensure that the financial statements are accurately presented and that financial activity is recorded in a timely manner.

***Management's Response:***

Most of these comments were addressed with the release of the final version of the financial statements and net assets were correctly reflected. Financial statements were delivered as soon as possible. The District hired a new firm to assist with the preparation of the financial statements and this contributed to the time required to complete the reports. The statements were changed several times in response to comments received from various parties who reviewed them. We will review procedures to record assets and liabilities and we will make changes if they are appropriate.

**Data in Actuary Report**

The District's actuarial report should be complete so that it can be relied upon for a comprehensive analysis and for an accurate calculation of the ending liability. The District should make every effort and ensure that certain analyses and data information are provided to the actuary in order to achieve a completed report. During our review of the 2008 actuarial report, several conditions were noted as follows:

- 1) An estimated salary increase of 5% was used in the actuarial valuation; however, it is noted that on average, the salary increase for the past several years has not been more than 3-4%. This has the effect of overstating costs in initial years and understating costs in succeeding years.
- 2) There were several changes in assumptions that were not disclosed in the actuarial report and it was unclear who had taken full responsibility for all the assumptions used in the valuation.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Annuitants' Health and Life Insurance  
Employer Contribution Trust Fund**

**Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**

- 3) The report did not include a description of how administrative costs were being funded.
- 4) While deemed relatively insignificant, we noted that there was no separate analysis conducted on the portion of the Plan which relates to the life insurance liability.
- 5) There were participant data inconsistencies which resulted in significant changes to the amount of the actuarially determined liability during the audit process.

We recommend that the District should institute a procedure for clear communication with the actuary and that the actuary should perform certain analyses to help compare trends and other statistics related to the computed liability, and therefore satisfactorily explain changes. The District will have to provide the necessary data to the actuary, in order to enable the actuary to perform these analyses.

***Management's Response:***

Management will work with the actuary to make sure an industry standard for salary increases is used when calculating the actuarial valuation. Management will also address other weaknesses that were identified in the finding; specifically, findings related to the data provided to the actuary and the communication between management and the actuary.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Annuitants' Health and Life Insurance**  
**Employer Contribution Trust Fund**

**Status of Prior Year Significant Deficiencies, Material Weaknesses, and**  
**Material Noncompliance with Laws and Regulations**

<b>Nature of Comment</b>	<b>Type Of Comment in Fiscal Year 2007</b>	<b>Current Year Status</b>
Participant Data and Retiree Folders	Control Deficiency	Significant Deficiency
Plan Governance	Control Deficiency	Significant Deficiency
Plan Investments	Control Deficiency	Material Weakness