



Pension Benefit Guaranty Corporation

Office of Inspector General

Final Evaluation Report

**Review of PBGC's
Premium Accounting Process**

October 10, 2003

2003-10/23177-2

REVIEW OF PBGC'S PREMIUM ACCOUNTING PROCESS

Draft Report 2003-10/23177-2

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ABBREVIATIONS

A/R	Accounts Receivable
DQM	Data Quality Management
EIN	Employer Identification Number
ERISA	Employee Retirement Income and Security Act
JFMIP	Joint Financial Management Improvement Program
OCR	Optical Character Recognition
OIG	Office of Inspector General
PAS	Premium Accounting System
PBGC	Pension Benefit Guaranty Corporation
PDFN	Past Due Filing Notice
PN	Plan Number
SOA	Statement of Account

PREMIUM ACCOUNTING PROCESS**FINAL EVALUATION REPORT 2003-10/23177-2****INTRODUCTION**

On March 6, 2003 the Executive Director expressed concerns about the diversion of a premium payment check and asked the Office of Inspector General (OIG) to identify control weaknesses and quantify the potential impact.

We issued an interim report on April 16, 2003 (Appendix A) that addressed several issues requiring management's immediate attention. On August 5, 2003, we briefed the Executive Director on our conclusions, findings and recommendations with the slides at Appendix B. This report provides details on the information presented in the briefing that will allow responsible managers to implement corrective actions.

SUMMARY

We concluded that significant control weaknesses exist in the premium accounting process that undermines the quality and integrity of reported premium revenues. Specifically, we concluded that:

- Statements of account and past due filing notices are not routinely used to independently verify account balances.
- Suspended transactions are not promptly posted and cleared.
- Contractors are generally not held accountable for poor performance and had no incentive to improve the quality and integrity of premium accounting data.

These control weaknesses result in unreliable and inaccurate premium data in the Premium Accounting System. Consequently, management considers information generated by the system unreliable, and estimated the premium receivable balance for financial reporting. Because system data is unreliable, we are unable to determine with any certainty the potential monetary impact of the control weaknesses on premiums.

Management recognized problems with the premium accounting system and has attempted to correct the problem with several initiatives since 1995. However, these initiatives have not resulted in a long-term solution to the reliability of premium data. The most recent initiative is a major systems development effort that will totally redesign the Premium Accounting System.

While we agree that a total redesign of the Premium Accounting System is necessary, we question whether the redesign effort will be successful unless a common set of financial requirements for all financial systems is developed. Problems with the Premium Accounting system are indicative of a broader problem that we have repeatedly reported in our annual financial audit --- integration of financial systems. We believe that a common framework of

financial controls needs to be developed for all systems that impact the general ledger; not just the premium accounting system.

**SUMMARY OF INTERIM MEMORANDUM RECOMMENDATIONS
AND MANAGEMENT RESPONSE**

In our interim report, found at Appendix A, we recommended the following:

- *Use Statements of Account to independently verify account balances at least annually before the new system is implemented. (FOD 321)*
- *Mail Past Due Filing Notices within 45 days when premium forms are not received on time. (FOD 322)*
- *Systematically correct account histories with documentation and corrections submitted by sponsors. (FOD 323)*
- *Implement a system of penalties (such as assessing an administrative fee) and/or incentives (such as a discount) to encourage sponsors to make one payment for each filing. (FOD 324)*

Management agreed with these recommendations and initiated a pilot program that will be used as a model for verifying and correcting all account balances. Management told us that the results of the pilot program were encouraging. A copy of management's response is included at Appendix C.

SUMMARY OF EXECUTIVE BRIEFING

At our August 5, 2003 briefing, we presented a summary of recommendations being included in the final report to management. We recommended that management:

- Validate 100 percent of account balances before converting to a new system.
- Enforce policies for suspended transactions and aging of accounts.
- Establish data quality metrics and use them to encourage better contractor performance.
- Establish a cross-functional team to define common financial system requirements.
- Require CFO approval at appropriate decision points throughout the system development process.

Management verbally agreed with these recommendations and following our briefing, the Executive Director emphasized to the corporation's senior leadership the strategic importance of integrating financial systems. A copy of the briefing is included at Appendix B.

SUMMARY OF MANAGEMENT RESPONSE TO FINAL REPORT

A draft OIG Final Evaluation Report was issued September 2, 2003. Management agreed with our recommendations contained in the report and has developed corrective action plans (CAPs) to address the issues identified. Most of the CAPs will be addressed through the implementation of a new premium system in December 2004. For the remaining recommendations, management has obtained additional full-time staff positions. The new positions, a systems accountant, staff accountant, and a contracting officer technical representative, will allow FOD to address the development of new and enforcement of existing operational processes, monitoring performance based contracts, and the system integration issue. A copy of Management's response to this report is included at Appendix D.

OBJECTIVES

At a meeting on March 6, 2003, the Executive Director asked us to identify control weaknesses with the premium accounting process and quantify the potential impact. In response to the request, OIG established the following objectives:

- Identify and summarize control gaps in the Premium Accounting Process.
- Quantify the potential financial impact of the process and control gaps.
- Provide short-term and long-term recommendations to address the issues identified.

SCOPE AND METHODOLOGY

Our work was performed from February 12, 2003 through June 15, 2003 and included the review of historical information such as prior reports dating back to October 1, 1994, as well as any records or documentation produced through June 15, 2003. We engaged PricewaterhouseCoopers LLP to assist us in performing a risk assessment of the system and its vulnerabilities

Our work included:

- Interviews with corporate personnel as well as appropriate contractors.
- Walkthroughs of current Premium processes, procedures, and operations, including cash reconciliations, lockbox operations, data capture and data (PAS) processing/updating.
- Use of analytical review procedures to help identify and analyze data with regard to accuracy, completeness, and timeliness of processing.

Our work evaluated the design and intended use of controls based on observation and management discussion, but did not include substantive testing of the controls.

We performed our work in accordance with the quality standards for inspections issued by the President's Council on Integrity and Efficiency.

FINDINGS AND RECOMMENDATIONS

We categorized the issues noted into three major categories: internal controls; data quality; and systems development.

Internal Controls

1. Plan Sponsors have not been billed or notified of a failure to file consistently.

We noted that the current critical premium-related notification processes, the issuance of a Statement of Account (SOA) and the Past Due Filing Notice (PDFN), were not performed consistently for all accounts.

Management offered the following reasons for why these notification processes have not been completed as initially intended:

- The plan data residing in PAS is used to create the PDFN and SOA. Management lacked confidence in the accuracy of this data. Therefore, PDFNs have not been issued in the recent past and SOAs have been issued sparingly only after manually validating the data.
- Management believed a significant number of inquiries from plan sponsors would result from issuing PDFNs and SOAs. Management also believed that staff levels were not sufficient to adequately respond to these inquiries.
- A 30-day grace period was given to plan sponsors to pay late fees. When PDFNs were printed, the initial process date was printed on the letter. However, the process date could be several weeks earlier than the current calendar date. This resulted in a grace period of less than 30 days. Significant manual work was required to change the date from a process date to a calendar date.

Because account statements were not sent out in a timely manner, account balances were not confirmed and plan sponsors were not notified of outstanding interest, penalties or premiums.

Additionally, by not using the PDFN process and sending out notices to plan sponsors where filing information had not been received, the potential exists for premiums to go unpaid.

Recommendation

The issues related to the PDFN and SOA control processes were documented in the OIG Interim Alert issued on April 16, 2003 and responded to by management on May 6, 2003. The recommendations and management responses, as updated on August 15, 2003, are included in the slides presented to the Executive Director on August 5, 2003 (See Appendix A, and slide page 9).

To address the date difference issue we recommend PBGC:

Examine the process date versus calendar date issue during the business process improvement project currently underway. (FOD 309)

2. Premiums received may not be processed timely and accurately.

We noted several issues that may impact the processing of premiums and could impact data quality. Specifically:

Contractor Performance

Several different contractors/subcontractors were engaged by PBGC to perform various elements of the Premium Accounting process. During our review, we noted contractor performance had been unacceptable in the past. While management had taken steps to move contracts to a performance based structure in an attempt to improve performance, the following issues still existed:

- Performance by contractors in both operational and maintenance support areas needed improvement.
- Information needed to manage the business functions appropriately was not reported to PBGC management on a timely basis.

Contractors that do not meet contracted performance levels may impact PBGC's ability to process premiums properly, accurately and in a timely manner. Also, if management cannot obtain appropriate reporting, they cannot gauge the effectiveness of operations and as such, may not take corrective action when needed.

Suspended Transactions

PBGC focused on clearing and posting suspended high-dollar amount transactions, as opposed to a well-defined structured process. High-dollar items were being processed first and, if time permitted, then remaining suspense items were researched and cleared. This left lesser dollar amounts in suspense for varying lengths of time. For example, an item from March 1994 was still in suspense as of May 21 2003. The total dollar amount of items in the Aged Suspense Report as of May 21, 2003 was in excess of \$14M. The following observations related to the impact of this suspense process:

- All wire transfers go into suspense and stay there for an undetermined amount of time until they are matched with a plan account.
- No policies or procedures are in place to escalate aged suspended items.
- While cash is recorded when received whether by wire or check, it may not be applied to the correct plan account in a timely or accurate manner due to the nature of the suspense resolution process.

Premiums received from plan sponsors that are not appropriately applied to plan accounts result in an inaccurate plan account balance.

Recommendations

To improve the timeliness and accuracy of premium processing, we recommend PBGC:

Design and implement standard reporting packages that contain useful information and provide appropriate feedback to management allowing the ability to better manage the business and operations. These should include, but not be limited to:

- *Expectations of contractors are clearly defined, documented and measurable.*
- *Key Performance Indicators that measure such things as suspended transactions, aging of accounts receivable, SOAs requiring corrections, data capture error rate, and timeliness of PDFNs.*
- *Requirements for adequate reporting from contractors in order to measure the achievement of these indicators.*
- *Service Level Agreements to incorporate into all new contracts that specify minimum response times and expectations.*
- *Ability to track issues encountered to ensure timely resolution by contractors and to assess penalties if Service Level Agreement is not met.*

(FOD 310)

Develop improved processes to receive and post premium payments including methods to encourage plan sponsors to file electronically.

(FOD 311)

Enforce the existing policies and procedures for the processing of suspense account information. (FOD 312)

Develop escalation procedures to improve management's awareness of the status of any significantly aged items. (FOD 313)

Data Quality

3. PAS data may not be accurate or reliable.

During our review we noted that management considered the data in PAS to be poor and unreliable. Limited data analysis work we performed indicated that management was correct. Management also stated that, as a result of unreliable data, the premium receivable balance on the financial statements was determined through an estimated calculation and was only loosely supported by PAS. Several factors contribute to poor data quality in PAS, including:

- The PAS system was not designed to be a receivables system/sub ledger, therefore, it did not support that intended use.
- Extensive data errors in PAS have resulted from the initial conversion from the former Premium Processing System (PPS) system and increased each year due to recurring incorrect data entry and adjustments.
- Only select SOAs and PDFNs were sent to plan sponsors. Therefore, the A/R balance and account activities were not confirmed with plans on a regular basis.
- The error rate of the Optical Character Recognition (OCR) process was high. Re-keying data, while it was intended to improve the accuracy of data capture, was less effective than anticipated and negated the benefit of using OCR technology.
- Supervisors of the data entry process had the ability to mass approve transactions, which led to inadequate review of individual transactions.
- When a Premium Compliance Review resulted in a plan sponsor having to pay additional premiums, the increased receivable was not reflected in PAS until a revised Form 1 was received from the plan sponsor. Cash receipts from plan sponsors designated to be applied to the outstanding balance generated from a premium compliance review that were submitted without an updated Form 1 resulted in a decrease of the plan account balance, and possibly created a credit balance which may result in an improper refund.

Without a clear, accurate record of receivables, PBGC may not be collecting all payments due them. Without confirming the A/R balance, it is not possible for PBGC to ensure the validity of the A/R data. By granting the ability to mass approve items, supervisors are no longer required to look at each record, thus removing the control of review, which may lead to additional data errors. By not updating account balances with the additional receivable generated from Premium Compliance Audits, revenue may be lost as account balances would be understated; SOAs, if sent out, would reflect a credit balance thus prompting the plan sponsor to reduce subsequent payment or possibly receive a refund. Ultimately, inaccurate A/R data may impair management's ability to properly

gauge the operations of the organization and to accurately report its financial performance.

Recommendations

To address the data quality issues we recommend PBGC:

Institute a Data Quality Management (DQM) approach to PAS data to move beyond the symptoms of poor quality within PAS, and to address and rectify root causes. The DQM approach should call for defining data quality requirements, assessing the current state against those requirements, improving data as needed through cleansing and data creation, and sustaining high levels of quality on a go-forward basis.

(FOD 314)

Define the appropriate process controls and organizational roles to support ongoing data quality in conjunction with the DQM process above. (FOD 315)

Investigate data quality errors that may be caused by Optical Character Recognition scanning issues. While an overall 3.4% rate of error has been established, it should be determined which data elements are most "at risk," and the criticality of these risk areas be assessed. (FOD 316)

Examine and modify as needed the current process around mass transaction approval to ensure individual transactions are appropriately reviewed. (FOD 317)

Ultimately, the DQM approach will allow PBGC to address errors resulting from any earlier data conversion and cease perpetuation of these issues into any future PAS-replacement system.

System Development

4. PBGC lacks defined financial requirements for inclusion in all financial systems and appropriate project management.

As part of this and other evaluations performed by the OIG in past years, both the system development process and the integration of financial systems have been reviewed and reports issued. A key component of the financial system development is a need for financial rules and requirements to be well-defined and implemented. In addition, appropriate project management is of significant importance to the successful completion of any business-related project. PBGC has been weak in these areas in the past and is working toward improved development and systems compatibility.

PBGC is currently in the process of replacing the existing Premium Accounting System. A contract has been issued to proceed with a business process reengineering review of PAS. This presents PBGC with an opportunity to use the results of this project, incorporating them into the system development process to define improvements needed to implement a better product and possibly address its systems integration issues. Failure to take advantage of this opportunity while also developing a consistent set of accounting rules for this and future development projects affecting the general ledger will result in the potential to repeat past mistakes.

Recommendations

To help meet its commitment to developing a sound new Premium processing system, we recommend that PBGC:

Develop the new premium system as a financial system in accordance with JFMIP requirements. (FOD 318)

Establish a cross-functional working group to define a set of common financial systems requirements to be used as a standard in the development of any application or system that impacts the general ledger. (FOD 319)

Require Chief Financial Officer approval at appropriate decision points throughout the development process. (FOD 320)

APPENDIX A: OIG INTERIM REPORT

The following pages contain the Alert Memo issued by the OIG on April 16, 2003. This report addressed several issues related to the processing of premium payments that required management's immediate attention.



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

April 16, 2003

ALERT MEMORANDUM

TO: Steven A. Kandarian
Executive Director

FROM: Robert L. Emmons
Inspector General

SUBJECT: Premium Accounting System

At our meeting on March 6, 2003, you expressed concerns about the Premium Accounting System, which were heightened when you were informed about the diversion of a premium payment check. You asked the Office of Inspector General (OIG) to provide you some insight into Premium Accounting System issues, including (1) identifying control weaknesses, and (2) the extent of exposure to similar incidents. We provide this alert memorandum as an early warning of several control weaknesses that may result in the loss of premium income if they are not corrected. Once we complete our work, we will issue a report that summarizes our findings and recommendations.

As you know, the Premium Accounting System and its predecessor systems have always been a major concern of PBGC since it was implemented in 1995. OIG has issued several reports identifying numerous control weaknesses, with recommendations to strengthen controls over premiums. PBGC has expended a great deal of resources to correct these control weaknesses, but many remain uncorrected. A further concern is the Premium Accounting System's inability to provide reliable information to issue Statements of Accounts and Past Due Filing Notices.

Responsible managers are aware of system problems, and there is a major effort under way to redesign the system. While OIG supports these efforts, system changes are not scheduled for completion until December 2004. We believe improved controls need to be implemented immediately to reduce exposure to losses. Responsible managers also told us that funding constraints with limitation funds have limited their ability to correct the database. However, we believe PBGC should assign a high priority to correcting database errors to allow a successful migration to the new system. A concerted effort to correct the existing account information will also identify the underlying cause of errors so problems are resolved as the new system is developed.

Privileged and Confidential

Since our March meeting, OIG has devoted considerable audit and investigative resources to the Premium Accounting System. We continue to pursue our investigation of the stolen premium check in close coordination with several law enforcement agencies and internal investigation units of financial institutions. Based on our investigative efforts, premiums of over \$250,000 have already been recovered for the stolen check. Hazel Broadnax also arranged an OIG briefing on the Premium Accounting System, and the audit staff is focusing on evaluating controls and identifying the extent of corporate exposure to incidents similar to the case currently under investigation. At FOD's request, we plan to conduct an on-site evaluation of controls at the lock box facility to evaluate controls with the assistance of FOD. Finally, we plan to use PricewaterhouseCoopers to accomplish a risk assessment of the system to identify major vulnerabilities. My intent is to provide you with an overall assessment of the Premium Accounting System by the end of June.

Based on our initial work, we have concluded that PBGC's controls are not effective to ensure that premiums are collected and accounted for. This conclusion is based on three major control weaknesses:

- PBGC did not use Statements of Accounts to provide independent verification of account activity and balances for the majority of accounts. In the past, managers viewed Statements of Accounts as a billing tool, not as a vehicle to verify and correct the database.
- Until recently, PBGC did not mail Past Due Filing Notices to plan sponsors when premium forms were not received.
- There are a significant number of suspended transactions caused, in part, by:
 - Sponsors made a payment for numerous accounts with one check, but they were not required to provide the details needed to accurately post payments to individual accounts.
 - Many wire transfers for premium payments could not be associated with filings as required without manual intervention, but the sponsor was not required to resubmit.

These control weaknesses have resulted in several "red flags" that are indications that PBGC is at risk:

- Year-end account balances for 2002 required numerous estimates and adjustments because only 25 percent of account balances with credit balances or premiums due were accurate.
- Significant manual processing is required to properly record payments in accounts when PBGC receives one check that covers premiums owed from multiple plan sponsors.

Privileged and Confidential

Privileged and Confidential

The diversion of the premium check we are investigating illustrates the potential financial loss caused by the above weaknesses. The plan sponsor's check was dated February 2001; however, PBGC did not receive either the check or the Form 1 ES. If PBGC had issued the past due filing notice, the premium payer would have been timely notified that PBGC did not receive its filing. Because there was no notice, the premium payer had no opportunity to correct the record and PBGC did not timely discover the theft. Matters were further exacerbated when, in November 2001, a bank notified PBGC that it questioned the validity of the stolen check's endorsement, but the letter was sent to the lock box address instead of the correspondence address. Consequently, the letter remained in a miscellaneous file until February 2003 because correspondence at the financial lock box was not regularly screened. FOD managers told us that the correspondence problem has been corrected, but we plan to evaluate the controls over this process.

The Financial Operations Department needs to implement interim controls over the Premium Accounting System to ensure that accounting errors are prevented, detected or corrected in a timely manner. Specifically, we recommend that the Director, FOD:

- Use Statements of Accounts to independently verify account balances at least annually before the new system is implemented.
- Mail Past Due Filing Notices within 45 days when premium forms are not received on time.
- Systematically correct account histories with documentation and corrections submitted by sponsors.
- Implement a system of penalties (such as assessing an administrative fee) and/or incentives (such as a discount) to encourage sponsors to make one payment for each filing.

We are requesting that FOD respond to this report within 14 days stating whether FOD agrees with the recommendations, the actions it plans to take, and the milestones for those actions. We will work closely with FOD, and have coordinated these findings and recommendations with Ms. Broadnax and Mr. Winter. In the OIG's final report, we will include the actions FOD took to address the recommendations in this alert memorandum.

If my office can provide further information or assistance in this matter, please contact me at x3437.

cc: Hazel Broadnax
Ted Winter

Privileged and Confidential

APPENDIX B: SLIDE PRESENTATION TO THE EXECUTIVE DIRECTOR

The following pages are the OIG presentation to the Executive Director on August 5, 2003. The Chief Financial Officer, Chief Technology Officer, and Deputy Director of Financial Operations Department also attended the presentation.

This presentation was intended to provide a high-level overview of the results of the work related to the Premium Accounting System and process review. After the presentation, we updated slide 9, that describes the April 16, 2003 OIG Interim Alert and Management's planned actions, to reflect the status of management's actions as of August 25, 2003.

REVIEW OF PBGC'S PREMIUM ACCOUNTING PROCESS

Presentation to the Executive Director

August 5, 2003

Office of Inspector General

Introduction

Why are we here?

- Prompted by the diversion of a premium payment check
- Concern about premium risk to PBGC

Objectives

We were asked to:

- Identify and summarize control gaps in the Premium Accounting Process.
- Quantify the potential financial impact of the process and control gaps.
- Provide short-term and long-term recommendations to address these issues.

Historical Perspective

Activity	Reasons/Support
<ul style="list-style-type: none">• Premium receipts, collections, and revenue issues have been presented to management previously	<ul style="list-style-type: none">• Documented concerns through Congressional testimony, PBGC OIG and GAO reports.
<ul style="list-style-type: none">• Current Premium System developed and implemented in September 1994	<ul style="list-style-type: none">• Replaced the old Premium Processing System (PPS)
<ul style="list-style-type: none">• System moved from contractor location to in-house operation October 1998 for better control of system	<ul style="list-style-type: none">• Previously supported and maintained by Wang Federal at their site

Historical Perspective

Activity

- Information to create Statement of Account has been consistently unreliable
- Individual department approach as opposed to overall PBGC environment
- Weak or non-existent SDLC (standard approach)

Reason/Support

- Current data cleansing activity has not been successful
- Was developed as a stand-alone system
- Lacking interoperability requirements related to systems and data interactivity

Identify and summarize control gaps in the Premium Accounting Process

Significant existing controls not functioning as intended
or at all.

Examples:

Past Due Filing Notice
Statement of Account
Managing suspense
Contractor oversight

Quantify the potential financial impact of the process and control gaps.

Based on the data available to us during our review, we were unable to determine with any certainty, the dollar impact of the control weaknesses identified.

The results of our data analysis would indicate a dollar risk exists within PAS equal to the dollar value of the uncollected account balances.

Conclusions

- Significant control weaknesses exist in the current system and process that could impact premium revenue.
- Data quality and integrity is a major issue that also has the potential to impact premium revenue.
- System improvements are needed to support a more effective and efficient method of processing premium payments

Interim OIG Report Issued

Recommendation

- Use SOA to independently verify account balances at least annually.
- Mail PDFNs
- Correct account histories.
- Assess penalties to encourage plan sponsors to make one payment per filing.

Management Actions

Updated as of 8/15/2003

- Pilot program initiated, mailing 238 SOAs – obtained \$141K for FY 2003 and access to another \$141K in FY 2004 to complete task for all SOAs.
- Already begun process with \$35K in FY 2003 and secured \$115K to complete in FY 2004.
- Already begun process – secured \$345K in FY 2004 to complete.
- As part of BPR will consider.

3 Major Issues

✓ Internal Controls

✓ Data Quality

✓ Systems Development

Internal Controls

Issue

- The processes and systems for managing, tracking and collecting revenues need improvement.

Recommendations

- Validate 100% of accounts with SOAs before converting to a new system
- Enforce policies for suspended transactions and aging of accounts

Data Quality

Issue

- The quality and integrity of key premium data and related operational information is questionable.

Recommendations

- Establish metrics and report monthly on data quality. At a minimum, the metrics should include:
 - Suspended transactions
 - Aging of Accounts Receivables
 - SOAs requiring corrections
 - Timeliness of PDFN
 - Data capture error rate
- Include performance metrics and incentives/consequences in contract provisions

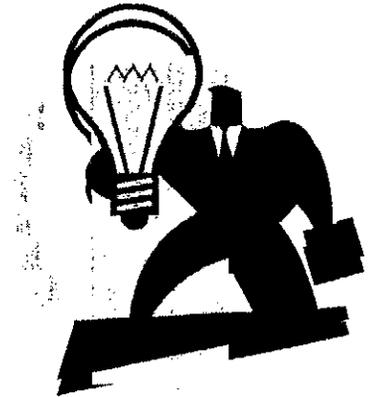
System Development

Issue

- PBGC has lacked a defined set of financial requirements needed for inclusion in all financial systems as well as appropriate project management in the development process

Recommendations

- Develop new premium system as a financial application in accordance with JFMIP requirements
- Establish a cross-functional working group to define a set of common financial systems requirements to be used as a standard in the development of any application that impacts the general ledger
- Require CFO approval at appropriate decision points throughout the development process



Questions

Appendix C: Management's Response to OIG Interim Report

The following pages contain the response to the OIG Alert Memo issued April 16, 2003. These responses address the issues raised as well as identify the corrective action plan management intends to implement.



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

Office of the Executive Director

MAY 06 2003

TO: Robert Emmons, Inspector General
Office of the Inspector General

FROM: Steven A. Kandarian
Executive Director

SUBJECT: OIG Alert Memorandum of April 16, 2003, "Premium Accounting System"

We are in agreement with the four recommendations of the subject memorandum. Below is an outline of the actions we will take in implementing each recommendation.

I. Recommendation: Use Statements of Account to independently verify account balances at least annually before the new system is implemented.

Response: Per our recent discussions, we interpret "Statement of Account" in this context to mean just that, and not necessarily a "bill." We see three components to this process: accounts with a receivable balance, accounts with a zero balance, and accounts with a credit balance.

Accounts with a receivable balance (A/R or SOA, or bill): We will correct or issue backlogged bills commencing with a pilot of 250-300 bills in May 2003. We will evaluate our workload processing strategy from this pilot, and will then stagger issuance and correction of the remaining backlog of bills between now and February 2004. We project that two contractors are required between now and the end of February 2004 and we are pursuing the necessary limitation funds of \$141k with BPIT.

Accounts with a zero balance: Initially, we will issue account histories going back three years for all large plans (ie., plans with more than 1,000 participants) with zero balance account histories (that is, nothing is owed to PBGC and nothing is owed to the plan). However, as the premium account history effort winds down during FY'04 we would perform a second and more expansive mailing in

advance of implementing the new premium system. Thereafter, we would do so on a recurring annual basis. No additional funds are required.

Accounts with a credit balance: Since a credit balance would entitle a plan to a refund, and since the overall PAS credit balance is currently 25% valid, accounts with credit balances must be reviewed before issuance of the account history (A/H) to the plan. We will complete the credit balance cleanup and mailings well in advance of the implementation of the new system. We project that an additional two contractors are required between the end of May 2003 through February 2004 (over a period of approximately 8 months) and we are pursuing the necessary limitation funds of \$141k with BPIT (in addition to the \$141K for backlogged bills referenced on page one).

II. Recommendation: Mail Past Due Filing Notices within 45 days when premium forms are not received on time.

Response: We have already begun this process. We have mailed PDFN's for 2001 and 2002. We will stay current going forward contingent upon BPIT's approval of FOD's request for one additional contractor between the end of May 2003 through the end of September 2004 (approximately \$150k in limitation funds over a period of approximately 16 months).

III. Recommendation: Systematically correct account histories with documentation and corrections submitted by sponsors.

Response: We have already begun this process through two means:

- A. Amended filings are entered into the system, and
- B. Actionable correspondence is separately identified, controlled, and processed.

The action items referenced above relating to mailing statements of account and past due filing notices will generate large volumes of work requiring corrections. In order to help assure that this increased workload can be processed, FOD is pursuing with BPIT \$345k in limitation funding to keep on board, 8 contractors that were acquired on a temporary basis to clean up the account histories extending their effort from September 30, 2003 through the end of February 2004.

IV. Recommendation: Implement a system of penalties (such as assessing an administrative fee) and/or incentives (such as a discount) to encourage sponsors to make one payment for each filing.

Response: Upon completion of the Premium Business Process Reengineering effort on or about February 1, 2004, we will validate the business case (cost benefit) for this recommendation and pursue the adoption of an appropriate penalty and/or incentive (e.g., implement new regulation).

Thank you for your timely feedback, and we look forward to your continued support as we implement the new premium system.

cc: Hazel Broadnax
Theodore J. Winter, Jr.

Appendix D: Management's Response to OIG Final Report

The following pages contain the response to the OIG Final Evaluation Report issued September 2, 2003. These responses address the issues raised as well as identify the corrective action plan management intends to implement.



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026
(202) 326-4010

Office of the Executive Director

TO: Robert Emmons, Inspector General
Office of the Inspector General

OCT 01 2003

FROM: Steven A. Kandarian
Executive Director

SUBJECT: OIG Memorandum of September 2, 2003, "Draft Evaluation Report - Review of PBGC's Premium Accounting Process"

Thank you for the opportunity to comment on the subject report. We are in agreement with your recommendations and have developed Corrective Action Plans (CAPs) to implement each recommendation.

Attached are our CAPs pursuant to the recommendations of the subject report. The CAPs were grouped into four categories: Internal Controls, Data Quality, Service Level Agreements, and System Development. As you are aware, most of the CAPs will be addressed through implementation of new premium system in December 2004. For the remaining seven recommendations, FOD will obtain additional resources to assist in the development and implementation efforts, and to maintain ongoing levels of service to assure continued success.

Additional staff positions including one systems accountant and one staff accountant have been obtained to address the following recommendations:

- FOD 311 - *Develop improved processes to receive and post premium payments including methods to encourage plan sponsors to file electronically.*
- FOD 312 - *Enforce the existing policies and procedures for the processing of suspense account information.*
- FOD 318 - *Develop the new premium system as financial system in accordance with JFMIP requirements.*
- FOD 319 - *Establish a cross-functional working group to define a set of common financial systems requirements to be used as a standard in the development of any application or system that impacts the general ledger.*

A senior systems accountant position has been obtained to address the following recommendation:

- FOD 320 - *Require CFO approval at the appropriate decision points throughout the development process.*

With the transition to a more complex performance-based contract and the need to closely monitor the day to day contractor performance a full-time COTR position has been obtained to address the following recommendations:

- FOD 310 - *Design and implement standard reporting packages that contain useful information and provide appropriate feedback to management allowing to better manage the business and operations...*
- FOD 316 - *Investigate data quality errors that may be caused by Optical Character Recognition (OCR) scanning issues. While an overall 3.4% rate of error has been established, it should be determined which data elements are most "at risk", and the criticality of these risk areas be assessed.*

The above recommendations involve ongoing operations and will require continued staffing levels. For example, FOD 311 is subject to evolving e-government standards, FOD 312 and 319 are subject to changing accounting financial system standards and requirements, and FOD 320 will require CFO approval on all new financial systems and/or enhancements impacting the integrity of PBGC's financial statements.

Thank you for your continued support as we pursue these corrective actions and as we implement our new premium system.

Attachment

cc: Hazel Broadnax
Theodore J. Winter, Jr.
Marty Boehm