



Pension Benefit Guaranty Corporation
Office of Inspector General
Audit Report

**Improvements Are Needed To
Achieve Better Efficiency And
Effectiveness In PBGC's
Benefit Determination Process**

March 2, 1999

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Efficiency and Effectiveness In
PBGC's Benefit Determination Process**

Audit Report 99-2/23128-1

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TAB I MANAGEMENT COMMENTS

ABBREVIATIONS

ALG	Automated Letter Generator
BMPRS	Budget, Management, Planning and Reporting System
CCRD	Contracts and Controls Review Department
CFND	Corporate Finance and Negotiations Department
C.F.R	Code of Federal Regulations
DOPT	Date of Plan Termination
DOTR	Date of Trusteeship
DUEC	Due and Unpaid Employer Contributions
ERISA	Employment Retirement Income Security Act of 1974
FBA	Field Benefit Administrator
FOD	Financial Operations Department
FY	Fiscal Year
IAB	Investment Accounting Branch
IDL	Initial Determination Letter
IOD	Insurance Operations Department
IPS	Image Processing System
OIG	Office of Inspector General
PBGC	Pension Benefit Guaranty Corporation
PPD	Pre-Termination Processing Division
PRISM	Participant Records Information System Management
TPD	Trusteeship Processing Division
UBL	Unfunded Benefit Liabilities

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EXECUTIVE SUMMARY

INTRODUCTION

The Honorable Charles E. Grassley, Chairman of the Special Committee on Aging, United States Senate, asked that we conduct an audit to answer certain questions regarding Initial Determination Letters (IDL). An IDL is a notification to participants and others, as required, of Pension Benefit Guaranty Corporation's (PBGC) official decision regarding entitlement to, amount and other conditions of a benefit. The IDL is generated as a result of the benefit determination process managed by the Insurance Operations Department (IOD).

Although PBGC's current process has increased the number of IDL's issued annually, opportunities to improve the efficiency and effectiveness are identified in key areas: (1) developing and implementing timeliness performance measurements that would link to PBGC's strategic goals and desired performance outcomes, (2) taking reasonable steps to ensure that IDLs have been issued to all participants, (3) strengthening controls to accurately account for IDLs issued, (4) eliminating redundant activities within the benefit determination process, (5) collecting plan records earlier, (6) establishing mandatory training requirements for employees responsible for the benefit determination process, and (7) ensuring that time spent performing the benefit determination processes is accurately captured and recorded.

FINDINGS AND RECOMMENDATIONS

1. IOD's Performance Measures Are Not Time Sensitive.

IOD's performance measures, useful in tracking progress of the benefit determination process, do not include a timeliness standard. This weakness in establishing a timeliness standard has been reported to PBGC by the OIG in the past. Implementation of a timeliness standard and the consistent and accurate capture of data to support the standard would provide PBGC significant information to measure its performance outcome of issuing IDLs within 3-5 years of plan trusteeship. This would provide PBGC management valuable information to formulate operational strategies to reduce the time it takes to issue IDLs.

Recommendations

We recommend that PBGC implement the following corrective action:

Establish timeliness performance measures for principal activities of the benefit determination process. (IOD-158)

Establish an annual goal for closing plans to complete the benefit determination process. (IOD-159)

2. PBGC Cannot Ensure All IDLs Have Been Issued To Participants.

Based on our review, we could not verify whether all IDLs were issued to participants in certain terminated pension plans. To review this issue, we selected a sample of 60 terminated pension plans representing approximately 87,000 IDLs. We could not find an IDL in PBGC's imaged records for all participants in our sample. PBGC could not provide an imaged or paper copy for 59 out of 177 IDLs. If an IDL is not issued, then PBGC would not be in compliance with its regulations. Further, the participant would be denied due process and the right to challenge PBGC's benefit computation. We expect that PBGC would take reasonable steps to identify participants in plans already processed to ensure that all IDLs have been issued.

Recommendations

We recommend that PBGC take the following corrective actions:

Take reasonable steps to identify whether there are participants who have not received an IDL (IOD-160)

Institute quality control reviews to ensure that current control procedures relating to IDL issuance are working properly (IOD-161)

3. PBGC Cannot Accurately Account for IDLs.

PBGC cannot accurately account for its universe of IDLs yet to be issued due to PRISM data integrity issues. In addition, we found that the controls in place to ensure the accuracy of the manual count of IDLs issued were weak. Without strong controls, IDLs may be miscounted and workload and related accomplishments may be misstated.

Recommendations

We recommend that PBGC take the following corrective actions:

Take steps to determine whether the universe of IDLs is based on reliable IDL data. (IOD-162)

Strengthen control procedures to ensure that the manual compilation of IDLs issued which PBGC uses to support the accomplishment of its strategic goals, is accurate and complete (IOD-163)

4. PBGC Should Eliminate Redundant Activities.

We identified certain activities which appear to be performed repeatedly throughout the benefit determination process. This repeating of processes is commonly known as duplicate processing, and, when present, results in process inefficiencies such as increased processing time and costs. Our review identified three activities -- Actuarial Peer Reviews, Controlled Group and Net Worth Audits, and Plan Assets Reconciliations -- with the potential for redundancy.

Recommendations

We recommend that PBGC take the following corrective actions:

Review actuarial peer reviews, controlled group and net worth audits, and the reconciliation of plan assets to determine whether redundant activities exist (IOD-164)

Determine whether the redundant activities identified should be eliminated (IOD-165)

5. Participant Information Should Be Gathered Earlier.

The benefit determination process is dependent upon obtaining essential plan data and participant records. In most cases, PBGC waits until it becomes the trustee before attempting to obtain the information necessary to determine plan benefits. Obtaining the records earlier may avoid some of the difficult and reconstruction of plan records. This, in turn, will enable PBGC to perform the activities in the benefit determination process and issue IDLs in a more timely manner.

Recommendation

We recommend that PBGC take the following corrective action:

Develop and implement policies and procedures based on ERISA section 4003 authority to ensure that plan records essential to the benefit determination process are obtained at the earliest possible time (IOD-166)

6. Training Policy Should Require A Mandatory Core Curriculum.

IOD designed a core curriculum to provide uniform knowledge and guidance about the benefit determination process. Although a core curriculum is available, it is not mandatory training for IOD personnel. By not using the core curriculum, IOD may be placing PBGC "at risk" by not having human resources prepared to consistently and accurately process terminated pension plans. In addition, it may be a waste of government resources to design a core curriculum and not follow through in delivering the training to IOD personnel.

Recommendation

We recommend that PBGC take the following corrective action:

Establish a policy requiring that IOD's core curriculum training is mandatory (IOD-167)

7. Strengthen Compliance Over IOD's Time Accounting Requirements.

IOD implemented a Budget, Management, Planning and Reporting System (BMPRS) to capture, accumulate and track employee time spent on benefit processing tasks. Our review disclosed that PBGC is aware that the time recorded in BMPRS is incomplete and inaccurate. Recording employee time accurately and completely would assist management in determining the time required to accomplish each activity within the benefit determination process. Knowing the time requirements would enable management to project resource needs, to formulate operational plans, and to manage the benefit determination process more efficiently and effectively.

Recommendation

We recommend that PBGC implement the following corrective action:

Enforce compliance with time accounting requirements established in IOD's Procedures Manual (IOD-168)

AGENCY COMMENTS AND OIG EVALUATION

A draft Report was provided to the agency for comment. In addition, we met with PBGC officials on several occasions to discuss the Report's findings. Subsequently, we made clarifications to the Report in response to management concerns, as appropriate. We have reviewed PBGC's comments to this Report. PBGC indicated in its response that it generally agreed with the findings for numbers 1, 3, 4, 6 and 7 and the related recommendations. However, they did not indicate complete agreement with the findings and recommendations for numbers 2 and 5.

In addition to PBGC's response to the findings and recommendations, it included a narrative of its benefit calculation process and a summary of improvements that have taken place since 1993. As we have not audited PBGC's representations in both the response to the findings and recommendations as well as the narrative, we cannot comment on the veracity of their statements. Regarding finding numbers 2 and 5, our evaluation of PBGC's response is as follows:

Finding 2 - PBGC Cannot Ensure All IDLs Have Been Issued To Participants.

PBGC was silent as to their agreement or disagreement with the finding and related recommendations. During the audit, we provided PBGC with a listing of IDLs that we could not locate. We asked PBGC to search their electronic and paper files to find and produce these IDLs. After searching, PBGC could not account for 59 IDLs. Subsequent to issuing the draft report, at PBGC's request, we again provided PBGC with the listing of the 59 missing IDLs for their research. As a result of their continued search, PBGC was able to produce 6 of the 59 missing IDLs. For 3 additional IDLs, PBGC could not provide the IDL but did provide information from the Participant and Employer Appeals Department indicating an IDL was issued.

In its comments to the draft report, PBGC asserted that "these instances represent recordkeeping matters related to older plans rather than instances where PBGC failed to issue an IDL." PBGC then provided various explanations as to why the remaining 50 IDLs were missing. For example, they stated many of the IDLs were attributed to either deceased participants who had no surviving spouses, or to participants that had received lump sum payments. In most instances these participant files had been sent to the Federal Records Center. Now we have been informed that the records were destroyed.

In analyzing PBGC's comments, we reviewed the information found during the audit. We had captured "IDL issue dates" recorded in PRISM and found that many were default dates. PRISM requires that a date be entered in this field before the information can be processed. In this case, the default date was the DOTR. In this sample of 50 missing IDLs, more than 50% have default dates for the "IDL issue date" in PRISM. In addition, as presented in Finding #2, PBGC stated that in the past the major concern was getting participants into pay status and not issuing IDLs. Also, PBGC did not always issue IDLs to deferred vesteds and to participants who received lump sum payments.

We cannot agree with PBGC that these are "recordkeeping matters." Given PBGC's comments during the audit coupled with the default dates in PRISM for IDLs, we still question whether the IDLs have been issued. The fact remains PBGC cannot certify that all IDLs have been issued because their records are incomplete.

Finally, our testing indicated that there are potential problems regarding the control over records maintenance. Since PBGC could not produce the IDLs for our review there is an appearance that they have not been issued. As we reported, this may

indicate a potential problem with PBGC's compliance with its regulations regarding IDLs

Finding 5 - Participant Information Should Be Gathered Earlier.

Although PBGC agrees that the records should be secured as early as possible, they have concerns that ERISA § 4003 does not provide a basis to collect plan records. Section 4003(a) of ERISA states

The Corporation may make such investigations as it deems necessary to enforce any provisions of this title or any rule or regulation thereunder

Section 4003(b) further provides that

For the purpose of any such investigation, or any other proceeding under this title . . . take evidence and require the production of any books, papers, correspondence, memoranda, or other records which the corporation deems relevant or material to the inquiry

We believe section 4003 does provide PBGC with the authority to obtain records early in the process. During the audit we discussed this matter with attorneys in OGC, who generally agreed that section 4003 was legal authority PBGC could assert to obtain records during the benefit determination process

Management's Comments Regarding PRISM

In general, PBGC has made certain representations regarding the functionality of PRISM. For example, PBGC cited PRISM's ability to account for IDLs and to provide for accurate benefit payments. However, our *Report on Internal Controls* from the 1998 Financial Statement Audit (99-7/23132-2), conducted by PricewaterhouseCoopers LLP, identified areas where control could be strengthened to reduce risks associated with the benefit payment process and participant record integrity. This report is available upon request.

The full text of PBGC's comments are attached to this report at Tab I

This Report is one of four issued by the OIG in response to questions posed by Senator Grassley concerning PBGC's issuance of IDLs.

- *Improvements Are Needed To Achieve Better Efficiency and Effectiveness in PBGC's Benefit Determination Process* (OIG Report 99-2/23128-1),
- *The Length of Time It Has Taken PBGC To Issue Initial Determination Letters* (99-3/23128-2),
- *Pension Plan Participants Impacted By Delays In Initial Determination Letter Issuance* (OIG Report 99-1/23128-3); and
- *Audit of PBGC's Response To Certain Questions Concerning Appeals of PBGC Initial Determinations of Pension Benefits* (OIG Report 98-10/23131)

**Improvements Are Needed To Achieve Better
Efficiency and Effectiveness In
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Audit Report 99-2/23128-1

INTRODUCTION

The Honorable Charles E. Grassley, Chairman of the Special Committee on Aging, United States Senate, asked that we conduct an audit to answer certain questions regarding Initial Determination Letters (IDL). The Chairman stated that information had come to his attention that the Pension Benefit Guaranty Corporation (PBGC) often takes unreasonable periods of time to issue IDLs. Further, the Chairman requested a multi-year evaluation of the efficiency and effectiveness of the current benefit determination process used by PBGC to issue IDLs.¹ This report presents our findings and recommendations.

BACKGROUND

The PBGC was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. PBGC is a government corporation that protects the pensions of more than 42 million Americans in approximately 42,000 single-employer and 2,000 multiemployer defined benefit plans. PBGC states that its mission is to operate as a service-oriented, professionally managed agency that protects participants' benefits and supports a healthy retirement plan system by

- encouraging the continuation and maintenance of private pension plans,
- protecting pension benefits in ongoing plans,
- providing timely payments of benefits in the case of terminated pension plans, and
- making the maximum use of resources and maintaining premiums and operating costs at the lowest levels consistent with statutory responsibilities.

PBGC's programs are financed by revenues obtained from premiums paid by sponsors of covered pension plans, assets from terminated plans that PBGC trustees recoveries from the companies formerly responsible for the trusteed plans and investment income. In addition, PBGC insures pensions, within statutory limits, of participants in certain defined benefit single-employer and multiemployer² pension plans that meet the criteria specified in ERISA § 4021.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits of underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions

¹ The Chairman's other questions are addressed in OIG Reports 99-3/23128-2, *The Length Of Time It Has Taken PBGC To Issue Initial Determination Letters*, 99-1/23128-3, *Evaluation Of Impact On Pension Plan Participants Of Delays In Issuance Of Initial Determination Letters*, and 98-10/23131, *Audit of PBGC's Response To Certain Questions Concerning Appeals of PBGC Initial Determinations of Pension Benefits*.

² Under the multiemployer program, when a plan becomes insolvent, it receives financial assistance from PBGC so that the plan can continue to pay participants their guaranteed benefits. Consequently, IDLs are not issued.

for a distress termination, as defined in ERISA § 4041(c)(2)(B), is met PBGC may also involuntarily terminate a plan under one of five statutory tests in ERISA § 4042(a) Furthermore, ERISA § 4042 requires that a trustee be appointed for underfunded, terminated plans In practice, PBGC routinely becomes trustee, however, PBGC's appointment is not automatic The trusteeship is accomplished either by voluntary agreement or court order upon PBGC's application. At September 30, 1998, PBGC was the guarantor and trustee, or in the process of becoming trustee, of 2,665 terminated pension plans with approximately 209,000 participants receiving benefits totaling \$848,000,000 When eligible, another 264,000 deferred vested participants will receive benefits

OVERVIEW OF THE BENEFIT DETERMINATION PROCESS

An IDL is a notification to participants and others, as required, of PBGC's official decision regarding entitlement to, amount and other conditions of a benefit The IDL is generated as a result of the benefit determination process managed by the Insurance Operations Department (IOD). According to IOD's procedures manual, there are several processes which must be completed before IDLs can be provided to participants³ PBGC categorizes these benefit determination processes as pre-termination, initial trusteeship, audit, and valuation After these processes are completed, PBGC issues the IDLs during the notification process The final process is case closure.

Pre-Termination Process

This process involves PBGC's investigation of pension plans to determine whether a plan should be terminated and trusteeed PBGC generally becomes aware of a potential problem plan through a reportable event notice,⁴ a distress termination application pursuant to ERISA § 4041(c), or some action highlighting a problem PBGC also monitors companies with pension plans underfunded by at least \$5 million to identify transactions that could jeopardize their pension plans

PBGC gathers documentation and information on the financial condition of the plan, the plan sponsor (generally, the employer), and the controlled group (trades or businesses under common control) If the plan sponsor is a member of a controlled group, PBGC estimates the controlled group's net worth to determine whether there is a viable entity or group of entities within the controlled group that can afford to fund the plan If so, PBGC will not terminate the plan Even if no member can afford to fund the plan, once the plan is terminated PBGC can still take recovery action against a controlled group member

If participants are not receiving their current benefits and it is certain that the plan will be recommended for termination, PBGC will begin paying participants through PBGC's or the prior paying agent PBGC also determines the status of the plan's pension related records After analysis, PBGC will decide whether the plan is viable and should not be terminated, to continue monitoring the plan, or to terminate the plan

³ PBGC may issue IDLs before completion of these processes for participants who have been receiving their benefit payments for five years or more as of the date of plan termination and meet other necessary conditions

⁴ ERISA § 4043 requires that PBGC be notified of certain reportable events such as tax disqualification and noncompliance with ERISA Title I, failure to make required minimum funding payments, and inability to pay benefits when due

Initial Trusteeship Process

When PBGC decides that the plan meets the statutory criteria for termination, PBGC then obtains a trusteeship agreement appointing it as trustee of the plan. After that, PBGC sends a notification of trusteeship letter to interested parties including the plan sponsor, controlled group members, bankruptcy trustee, union(s), and prior paying agent. Plan participants who are currently receiving benefits are notified and asked to provide PBGC with certain pension related data.

Upon trusteeship, PBGC assumes responsibility for benefit payments for retirees currently in pay status and for participants when they become eligible for retirement in the future. When necessary, PBGC will transfer funds to the plan's prior paying agent until the payment responsibility can be transferred to PBGC's paying agent.

Benefit amounts for retirees currently being paid and new retirees when eligible are reduced to estimated guaranteed levels based on the date of plan termination (DOPT) and commensurate with ERISA Title IV maximums and plan provisions.

Audit Process

This process gathers the information needed to identify eligible plan participants, verify their entitlement, determine their benefit levels, and value the benefits payable. Site visits to the plan sponsor are usually necessary to obtain plan and participant information. Data is collected from third parties, such as the Internal Revenue Service, Social Security Administration, and unions. PBGC may request that the plan participants and beneficiaries verify certain information.

The information collected, along with the information obtained during the earlier processes, is used to (1) build a participant database, (2) finalize the controlled group and net worth determinations, (3) write the plan abstract,⁵ and (4) perform several audits including net worth, plan asset and participant data. Existing databases prepared by the plan sponsor may be used as a basis for the participant database. Using the work previously performed during the pre-termination process, PBGC determines whether additional controlled group and net worth analysis is needed.

The plan asset audit determines the value of plan assets as of DOPT. Assets, including due and unpaid employer contributions (DUEC) and liabilities such as payables to service providers and retroactive payments due participants, are audited.

The identification and collection of plan documents that was begun during the earlier processes is completed. A comprehensive plan history is needed to determine if the plan complies with the law (i.e., amendments were made to the plan to conform to changes made to ERISA and the Internal Revenue Code), and to determine if there are considerations such as phase-ins (ERISA § 4022(b)(7)) and substantial owner benefits (ERISA § 4022(b)(5)). This information is used to complete a plan abstract.

The plan abstract and support documents are then used to identify which data elements must be included in the participant database so that the participants' entitlement and benefits can be properly calculated. A source document audit

⁵ The plan abstract summarizes the plan, including the provisions in effect during the last five years before DOPT and earlier provisions when necessary. This abstract provides the information necessary to determine the data elements required for determining benefits and performing the valuation process.

identifies the location and document types which will be used to create the participant database. Generally this information comes from the plan sponsor's personnel and payroll files.

Once the participant database contains the data required to determine entitlement to benefits and the amount of benefits payable, PBGC performs a participant data audit. The audit should determine, within a 95 percent confidence level, whether the data was entered accurately into the database. In most instances, the audit process must be substantially complete prior to beginning the valuation process.

Valuation Process

This process provides the information necessary for preparation of the benefit statement for each participant. This statement explains the data, assumptions and variables used in calculating the participant's benefit and is enclosed, when applicable,⁶ with the participant's IDL. Additionally, PBGC determines the present value of each participant's benefit and the composite present value of the entire plan.

A participant's final benefit is determined by applying a combination of factors including the plan's provisions, the statutory guarantee under ERISA, the allocation of plan assets, and the value of amounts recovered by PBGC from entities liable for the plan's underfunding. The statutory guarantee pertains to a participant's entitlement to benefits and the amount of benefit to be received. This guarantee applies to certain forms of benefits, to those benefits which are non-forfeitable, and to benefits for which a participant became eligible prior to DOPT.

ERISA § 4044 requires that the plan's assets be used to pay benefits in six categories of priority. When there are insufficient funds to cover all benefits, PBGC uses assets from the termination insurance fund to pay the guaranteed benefits in accordance with the provisions of ERISA Title IV.

Any recoveries which have been made or agreed to must be valued and allocated. Once valued, the recovery must be discounted back to DOPT for plan valuation. When a covered plan with insufficient assets terminates, PBGC asserts claims against the contributing sponsor and its controlled group members in two capacities: (1) as trustee, for the amount of DUEC and (2) as guarantor of benefits, for (a) its employer liability claim for the amount of unfunded benefit liabilities (UBL) and (b) any unpaid PBGC premiums. When PBGC does not collect the full amount of its claims, the total value of PBGC's recovery must be allocated among PBGC's claims for DUEC, employer liability, and unpaid premiums. In addition, the value of the recovery may affect the participants' benefit amounts.

The value of the recovery on the DUEC claim affects the allocation of assets to guaranteed and nonguaranteed benefits in accordance with ERISA § 4044 and the amount of PBGC's employer liability claims for UBL in accordance with ERISA § 4062(b). For certain plans, the value of the recovery on PBGC's employer liability claim for a plan affects the recovery ratio which will be used to determine the amount of any ERISA § 4022(c) benefit that may be paid to participants. The value of the recovery of unpaid premiums does not directly affect participants' benefits.

At the end of this process, an actuarial case report package is compiled for each plan. Some of the items included in this package are: an actuarial

⁶ Benefit statements are not enclosed for retirees who have been in pay status five years or more as of DOPT (whose benefits will rarely change) or for non-vested participants.

certification, plan abstract, valuation spreadsheets and instructions for use in the notification and closure processes

Notification Process

After the final valuation is completed, PBGC is ready to issue IDLs which notify plan participants of PBGC's decisions regarding entitlement, amount and other conditions of a benefit. However, before the IDLs are issued, PBGC determines if there is any difference between the estimated benefits that have been paid by PBGC since DOPT and the calculated final benefits. If the result is a net underpayment, PBGC pays the underpaid amount plus interest in a single payment. When a participant has been overpaid, PBGC recovers the overpayment by reducing the participant's monthly benefit, in most cases, by a maximum ten percent. In addition, the participant may elect to repay PBGC in a single payment. For those who are not eligible to receive future benefits from PBGC, recovery actions are initiated to collect overpayments.

PBGC is to issue IDLs to each participant informing them of whether they are entitled to a benefit and the amount, their appeal rights, and any underpayment or overpayment of estimated benefits. Normally, a number of enclosures, such as a benefit statement and a pamphlet concerning appeal procedures, are included with the IDL.

Participants are notified in the IDL of their right to appeal the benefit determination. If an appeal, or request for an extension of time to appeal, is not filed within 45 days, PBGC finalizes the benefit amount. When an appeal is submitted and accepted by PBGC's Appeals Board, PBGC delays any adjustment to the benefit amount until the Board has issued its decision. Based upon the Board's decision, PBGC may take specific action concerning the participant's benefit. This action may include issuing a revised IDL.

Case Closure Process

The case closure process is to ensure that the prior processes have been completed, i.e., that all locatable participants have received correct IDLs, that eligible participants are receiving or will receive benefits, and that plan and participant files are in a condition that facilitates benefit administration. A close-out group performs a statistical sample review to ensure that all actions have been completed. The ongoing administration of the plan is then passed to a contractor who manages the plan under PBGC direction.

ORGANIZATIONAL RESPONSIBILITY

The IOD is primarily responsible for the benefit determination process. Starting in Fiscal Year (FY) 1995, most of IOD was reorganized from a functional alignment to one more aligned by process. It was intended that this reorganization would lead to more efficient and effective processing of terminated plans.

With the reorganization, the Pre-Termination Processing Division (PPD) of IOD is responsible for most of the pre-termination process for plans with an UBL of less than \$25 million and fewer than 5000 participants. The Corporate Finance and Negotiations Department (CFND) is responsible for the larger plans.

Eight Trusteeship Processing Divisions (TPD) are responsible for most of the other IOD processes discussed in the above Overview of the Benefit Determination Process. Multi-functional teams which include auditor, pension law specialist,

pension benefit administrator, and actuary are formed within each of the TPDs. A specific team is responsible for the processing of a particular plan. In addition, other IOD divisions and PBGC departments such as the Office of the General Counsel, the Financial Operations Department (FOD) and the Participant Employer and Appeals Department provide assistance and support, as required, to IOD.

PBGC uses contractors, including actuarial firms and field benefit administrators (FBAs), to assist with the processing. The FBAs perform the ongoing administration of the plans with PBGC oversight.

OBJECTIVE, SCOPE, AND METHODOLOGY

We reviewed and evaluated the principal activities of the benefit determination process for the period October 1, 1994 through September 30, 1997 for the purpose of determining whether the process was effective and efficient. For the notification process, specifically the issuance of IDLs, we expanded the evaluation period to September 30, 1998. Our evaluation made inquiries of PBGC management and personnel. Our inquiries were designed to (1) obtain an understanding of the operational procedures used in the benefit determination process; (2) evaluate PBGC's compliance with established policies and procedures, and (3) determine whether PBGC personnel have the knowledge and are properly trained to perform their processing functions. To validate our understanding, we conducted a walkthrough to identify current operating procedures and processes. A sample of plans trustee since October 1, 1994 was selected and reviewed to record the elapsed times to complete the principal activities of the benefit determination process. A second sample of 60 plans was selected from a population of 1,715 in order to verify IDL information.

Our audit was conducted in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Deloitte and Touche LLP was engaged to conduct the audit. We did not perform any testing of balances, transactions, procedures or controls as part of this engagement. In addition, we did not conduct specific control reviews of electronic data processing systems associated with the benefit determination process.

FINDINGS AND RECOMMENDATIONS

1. IOD's Performance Measures Are Not Time Sensitive.

IOD does not use timeliness performance measures to determine the efficiency of the benefit determination process. More emphasis is placed on achieving numeric goals, such as number of audits completed, rather than the timely completion of a process. Timeliness performance measures benchmarked for various benefit determination processes would provide IOD management with essential information about operational performance. In addition, timeliness performance measures would assist PBGC in achieving its strategic goals and desired performance outcomes.

This weakness in establishing a timeliness standard has been reported to PBGC in the past. In a March 1995 report, the OIG found that "PBGC used few performance measures to determine the efficiency of the benefit determination process."⁷ The only formal performance measure identified at that time was the

⁷ The OIG issued a report on the *Evaluation of the PBGC Benefit Determination Process*, 95-1/23087, on March 30, 1995.

timeliness of processing appeals. In a February 24, 1997 report, PBGC's Contracts and Controls Review Department (CCRD) noted that "the primary performance measures related to case processing were the number of audits completed, the number of plans valued and the number of IDLs issued. These performance measures were quantitative in nature and do not emphasize timeliness or promote efficiency of case processing."⁸ In its response to both reports, PBGC acknowledged the need to implement qualitative and quantitative performance measures.

In 1997, PBGC established a corporate strategic goal to "provide high quality services, and accurate and timely payment of benefits to participants." One of the 5-year performance outcomes for this strategic goal is

Provide final, accurate benefit determinations [IDLs] to participants within 3-5 years of plan trusteeship

During our review, we found procedures designed to track and report the time that it takes to complete the principal activities of the benefit determination process (see Finding 7). If time had been captured as designated in IOD's Procedures Manual, then IOD could begin to assess the time required for its activities. However, our review disclosed that inconsistent application of the time reporting requirements resulted in incomplete data. As a result, the actual times to complete the various processes cannot be accurately measured.

We also found that IOD has established operational goals defining TPD performance as the completion of a specific number of discrete activities within the benefit determination process. Each TPD has an annual goal to complete 25 of each of the following activities:

- Participant data audits,
- Plan asset audits,
- Controlled group audits,
- Net worth audits, and
- Actuarial valuations

Additionally, each TPD assumes responsibility for issuing an agreed upon number of IDLs which is directly linked to a specific strategic goal and performance outcome.

Although TPD managers are held accountable for accomplishing these IOD goals, we verified that they can be achieved without completing and closing a specific plan. We found that IOD has not established a policy for prioritizing plan processing. Rather, TPD managers choose the priority in which plans will be worked. Because the IOD goals measure activity-specific outputs rather than case closure, TPD managers may initiate audits of new plans before closing an older plan. The establishment of a timeliness standard in concert with other IOD goals would control certain TPD practices of prioritizing plan processing to accomplish organizational goals rather than focusing on achieving the strategic goal.

The impact of focusing on process activities rather than plan closing has resulted in plans completing the valuation process but languishing in the notification process. This means that IDLs may be issued over a span of many years. Plans then cannot move to the case closure process in which steps occur to ensure that all IDLs from a plan have been issued. Accelerating a plan to case closure

⁸ CCRD issued the report *Internal Control Review on Payment of Participant Benefits*. This review was to evaluate whether adequate internal controls were in place and operating to provide an effective control system to ensure accurate and timely payment of benefits.

allows PBGC to timely determine whether all IDLs have been issued and provides equal treatment to participants in the same plan

Performance measures and goals are powerful management tools to provide information about the efficiency and effectiveness of organizational processes. Implementation of a timeliness standard and the consistent and accurate capture of data to support the standard would provide PBGC significant information to measure its performance outcome of issuing IDLs within 3-5 years of plan trusteeship. This would also give PBGC management valuable information to formulate operational strategies to reduce the time it takes to issue IDLs.

Recommendations

We recommend that PBGC implement the following corrective actions

Establish timeliness performance measures for principal activities of the benefit determination process (IOD-158)

Establish an annual goal for closing plans to complete the benefit determination process (IOD-159)

2. PBGC Cannot Ensure All IDLs Have Been Issued To Participants.

Based on our review, we could not verify whether all IDLs were issued to participants in certain terminated pension plans. To review this issue, we selected a sample of 60 terminated pension plans representing approximately 87,000 IDLs. PBGC was asked to provide certain plan and participant data about IDLs and to provide an assertion of reliability for that data. We received the requested data from PBGC without a reliability assertion.

We took steps to verify the accuracy of the data contained in our sample. We compared the IDL data maintained on Participant Records Information System Management (PRISM) with the imaged documents maintained in the Image Processing System (IPS). For the instances where we could not find corroborating evidence in IPS for PRISM data, we requested paper documents from participant files. In addition, we held several meetings with PBGC officials to discuss various aspects of the sample data and to determine whether all IDLs have been issued to participants in these plans. PBGC officials provided the following information:

- in the past their major concern was getting participants into pay status and IDLs were not as high a priority. PBGC stated that during Fiscal Year 1995, it began to emphasize the issuance of IDLs
- in some plans, if a calculation was complicated, the benefit determination might be put off;
- PBGC did not always issue an IDL to a deferred vested participant until that participant applied for a benefit, and
- for lump sum payments, PRISM's predecessor system did not have a data field to record the IDL issuance date. Rather than using source documentation to complete the PRISM entry, an IDL date was estimated using the lump sum payment date and then backdated by 45 days (to account for the appeal period). The participant who received the lump sum payment may or may not have received an IDL.

We analyzed the PRISM and IPS data to verify certain statements made by PBGC officials about the processing of IDLs. Of the approximately 87,000 IDLs in our sample, we judgmentally selected 177 for our review. We could not always find an IDL in PBGC's imaged records. We asked PBGC to provide a paper copy of these IDLs. PBGC could not provide an imaged copy from IPS or a paper copy from the participant files for 59 out of 177 IDLs.

PBGC has defined, through regulations in 29 C F R , its statutory duties under ERISA. One such duty is to determine the participants' benefits. PBGC's regulations, at 29 C F R § 4003 1(b), define initial determinations as including those relating to participants' benefits:

(6) Determinations under section 4022 (a) or (c) of ERISA with respect to benefit entitlement of participants and beneficiaries under covered plans .

(7) Determinations under section 4022 (b) or (c), section 4022A (b) through (e), or section 4022B of ERISA of the amount of benefits payable to participant and beneficiaries under covered plans

Section 4003.21 further requires that:

All determinations to which this subpart applies shall be in writing, shall state the reason for the determination, and . . . shall contain notice of the right to request review of the determination

Finally, 29 C F R § 4003 51 and § 4003 52 identify who may file an appeal and when the appeal must be filed. Section 4003 51 states that

Any person aggrieved by an initial determination . . . may file an appeal

29 C F R §4003 52 states that

an appeal under this subpart must be filed within 45 days after the date of the initial determination being appealed

If an IDL is not issued, then PBGC would not be in compliance with its regulations. Further, the participant would be denied due process and the right to challenge PBGC's benefit computation. If a participant is receiving a benefit and has not received an IDL, this is an estimated benefit amount. It is not uncommon when PBGC terminates a plan and begins paying estimated benefits for the participants' benefits to be reduced by PBGC. This reduction cannot be appealed because it is an estimated benefit, not an initial determination. If IDLs are not issued and participants remain in estimated status, they cannot challenge the benefit reductions.

Based on our sample of terminated plans, we could not always locate documentation that would support IDL data recorded in PRISM. When we requested PBGC to provide paper documentation, it could not. This raised questions as to whether all IDLs in terminated pension plans had been issued at the conclusion of the benefit determination process.

Some actions are required by PBGC to ensure that accurate IDL data is captured, recorded, and summarized for management purposes. We would also expect that PBGC would take reasonable steps to identify participants in plans already processed to ensure that all IDLs have been issued.

Recommendations

We recommend that PBGC take the following corrective actions:

Take reasonable steps to identify whether there are participants who have not received an IDL (IOD-160)

Institute quality control reviews to ensure that current control procedures relating to IDL issuance are working properly (IOD-161)

3. PBGC Cannot Accurately Account For IDLs.

PBGC cannot accurately account for its universe of IDLs yet to be issued. In addition, though PRISM can electronically count IDLs, PBGC manually counts them. These IDL count issues relate to problems with PRISM data integrity.

PBGC has an annual corporate goal to issue a predetermined number of IDLs. In reviewing the figures supporting the annual IDL production goal, we found that PBGC could not accurately determine the universe of IDLs yet to be issued. Currently, the number of IDLs to be issued is an estimate because the exact number has not been determined. The universe of IDLs is comprised of an estimated balance derived from the predecessor system to PRISM and is adjusted for current IDL activity (adding IDLs for recently terminated plans and subtracting IDLs issued).

PBGC is unable to rely on PRISM to manage and monitor the issuance of IDLs. When data was converted from a predecessor system into PRISM, data errors occurred particularly in the participant counts associated with pension plans. As a result, PRISM did not begin with an accurate accounting of the IDL universe.

In addition, PBGC manually counts IDL issuance. PRISM has an Automated Letter Generator (ALG) that is designed to generate IDLs issued to participants. An imaged copy of the IDL generated by ALG is to transfer into IPS, and pertinent information from the IDL is to transfer into PRISM. During the time period audited, PBGC did not use the ALG to issue all IDLs, some IDLs were prepared and issued manually. PRISM can account for IDLs that are electronically and manually issued. PBGC officials stated that there was a time lag between the manual IDL issuance and entry of the data from that IDL into PRISM. As a result, PBGC does not rely on PRISM for its IDL issuance count. Thus, TPDs manually count the number of IDLs they issue, both electronically and manually, on a monthly basis. PBGC officials stated they will continue to account for IDL issuance manually until data problems in PRISM have been corrected.

We found that the controls in place to ensure the accuracy of the manual count of IDLs issued were weak. Without stronger controls, IDLs may be miscounted, and the workload and related accomplishments may be misstated. This is critical because PBGC uses the IDL issuance count to support accomplishment of its strategic goals.

Recommendations

We recommend that PBGC take the following corrective actions

Take steps to determine whether the universe of IDLs is based on sound reliable IDL data (IOD-162)

Strengthen control procedures to ensure that the manual compilation of IDLs issued which PBGC uses to support the accomplishment of its strategic goals is accurate and complete (IOD-163)

4. PBGC Should Eliminate Redundant Activities.

We identified certain activities which appear to be performed repeatedly throughout the benefit determination process. Duplicate processing, when present, results in inefficiencies such as increased processing costs. In addition, it adds time to complete an activity. Our review identified three activities -- Actuarial Peer Reviews, Controlled Group and Net Worth Audits, and Plan Assets Reconciliations -- with the potential for redundancy.

Actuarial Peer Reviews

PBGC contracts with actuarial firms to perform most individual benefit valuations. When the individual benefit valuations have been completed by the actuarial firms, PBGC then conducts a series of peer reviews to check the accuracy of the benefit valuations for each plan.

By contract, actuarial firms must perform an internal quality review and certify to PBGC that the review has been completed before the actuarial case report will be accepted by PBGC. PBGC then conducts a quality review on all valuation reports prepared by actuarial firms. The first mandated peer review is performed by the PBGC actuary assigned to the plan using a checklist contained in the IOD Procedures Manual. In addition to performing this checklist review, the PBGC actuary has discretion to conduct additional review procedures based upon professional judgment. According to PBGC actuaries and TPD managers, these additional review procedures may include reperforming the benefit calculations.

After this quality review, two additional reviews, which are not as extensive as the first review, occur before the actuarial valuation information in the reports are finalized. This is accomplished by the TPD manager assigning another actuary within the TPD to conduct the second peer review of the actuarial case report. This review is typically performed by an actuary with more experience than the actuary assigned to perform the first checklist review. The fourth review is performed in IOD's Actuarial Services Division by the Chief Actuary.

We question the need for PBGC to use multiple layers of peer review. We found that reviews of the contractors' actuarial case reports performed by the TPDs varied. Both the number of reviews performed and the depth of each review could add significant amounts of time to the benefit determination process. Streamlining the review procedures could lead to a reduction in the number of actuarial reviews and, in turn, increase the efficiency and effectiveness of the benefit determination process.

Controlled Group and Net Worth Audits

When PBGC is considering whether to terminate a plan during the pre-termination process, PPD is required to perform controlled group and net worth analyses. PPD obtains the initial plan records and information about companies within the plan sponsor's controlled group, including net worth data, to make a recommendation regarding termination. The controlled group information is used to determine whether a viable business entity under common control can afford to fund the plan. If no such group member can be found, PPD then estimates the amounts which can be recovered from the controlled group members once the plan is terminated.

Once the termination decision is made, the plan, including supporting analysis, is assigned and transferred to a TPD where controlled group and net worth audits are once again performed. In fact, it is one of the TPDs' annual goals to complete an IOD-specified number of controlled group and net worth audits. Based on information provided by IOD personnel, this TPD work appears to repeat the same analysis performed by PPD personnel. PBGC's Procedures Manual states that the TPD auditor should use a checklist to review the PPD controlled group findings and review any documents gathered by PPD. We found that some TPDs are duplicating the same analysis that was created earlier by PPD personnel.

Based on our review, we question the need for reperforming analytical work that has been performed earlier in the process. While some review is necessary for the TPD auditors to familiarize themselves with the plan's condition, performing the controlled group and net worth audits a second time may be inefficient and may extend the time it takes to complete the benefit determination process. Changing the current practice could improve efficiency by streamlining the process.

Plan Assets Reconciliations

Both the Investment Accounting Branch (IAB) of FOD and the TPDs of IOD prepare a valuation of plan assets as of DOPT. At some point in the benefit determination process, IAB receives the finalized plan asset audit report attached to Form 1108 from the TPD. Form 1108 itemizes insured and non-insured assets, DUEC and any accrued expenses. IAB reconciles the TPDs' finalized plan assets with the asset amounts for each plan recorded in the Trust Processing Ledger as of the DOPT. This reconciliation must be approved by FOD before the plan can be sent to an actuarial contractor for valuation.

From our interviews with FOD and IOD personnel, it appears that some of the valuation procedures are duplicated. Based on our audit work, we question whether these plan asset valuations performed separately by two departments serve a beneficial purpose. These valuations lead to reconciliations so that there is agreement on plan assets. For some plans, several months may be required to review and approve the reconciliations which may cause the benefit determination process to be delayed. PBGC should consider whether to consolidate the plan asset identification and valuation into one department to reduce the benefit determination processing time and increase efficiency and effectiveness.

Recommendations

We recommend that PBGC take the following corrective actions:

Review actuarial peer reviews, controlled group and net worth audits, and the reconciliation of plan assets to determine whether redundant activities exist (IOD-164)

Determine whether redundant activities identified should be eliminated (IOD-165)

5. Participant Information Should Be Gathered Earlier.

The benefit determination process is dependent upon obtaining essential plan data and participant records. Inadequate records increase the time necessary to complete the benefit determination process. In most cases, PBGC waits until it becomes the trustee before attempting to obtain the information necessary to determine plan benefits. The elapsed time between the PBGC decision to terminate a plan and the date of trusteeship can be significant. During this period, plan sponsors often are experiencing financial difficulties and may cease business operations, which can impact the maintenance of records necessary to terminate the plan. As a result, PBGC may expend significant resources later in the process to gather and reconstruct plan records.

During our interviews, we noted that various IOD personnel believe that records cannot be obtained until PBGC becomes the trustee while others believe records can be obtained much earlier. We looked at this issue to determine whether IOD could, in fact, gather plan and participant pension information early. Sections 4003(a) and (b) of ERISA provide the authority to obtain any information deemed necessary to enforce the provisions of the law. These plan documents are necessary for PBGC to carry out its statutory responsibility to determine a plan participant's benefit amount. Obtaining the records earlier may avoid some of the difficult and time-consuming reconstruction of plan records. This, in turn, will enable PBGC to perform the tasks in the benefit determination process and issue IDLs in a more timely manner.

Recommendation

We recommend that PBGC take the following corrective action:

Develop and implement policies and procedures based on ERISA section 4003 authority to ensure that plan records essential to the benefit determination process are obtained at the earliest possible time (IOD-166)

6. Training Policy Should Require A Mandatory Core Curriculum.

In 1994, PBGC established a Joint Union-Management Task Force to address PBGC's training needs. The task force issued a report which recommended that a required training curriculum be established Corporation-wide. In response to this recommendation, IOD designed a core curriculum of courses to provide uniform knowledge and guidance about the benefit determination process. We reviewed IOD's training policy with the purpose of identifying mandatory training for IOD personnel who perform benefit determination activities. As a result, we identified only one course -- the "Source Document/Participant Data Audits" course -- that was mandatory beginning June 1998. In addition, we did confirm that some employees have attended various core curriculum courses.

Although a core curriculum is available, it is not mandatory training for IOD personnel. Through interviews and reviews of training records, we determined that on-the-job training was the primary method used in IOD to transfer knowledge of job functions. Generally, information disseminated in this manner increases the likelihood that policies and procedures will be misunderstood or applied

inconsistently or improperly. IOD could benefit by implementing a mandatory training program which could prepare IOD personnel to process plans consistently. This could also contribute to a reduction in processing errors and in processing time.

By not using the core curriculum courses, IOD may be placing PBGC "at risk" by not having human resources prepared to consistently process terminated pension plans. In addition, it may be a waste of government resources to design a core curriculum and not follow through in delivering the training to IOD personnel.

Recommendation

We recommend that PBGC take the following corrective action:

*Establish a policy requiring that IOD's core curriculum training is mandatory*⁹
(IOD-167)

7. Strengthen Compliance Over IOD's Time Accounting Requirements.

In May 1997, IOD implemented a Budget, Management, Planning and Reporting System (BMPRS) to capture, accumulate and track employee time spent on benefit processing activities. BMPRS requires IOD personnel to record time spent in certain defined categories: (1) processes tracked by pension plan (case), such as participant data audit, controlled group audit and actuarial valuation, (2) plan processing support activities, such as document management center, FBA oversight and general policy analysis, and (3) other duties, such as administrative support, managerial duties and leave. BMPRS also permits IOD managers to establish special project tracking. Instructions for using BMPRS is contained in IOD's Procedures Manual and the BMPRS User Manual.

According to BMPRS User Manual, IOD employees and contractors must track time spent on tasks daily, and enter their time in BMPRS by the third business day following the last day of the month. TPD managers are expected to use BMPRS reports to track the status and time spent on processing tasks and case support activities. In addition, PBGC planned to use BMPRS data to support the development of performance measures for the various tasks within the benefit determination process.

Our review disclosed that PBGC is aware that the time recorded in BMPRS is incomplete and inaccurate. Although BMPRS has been in place more than a year, IOD employees do not consistently follow procedures contained in the IOD's Procedures Manual. From interviews, we found that TPD managers are inconsistent in ensuring that employee time is accurately reported in a timely manner. Oversight by TPD managers varied. In addition, some TPD managers had difficulty in understanding how employee actual time should be recorded in BMPRS even though there are specific instructions in IOD's Procedures Manual.

During our interviews, IOD officials expressed an awareness of the BMPRS issues, and that the development of performance measures for managing the benefit determination process is dependent upon the completeness and accuracy of the data recorded in BMPRS. Recording employee time accurately and completely would assist IOD in determining the time required to accomplish each activity within the

⁹ Though this finding and recommendation relates to IOD employees, we note that IOD uses many contractors who perform the same or similar functions as IOD employees. These contractors have the same training needs for building skills and knowledge associated with the benefit determination process.

benefit determination process. Knowing the time requirements would enable management to identify resource needs, to formulate operational plans and to manage the benefit determination process more efficiently and effectively. This information would provide a basis for establishing IOD performance measures that would support the corporate goal of issuing IDLs within 3 to 5 years.

Recommendation

We recommend that PBGC implement the following corrective action:

Enforce compliance with time accounting requirements established in IOD's Procedures Manual (IOD-168)



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

DATE 2/23/99

TO Wayne Robert Poll
Inspector General

FROM Joseph H. Grant
Deputy Executive Director
and Chief Operating Officer

SUBJECT Draft Audit Report Improvements Are Needed To Achieve Better Efficiency and Effectiveness in PBGC's Benefit Determination Process (99-2/23128-1)

I write to provide PBGC's comments on the January 8, 1999 draft report to Senator Charles E. Grassley concerning your suggestions for improving PBGC's benefit determination process. Your report provides a general overview of PBGC's benefit determination process. It then focuses on seven different processing areas and offers 11 recommendations for improving operations

We appreciate your suggestions and this opportunity to provide comments

Since 1993, we have made improving PBGC's benefit administration a top priority for the Corporation. Taking over a plan, gathering documents and data, performing benefit calculations, issuing initial determination letters ("IDL"), and ensuring that benefit payments continue without interruption throughout the benefit determination process is inherently complex and time consuming. With the Corporation's focus on a growing deficit during the 1980s and the sudden influx of bankruptcy cases in major industries such as airlines in the early 1990s, we found in 1993 that the Corporation was not promptly trusteeing plans whose sponsors had failed years before, and it was still processing plans that it had taken in during the 1970s

To address these problems, in 1993 we reorganized PBGC's Insurance Operations Department, developed new computer systems, and made numerous policy and procedural changes. These efforts have been successful. As of today--

-- We have issued all IDLs for all but one plan trusteeed prior to 1991.

- We have increased the number of IDLs issued annually from about 20,000 in 1993 to more than 60,000 in each year since 1995
- We reduced our inventory of unissued IDLs from 300,000 in 1993 to 200,000 today. This reduction occurred even though, during this same period, PBGC trustee 875 plans covering 206,000 participants
- We have reduced to 3.2 years the average age of our current inventory of unissued IDLs

The Corporation is committed to continuous improvement. Our corporate goal for the year 2002 is to process cases from plan trusteeship to IDL issuance within 3 to 5 years. We are becoming increasingly confident that we will achieve this goal even sooner.

However, from a participant's perspective, 3 to 5 years is still too long to await a final benefit calculation. The benefit calculation process is very time consuming because of the operational difficulties involved (e.g., having to deal with poor record keeping by failing companies) and a complicated statute (e.g., calculations under Title IV of ERISA are often very complicated and can require data and documents that are very difficult to find). Further substantial improvements in the benefit determination time line may require legislative changes.

For your reference, we have attached an addendum to provide a comprehensive description of the benefit determination process and to highlight the improvements implemented at PBGC since 1993.

OIG FINDINGS AND RECOMMENDATIONS

1. **OIG Finding: IOD's Performance Measures Are Not Time Sensitive.**

OIG Recommendation: Establish timeliness performance measures for principal activities of the benefit determination process.

OIG ***Establish an annual goal for closing plans to complete the benefit determination process.***

We generally agree with these recommendations but note that we have been using time frame measures in both our inventory reduction and normal case processing efforts.

With respect to inventory reduction, our initial focus was to issue IDLs for all pre-1986 cases, our next goal was to issue IDLs for pre-1991 cases, and for FY 1999 our goal is to issue IDLs for all pre-1994 cases. As a result of these efforts, the average age of our current inventory of unissued IDLs has been reduced to 3.2 years. Such targets will continue to play an important role in further reducing our inventory of IDLs.

With respect to current case processing, our overall Corporate target -- 3 to 5 year processing in the year 2002 for normal case processing -- is a timeliness measure. With "PRISM" -- PBGC's first true participant database -- which came on line in the Fall of 1997, we are now better able to develop and track appropriate performance measures.

Finally, we wish to address a statement that appears in page 7 of your draft report which states, "The impact of focusing on process activities rather than on plan closing has resulted in plans completing the valuation process but languishing in the notification process. This means that IDLs may be issued over a span of many years." A review of our current inventory shows that, as of 12/31/98, 90 percent of IDLs had been issued in plans where the valuation was finalized in 1997. The remaining 10 percent included IDLs from the Pan Am and Eastern plans where the large number of participants has required PBGC to issue IDLs over an extended period. We expect the IDLs in these plans to be issued by the end of FY 1999. We now use PRISM to monitor the IDL issuance process for all plans. In addition, we are taking steps to ensure that plans go through our plan closure process in a timely manner.

2. OIG Finding: PBGC Cannot Ensure All IDLs Have Been Issued To Participants.

OIG Recommendation: Take reasonable steps to identify whether there are participants who have not received an IDL.

Institute quality control reviews to ensure that current control procedures relating to IDL issuance are working properly.

By bringing PRISM on line in the fall of 1998 we are now confident that we can account for all IDLs issued after that date. In addition, we have initiated a program for sampling and testing the data entered on PRISM since it became operational to ensure that it is accurate and that IDLs have been issued to every participant in the plan.

Retroactively, however, your report identifies 59 instances where PBGC has not been able to rely on PRISM and IPS to fully document that an IDL has been issued. Your office has not identified any cases where PBGC has in fact failed to issue an IDL.

The cases identified in your report involve IDLs issued for plans trusted before PRISM became operational. These instances represent recordkeeping matters related to older plans rather than instances where PBGC failed to issue an IDL. We have looked into the examples noted in your report. They fall into several different categories depending on the recordkeeping methodology in effect at the time the IDL was processed.

- 18 cases involved deceased participants with no surviving spouse. When these cases were transferred to Ongoing Administration, PBGC decided not to incur the expense of imaging these IDLs on IPS and actively maintaining these files because there were no future benefits to be paid. Accordingly, these files were sent to the Federal Records Center. We are retrieving these files to confirm that the IDLs are in fact in the file.
- 12 cases involved participants who had received a full payment of their benefits in the form of lump sums and who would be receiving no additional benefits. Just as with deceased participants, when these cases were transferred to Ongoing Administration, PBGC decided not to incur the expense of imaging these IDLs and actively maintaining these files because there were no future benefits to be paid. Accordingly, these files were sent to the Federal Records Center. We are retrieving these files to confirm that the IDLs are in fact in the file.
- 11 cases involved missing participants. IDLs were not issued because PBGC was unable to locate these participants. We continue to search for these participants through our procedures for locating missing participants. If we are able to find them, we will issue them an IDL.
- 5 IDLs were found by PBGC staff on the Image Processing System and copies have been provided to your office.
- 3 cases involved participants who appealed the benefit calculation in their IDL. We are confident that these individuals received an IDL because of the fact that they appealed the benefit in the IDL, and their appeals case references their IDL. We are providing your office with copies of their appeals files.
- 3 cases involve IDLs issued by State Street Bank. For a period of time, State Street Bank, our paying agent, issued IDLs for PBGC and sent PBGC a monthly report. We are retrieving these reports from the Federal Records Center to confirm that these 3 IDLs were issued.
- 7 cases are still being researched by PBGC. We will report our findings to you when we have finished our research.

3. OIG Finding: PBGC Cannot Accurately Account For IDLs.

OIG Recommendation: *Take steps to determine whether the universe of IDLs is based on sound reliable IDL data.*

OIG *Strengthen control procedures to ensure that the manual compilation of IDLs issued which PBGC uses to support the accomplishment of its strategic goals is accurate and complete.*

Historically, PBGC accounted for IDLs in its inventory using the manual process reviewed in your report. Since the time of your review PBGC has begun using PRISM to account for IDLs, and no longer uses the manual process described in your report. Accordingly, these recommendations have been implemented.

4. OIG Finding: PBGC Should Eliminate Redundant Activities.

OIG *Review actuarial peer reviews, controlled group and net worth audits, and the reconciliation of plan assets to determine whether redundant activities exist.*

OIG Recommendation: *Determine whether redundant activities should be eliminated.*

As we have reorganized PBGC's case processing operations, we have created opportunities for more efficient procedures. We agree that redundant activities should be eliminated, and we are reviewing your recommendations in this regard. We caution that activities that appear to be redundant on their face may in fact serve different purposes. For example, actuarial peer reviews involve a quality check on complicated calculations rather than repeating the same work.

5. OIG Finding: Participant Information Should Be Gathered Earlier.

OIG Recommendation: *Develop and implement policies and procedures based on ERISA section 4003 authority to ensure that plan records essential to the benefit determination process are obtained at the earliest possible time.*

Under ERISA, the Department of Labor has jurisdiction to regulate the types of records that plan sponsors must maintain. PBGC is limited in its ability to obtain records or otherwise manage the plan prior to actual PBGC trusteeship of the plan. Therefore, we do not agree that section 4003 of ERISA can be used as a general means of collecting or regulating plan records. Section 4003 provides PBGC with the authority we need to request records in cases where

termination may be necessary. We do not believe it would be appropriate or advisable to use this limited authority as broadly as suggested by your report.

We do agree with the OIG observation that plan records essential to the benefit determination process should be obtained at the earliest possible time. The best approach to obtaining these records is to keep current with trusteeship determinations pursuant to the filing of reportable events and distress terminations by plan sponsors. In 1993, there was a large backlog of plans awaiting trusteeship. Since that time there has been an emphasis on efficient termination processing. Management established a new separate termination processing division as part of the IOD reorganization and made numerous policy changes to speed trusteeship determinations. For example, we arranged with Dunn and Bradstreet to receive an automatic report whenever a sponsor of a PBGC covered pension plan files for bankruptcy. This enables us to move quickly to determine whether the plan is underfunded and whether participants are at risk. Trusteeship determinations have increased from a rate of 80 to 100 plans per year in 1993 to 136 plans in FY 1995, 234 plans in FY 1996, 197 plans in FY 1997, and 184 plans in FY 1998. We are now terminating cases on a timely basis. In almost all cases we are able to act within one year of the filing of a reportable event or a distress termination.

6. OIG Finding: Training Policy Should Require A Mandatory Core Curriculum.

OIG Recommendation: Establish a policy requiring that IOD's core curriculum training is mandatory

We agree. Each year since 1994 we have been developing technical courses for our benefit processing staff and we are well on our way towards implementing this recommendation. This effort will involve identifying core subjects for various types of PBGC employees (e.g., auditors, actuaries, pension law specialists) and developing and needed additional courses. For example, IOD and the Training Institute have a 12 hour course under development entitled, "IDL Processing and Production," and have piloted a new course entitled "How to Close a Plan."

7. OIG Finding: Strengthen Compliance Over IOD's Time Accounting Requirements.

OIG Recommendation: Enforce compliance with time accounting requirements established in IOD's Procedures Manual.

We agree. We would note, however, that IOD implemented a time keeping system in April of 1997, which was in effect for less than one year at the time you conducted your review.

CONCLUSION

PBGC has made significant progress in more rapidly and efficiently processing cases as it moves towards achieving its corporate objectives. We are directly addressing the concerns raised in this report and thank you for your recommendations.

Attachment: Overview of Case Processing and Improvements Since 1993

Overview of Case Processing and Improvements Since 1993

I. The Benefit Calculation Process

For years, PBGC's foremost objective when taking over a troubled pension plan has been to ensure that there is no interruption in benefit payments to plan participants. After we become the plan trustee, retirees continue to be paid and participants who reach retirement age will begin receiving benefits on time. The amount of these payments, however, is only an estimate because, at the time PBGC takes over the plan, we are not able to immediately verify all the plan records and participant data needed to calculate final benefits. Once the PBGC completes the benefit calculation, an "IDL" is issued to inform each participant of the amount of the benefit, and of any adjustments required due to differences between the final benefit and the estimated benefit.

Plans taken over by PBGC invariably involve companies that have been financially troubled for many years. These companies have often filed for bankruptcy or have ceased operations altogether. Because of financial pressures, companies have usually neglected the financial condition of their pension plans, failed to keep the plans amended to conform to changes in the law, and allowed their pension records to deteriorate.

Once PBGC becomes trustee of a plan, it must collect or reconstruct and verify all of the records necessary to calculate benefits. For example, PBGC must find every plan document and plan amendment that impacts on the benefit calculation. In certain cases, Title IV of ERISA requires PBGC to attempt to find every plan document that has been in effect over the past 30 years. Where plan records cannot be found, or where the plan has not been kept up to date, PBGC must reconstruct plan provisions by reviewing the plan's operational history, and apply new pension provisions required by recent changes in the law.

PBGC must also collect or reconstruct and verify all of the data for each of the plan participants. This includes, for example, records on wage history, work history, and personal data such as age and marital status. Where this is not readily available, PBGC must reconstruct the data from secondary sources, such as Social Security.

PBGC must also take custody of the remaining plan assets. In many cases, these assets are difficult to locate. In other cases the assets are tied up in illiquid investments or have been improperly transferred to the failing employer in the form of a loan which is no longer collectible. PBGC must locate assets, unwind poor investments, and account for the plan assets because the amount of plan assets often affects the amount of the participants' benefits.

Finally, in many cases the amount of the benefit depends upon how much PBGC expects to collect from the plan sponsor and related companies. Plan sponsors are liable to PBGC for the plan's funding shortfall. PBGC must perform a financial analysis of the sponsor and related

companies and estimate the amount expected to be recovered. Where there are uncertainties, such an estimate might have to be delayed until such uncertainties can be resolved. Additional delays arise when the amount to be recovered depends upon the outcome of bankruptcy or other litigation to collect liabilities owed to PBGC.

Only after the steps described above have been completed does PBGC have sufficient information to complete the calculation of final benefits. This calculation involves interpreting the plan's benefit provisions and adjusting them as required by Title IV of ERISA.

The benefit structure of a defined benefit plan is often quite complex. They usually have numerous benefit formulas to accommodate different employee groups and retirement options, such as different annuity forms, beneficiary designations, and early retirement alternatives. Companies commonly add benefit formulas as they change their business goals or negotiate labor agreements. Additional benefit options might also have to be considered where, for example, a plan has merged with another plan in connection with past corporate mergers or other restructurings. Since pension law generally requires that benefit options cannot be eliminated, PBGC must consider all of these benefit options in order to perform the benefit calculation leading to an IDL.

PBGC also must factor in the requirements and benefit guarantee limits of Title IV of ERISA. For example, in many cases Title IV requires numerous adjustments to a participant's benefits based on the allocation of remaining plan assets among various categories of participants and the impact of estimated recoveries from the employer. Where the plan has not been amended to keep it up to date (as is usually the case with troubled plans), PBGC must also reconstruct or add appropriate plan provisions.

II. PBGC Improvements Since 1993

As a new PBGC management team reviewed the Corporation's operations in 1993, it realized that there were many challenges with the way PBGC was processing cases -- including the problems identified in your report. In the early years of PBGC's existence, IDLs were not a high priority and were generally issued ad hoc at the time a participant became eligible for retirement benefits. Management in 1993 recognized that IDLs were an important "product" and that PBGC's operations should be overhauled and redesigned to ensure that IDLs were quickly and accurately issued.

To address these problems, PBGC's management team initiated a complete operational overhaul in 1993. The challenge in this overhaul was to find ways to issue IDLs as quickly as possible within the complex legal and operational requirements of Title IV of ERISA.

One of the most important changes was the reorganization of PBGC's Insurance Operations Department. The reorganization introduced team case processing, where auditors, actuaries, pension administrators, and attorneys are asked to work as a team to process cases.

This decision replaced sequential case processing, and avoided delays caused by handing off work from one employee to another. Team case processing is especially appropriate and advantageous for the type of work we do because it enables tasks to proceed simultaneously on numerous related processing steps.

We developed new computer systems along with the implementation of team processing to support the benefit calculation process. For example, our new document imaging system allows us to instantly access participants' records rather than having to wait for a file to be retrieved from another staff person's desk or a remote file room.

We also recognized the need for a true participant database to provide reliable data for non-financial matters such as measuring Corporate performance and improving internal controls. PBGC began to build PRISM, PBGC's first true participant database. PRISM became operational in the fall of 1997. Prior to PRISM, PBGC was able to account for monthly benefit payments through the PLUS payroll tracking system at State Street Bank. However, because of inherent limitations in this system, PBGC was not able to precisely track its inventory of IDLs and, therefore, could not properly monitor the issuance of IDLs. When PRISM was brought on line in 1997, the incomplete IDL data from PLUS was necessarily transferred from the PLUS system to PRISM. This is why PBGC was not able to provide a data reliability assertion with respect to the IDL issuance data for the 60 plans reviewed in your report.

PRISM includes data elements needed for paying benefits as well as other data useful for managing IOD's operations. While some of the data transferred from the prior system is not reliable for certain management record keeping purposes, the data is accurate and reliable for benefit payments. This part of our system has been audited and our financial statements have received clean opinions for the past four years. We are confident that participants have and will continue to receive accurate benefit payments.

We are working to improve the reliability of the data transferred to PRISM and we have made good progress. We will continue to monitor this progress closely. While we will continue to take reasonable steps to enhance the accuracy of the older management information participant count, we are now confident of the reliability of our current IDL issuance data.

PBGC has been diligent in identifying opportunities to issue IDLs more quickly. For example, in recent years we initiated a number of projects targeting our backlog of unissued IDLs. Also, under a new policy issued in 1998, IDLs are issued early to participants who have been receiving benefits for at least one year where there is little risk that the benefit is incorrect. Similarly, in 1998, we issued a new policy to streamline our procedures for estimating recoveries from employers for plan underfunding, which will enable IDLs to be issued more quickly. We are also working towards improving our ability to provide estimated benefits to all participants who have not yet reached retirement age, which will directly address their retirement planning needs.

PBGC also bolstered its strategic planning effort. Senior management has developed overall corporate goals and objectives, and monitors progress towards those objectives. As you are aware, the centerpiece of this strategy is to achieve the goal by the year 2002 of issuing IDLs within 3 to 5 years after PBGC takes over a plan. Because of the importance of IDL processing under our strategic plan, PBGC has devoted more resources for this purpose in recent years.

As a result of our efforts, we have made significant improvements in IDL production. In 1993 and 1994 PBGC issued 20,587 and 25,557 IDLs respectively. We then issued 65,191 IDLs in 1995, 65,978 in 1996, 69,011 in 1997, and 61,104 in 1998. We have completed processing and issued all IDLs for all but one plan trustee before FY 1991. We not only expect to achieve our goal of 3 to 5 year processing by the year 2002, but we are becoming increasingly confident that we will achieve it even sooner.

Additional evidence of our progress is that the total number of unissued IDLs has been reduced from about 300,000 in 1993 to about 200,000 today. The average age of our inventory of unissued IDLs is 3.2 years.

Finally, we have reduced the backlog of plans awaiting trusteeship. The number of plans awaiting PBGC termination and trusteeship analysis had been growing through 1993. PBGC management recognized in 1993 that delays in completing trusteeship activity both adversely affected plan participants and complicated PBGC case processing because of, for example, deteriorating plan and participant records. As a result, PBGC initiated a number of changes to improve the way it trustee plans. Prior to 1993, PBGC generally trustee 80 to 100 plans per year. As a result of new processing initiatives, PBGC trustee 106 plans in FY 1994, 136 plans in FY 1995, 234 plans in FY 1996, 197 plans in FY 1997, and 184 plans in FY 1998.

Despite the progress we have made toward more rapid plan processing and timely issuance of IDLs, we remain concerned about the impact it has on participants. We recognize that even 3 to 5 year processing represents a long period of uncertainty for participants. To better address their needs, we have taken numerous steps to improve our customer service and communicate with our participants. These steps include:

- establishing a new customer service center and giving participants a toll-free 1-800 number,
- building an internet website to provide on-line participant information and help locate missing participants,
- setting new customer service standards (see attachment), and
- sending periodic information to both retired and deferred vested participants

In addition, the Executive Director is taking a direct role in regularly meeting with thousands of participants in plans recently taken over by PBGC

We are also considering further steps to shorten the time it takes to issue IDLs. PBGC has identified various changes to Title IV of ERISA that would enable IDLs to be issued more quickly