



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**Fiscal Year 2000
Financial Statement Audit -
Management Letter**

September 17, 2001

2001-13/23149-4

**Fiscal Year 2000 Financial Statement Audit
Management Letter Report**

Audit Report 2001-13/23149-4

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ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ELAN	Enterprise Local Area Network
FMFIA	Federal Manager's Financial Integrity of 1982
IRMD	Information Resources Management Department
LAN	Local Area Network
OIG	Office of Inspector General
PBGC	Pension Benefit Guaranty Corporation
PRISM	Participant Records Information Systems Management
SCF	Separation Clearance Forms
SDLC	Systems Development Life Cycle

**Fiscal Year 2000 Financial Statement Audit
Management Letter Report
OIG Report Number (2001-13/23149-4)**

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) engaged PricewaterhouseCoopers LLP (PricewaterhouseCoopers) to conduct an audit of the financial statements of the Single-Employer Program and Multiemployer Program Funds administered by PBGC, as of and for the years ended September 30, 2000 and September 30, 1999. Our audits were performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) in the United States of America, *Government Auditing Standards*, and pursuant to the methodology set forth by the United States General Accounting Office's (GAO) *Financial Audit Manual (FAM)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

As a result of our FY 2000 audit, we issued the following reports:

- a. an unqualified opinion on PBGC's statements of financial condition, and the related statements of operations and changes in net position and statements of cash flows, as of and for the years ended September 30, 2000, and September 30, 1999 (OIG report number 2001-9/23149-2);
- b. a report on internal control that identified three recurring reportable conditions (OIG report number 2001-9/23149-2). These reportable conditions were not deemed to be material weaknesses as defined by standards established by the AICPA in the United States of America; and
- c. a report on PBGC's compliance with laws and regulations that noted no instances of non-compliance with the provisions tested but noted a matter of emphasis on two multiemployer financial assistance payments executed in FY 2000, which, as determined by the OIG, warrant further evaluation of their compliance with ERISA, as amended, and applicable regulations (OIG report number 2001-9/23149-2).

The reportable conditions we noted were: PBGC needs to integrate its financial management systems and improve its systems development life cycle methodology; PBGC needs to finalize and test its plan for maintaining continuity of operations; and PBGC needs to implement and improve controls surrounding the Participant Records Information Systems Management (PRISM) application. These reportable conditions were carried forward from our FY 1999 report.

In addition to the reportable conditions specified above, we identified a number of internal control weaknesses that, although not considered material weaknesses or reportable conditions, we believe warrant the attention of management. Specifically, we downgraded the fourth reportable condition on information protection from the FY 1999 internal control report to a management letter finding in FY 2000. Although PBGC made substantial improvement in protecting its information and the fourth reportable condition related to Information Protection has been removed from the Internal Control Report, further strengthening of controls is needed. Specifically, PBGC needs to reevaluate its overall organization-wide security architecture (OIG Control Number IRMD-114), and PBGC needs to continue to finalize the accreditation and certification of its systems (OIG Control Number IRMD-118).

This management report discusses findings and recommendations for improvements in the Corporation's internal control that were identified during our audit of the fiscal year 2000 financial statements. It contains three (3) findings, which resulted in six (6) recommendations that, although not considered material weaknesses or reportable conditions, we believe warrant the attention of PBGC management.

Summary of Findings and Recommendations	Page Number
<p>1. System user access was not always properly approved or terminated.</p> <p><i>PBGC should assign to a higher-level management official the responsibility to perform the following and report the results to the Executive Director on a monthly basis:</i></p> <ul style="list-style-type: none"> <i>a. Verify that systems access is being properly authorized, in accordance with PBGC's policies and procedures, prior to granting user access. (IRMD-128)</i> <i>b. Verify that user access is being terminated properly and timely upon an individual's termination, in accordance with PBGC's policies and procedures. (IRMD-129)</i> <i>c. Verify that documentation supporting granting and terminating users' access to the LAN is properly maintained, in accordance with PBGC's policies and procedures. (IRMD-130)</i> 	5
<p>Reconciliations of investment manager records with SSB Custodial Services' records were not always performed in a timely manner.</p> <p><i>2. Strengthen reconciliation procedures between the investment managers and SSB Custodial Services to identify timing differences in a timely manner and to make necessary adjustments in SSB Blue Book to correctly reflect PBGC's investments. (FOD-284)</i></p> <p><i>3. Strengthen PBGC's monitoring procedures over the monthly reconciliations performed between the investment managers and SSB Custodial Services. (FOD-285)</i></p>	7
<p>Invoices were not paid in accordance with the Prompt Payment Act of 1989.</p> <ul style="list-style-type: none"> <i>4. Compress the time from receipt of invoices to scheduled payment from 30 days to less than 30 days. (FOD-286)</i> <i>5. Develop procedures to monitor the progress of invoices through the accounting system, enabling a more timely response in recording the invoice as a payable. (FOD-287)</i> <i>6. Perform an internal study related to the payment of interest on invoices, to determine whether the interest is being paid in accordance with the Prompt Payment Act. (FOD-288)</i> 	8

**Fiscal Year 2000 Financial Statement Audit
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Introduction

As a government corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Benefit Guaranty Corporation (PBGC or the Corporation) protects the pensions of more than 43 million Americans in approximately 38,000 private defined benefit pension plans, including about 1,750 multiemployer plans. PBGC's mission is to operate as a service-oriented, professionally managed agency that protects participants' benefits and supports a healthy retirement plan system by: (1) encouraging the continuation and maintenance of private pension plans for the benefit of their participants; (2) providing timely payments of benefits in the case of terminated pension plans; and (3) making the maximum use of resources and maintaining premiums and operating costs at the lowest levels consistent with statutory responsibilities. PBGC finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA, as amended, and investment income.

Audit Objectives

The objectives of our audit were to determine whether:

- The financial statements present fairly, in all material respects, the financial position of the Single-Employer Program and Multiemployer Program Funds administered by PBGC as of September 30, 2000, and September 30, 1999, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
- Management's assertion that PBGC's controls in effect as of September 30, 2000, provided reasonable assurance that assets were safeguarded from material loss and transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations, and furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds is fairly stated, in all material respects, based upon criteria contained in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This assertion is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of PBGC's Fiscal Year (FY) 2000 Annual Report to the Congress.
- PBGC is in compliance with significant provisions of applicable laws and regulations.

Scope and Methodology

The Office of Inspector General (OIG) of PBGC engaged PricewaterhouseCoopers to conduct an audit of the financial statements of the Single-Employer Program and Multiemployer Program Funds administered by PBGC as of and for the years ended September 30, 2000, and September 30, 1999.

Our audits were performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) in the United States of America, *Government Auditing Standards*, and pursuant to the methodology set forth by the United States General Accounting Office's *Financial Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We performed tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances. This involved performing tests at PBGC, State Street Bank, three investment manager sites, one Premium Compliance Review contractor site, and two Field Benefit Administrator sites. We did not perform tests related to standard terminations or other areas since such events did not have a direct and material effect on the financial statements.

Audit Results

As a result of our FY 2000 audit, we issued the following reports:

1. an unqualified opinion on PBGC's statements of financial condition, and the related statements of operations and changes in net position and statements of cash flows, as of and for the years ended September 30, 2000, and September 30, 1999 (OIG Report 2001-9/23149-2);
2. a report on internal control that identified three recurring reportable conditions (OIG Report 2001-9/23149-2). These reportable conditions were not deemed to be material weaknesses as defined by standards established by the AICPA in the United States of America; and
3. a report on PBGC's compliance with laws and regulations that noted no instances of non-compliance with the provisions tested but noted a matter of emphasis on two multiemployer financial assistance payments executed in FY 2000, which, as determined by the OIG, warrant further evaluation of their compliance with ERISA and applicable regulations (OIG Report 2001-9/23149-2).

Our FY 2000 report on internal control included three reportable conditions that were carried forward from FY 1999. The first reportable condition related to the lack of integration of the Corporation's financial management systems, including the need for an adequate Systems Development Life Cycle (SDLC) methodology and for adequate systems development monitoring and oversight. This reportable condition was also reported in FYs 1998, 1997 and 1996. During FY 2000, PBGC made notable progress in addressing the issue related to the lack of a formal SDLC. However, additional work is required to ensure that PBGC's financial

management systems are integrated, the formal SDLC is fully implemented, and specific criteria allowing the Corporation to effectively monitor systems' outsourcing are identified and followed.

The second reportable condition related to the need to implement and test an adequate plan for maintaining continuity of operations. This reportable condition was also reported in FYs 1998 and 1999. During FY 2000, PBGC made notable progress by improving its disaster recovery and business continuity plans. However, our FY 2000 audit still identified a number of deficiencies that would impair PBGC's ability to respond effectively to a disruption in business operations.

The third reportable condition related to the need to implement and improve controls surrounding the Participant Records Information Systems Management (PRISM). This condition also has been outstanding since FY 1998. While PBGC made progress in FY 2000 by designing and implementing control procedures related to PRISM operations, our audit identified several areas where controls could be further strengthened.

In addition to the reportable conditions specified above, we identified a number of internal control weaknesses that, although not considered material weaknesses or reportable conditions, we believe warrant the attention of management. Specifically, we downgraded the fourth reportable condition relating to information protection from the FY 1999 internal control report to a management letter finding in FY 2000. Although PBGC made substantial improvement in protecting its information resulting in this fourth reportable condition being removed from the Internal Control Report, further strengthening of controls is needed. Specifically, PBGC needs to reevaluate its overall organization-wide security architecture (OIG Control Number IRMD-114), and to continue to finalize the accreditation and certification of its systems (OIG Control Number IRMD-118).

Findings and Recommendations

This report contains three (3) findings, resulting in six (6) recommendations that PBGC should implement to strengthen the Corporation's internal control.

Summary of Recommendations	Page
<p>1. <i>PBGC should assign to a high-level management official the responsibility to perform the following and report the results to the Chief Information Officer on a monthly basis:</i></p> <p>a. <i>Verify that systems access is being properly authorized, in accordance with PBGC's policies and procedures, prior to granting user access. (IRMD-128)</i></p> <p>b. <i>Verify that user access is being terminated properly and timely upon an individual's termination, in accordance with PBGC's policies and procedures. (IRMD-129)</i></p> <p>c. <i>Verify that documentation supporting granting and terminating users' access to the LAN is properly maintained, in accordance with PBGC's policies and procedures. (IRMD-130)</i></p>	6
<p>2. <i>Strengthen reconciliation procedures between the investment managers and SSB Custodial Services to identify timing differences in a timely manner and to make necessary adjustments in SSB Blue Book to correctly reflect PBGC's investments (FOD-284)</i></p>	7
<p>3. <i>Strengthen PBGC's monitoring procedures over the monthly reconciliations performed between the investment managers and SSB Custodial Services. (FOD-285)</i></p>	7
<p>4. <i>Compress the time from receipt of invoices to scheduled payment from 30 days to less than 30 days. (FOD-286)</i></p>	8
<p>5. <i>Develop procedures to monitor the progress of invoices through the accounting system, enabling a more timely response in recording the invoice as a payable. (OIG Control Number (FOD-287)</i></p>	8
<p>6. <i>Perform an internal study related to the payment of interest on invoices, to determine whether the interest is being paid in accordance with the Prompt Payment Act. (OIG Control Number (FOD-288)</i></p>	8

1. COMPLIANCE WITH PBGC'S POLICIES AND PROCEDURES NEEDS STRENGTHENING

An entity develops and implements policies and procedures to help provide order, ensure consistency in processing among personnel, and provide guidance to new or reassigned personnel. Management also develops policies to help ensure compliance with applicable laws and regulations, to guide personnel in the implementation of internal controls, and to help prevent fraud, waste, or abuse from occurring and not being detected timely. If policies and procedures are not followed, inconsistent or ineffective processing of accounting transactions may occur and not be detected in a timely manner, resulting in possible errors or irregularities. We identified the following instances where compliance with PBGC's policies and procedures needed further strengthening:

1.1 System user access was not always properly approved or terminated.

To protect its information from unauthorized use, an entity is responsible for establishing and enforcing adequate controls surrounding its automated systems environment. During our FY 2000 audit, we identified instances where Enterprise Local Area Network (ELAN) user access request forms were not always properly completed for users of the various departments or were not maintained by PBGC, as follows:

- ELAN access request forms were not on file for some users;
- Some ELAN access request forms did not have user signatures;
- Some ELAN access request forms did not show evidence of management approval, and
- None of the necessary paperwork was maintained by PBGC for some users.

The Information Resources Management Department (IRMD) established PBGC Access and Physical Security Procedures that allows authorized personnel to obtain access to the PBGC LAN. Part of these Procedures is an ELAN access request form to grant user access to PBGC's Local Area Network (LAN). These forms are available from the IRMD Help Desk. The Procedures require that the forms be completed by PBGC staff and submitted to the Help Desk to obtain access to PBGC systems. Further, documentation supporting users' access to the LAN should be maintained to provide management with assurance that controls have been properly implemented. Without following these guidelines, LAN access may be given to unauthorized users or inappropriate levels of access (i.e., update access instead of read-only access) may be given to users. Additionally, users may be granted access to information that is not needed to perform their responsibilities. Unauthorized access to the LAN places PBGC's information at greater risk of vulnerability.

Additionally, we noted that user access was not removed in a timely manner after employees had been terminated. This issue was reported in a prior OIG report. Specifically, PBGC requires employees who are leaving PBGC employment to obtain signatures on Separation Clearance Forms (SCF) to indicate that they have, among other things, returned PBGC property and have no outstanding debts.

These forms are also used to terminate access to PBGC systems and accounts. We identified the following problems:

- SCFs were not maintained for all terminated employees.
- SCFs did not indicate whether users retained PBGC property.
- SCFs were not signed by terminated employees.
- SCFs were not approved by the Human Resources Department.
- System access was not removed within five business days for terminated employees.

PBGC's policies and procedures require that terminated users' access to the LAN, applications, and PBGC e-mail must be promptly removed. Without enforcing these procedures, unauthorized individuals may retain access to confidential or sensitive information, which compromises the privacy and protection of PBGC's information. This is a violation of PBGC's security policy.

Recommendations

We recommend the following corrective actions:

PBGC should assign to a high-level management official the responsibility to perform the following and report the results to the Chief Information Officer on a monthly basis:

- a. *Verify that systems access is being properly authorized, in accordance with PBGC's policies and procedures, prior to granting user access. **(IRMD-128)***
- b. *Verify that user access is being terminated properly and timely upon an individual's termination, in accordance with PBGC's policies and procedures. **(IRMD-129)***
- c. *Verify that documentation supporting granting and terminating users' access to the LAN is properly maintained, in accordance with PBGC's policies and procedures. **(IRMD-130)***

1.2 Reconciliations of investment manager records with State Street Bank Custodial Services' records were not always performed in a timely manner.

During the FY 2000 audit, we identified investment transactions with FY 2000 trade dates that were not recorded in PBGC's general ledger until FY 2001. These were as follows:

Sale of Government Securities	\$59,097,911
Sale of Corporate Stock	\$2,738,989
Purchase of Corporate Stock	\$1,483,751

PBGC's accounting policy requires that investment (security) transactions be recorded as of the trade date, rather than the settlement date of the transaction. As a result, these transactions were not properly accounted for in PBGC's FY 2000 financial statements.

State Street Bank (SSB) Custodial Services did not include these transactions in the September 2000 SSB Blue Book as open sales and purchases of PBGC's investments until after PBGC's fiscal year-end. The SSB Blue Book maintains accounting information for trust fund investments, which PBGC uses to prepare journal entries related to trust fund activities. The exclusion of these transactions from the appropriate period in the SSB Blue Book were not clearly identified during the monthly reconciliation process between SSB and the respective investment managers. These transactions should have been identified as timing differences between the investment manager records and SSB Custodial Services' records, and SSB Custodial Services should have made appropriate adjustments in the SSB Blue Book to ensure that the balances accurately reflected trades as of trade date. Furthermore, PBGC should have identified these differences during their year-end review of the reconciliations and address necessary corrective action.

If all trades as of the period end are not identified, PBGC may misstate its investment component balances such as Due to/from Sale of Securities and Realized Gain/Loss on its financial statements.

Recommendation

We recommend the following corrective action:

Strengthen reconciliation procedures between the investment managers and SSB Custodial Services to identify timing differences in a timely manner and to make necessary adjustments in SSB Blue Book to correctly reflect PBGC's investments. (FOD-284)

Strengthen PBGC's monitoring procedures over the monthly reconciliations performed between the investment managers and SSB Custodial Services. (FOD-285)

1.3 Invoices were not paid in accordance with the Prompt Payment Act of 1989.

During our FY 2000 testing of accounts payable, we identified instances in which invoices were not paid by PBGC in a timely manner. In addition, our testing of late payments indicated that interest was not always properly added to the delayed invoices in compliance with the Prompt Payment Act provisions.

The inability to pay invoices timely was caused by failure of both the General Accounting Branch (GAB) in the Controller's Division and the individual departments to resolve matters related to the invoice upon the receipt of goods or services. Our samples indicated delays in the individual departments stamping invoices as received and significant delays in returning the invoice to be recorded for payment in the payable system.

GAB does not effectively use its monitoring or tracking capability to record the invoices promptly nor to follow up once the invoice has been delivered to its intended department. Difficulties in transition to the Performance Accounting System also indicated problems in recognizing how to use the capabilities of the system of record.

Management needs to reconsider its procedures to: (1) provide more timely processing of particular transactions for review and approval, especially tracking the progress of invoices; and (2) more timely processing of payments once the invoice is returned from the individual department.

Recommendations

We recommend the following corrective actions:

Compress the time from receipt of invoices to scheduled payment from 30 days to less than 30 days. (FOD-286)

Develop procedures to monitor the progress of invoices through the accounting system, enabling a more timely response in recording the invoice as a payable. (FOD-287)

Perform an internal study related to the payment of interest on invoices, to determine whether the interest is being paid in accordance with the Prompt Payment Act. (FOD-288)

MANGEMENT RESPONSE AND OIG EVALUATION

A draft report was provided to the Agency for comment. PBGC officials concurred with the findings and recommendations (see Tab A). The OIG has resolved all issues raised during the audit.

Tab A