



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**Fiscal Year 2003
Financial Statement Audit –
Management Letter**

March 26, 2004

**Fiscal Year 2003 Financial Statement Audit
Management Letter Report**

Audit Report 2004-7/23176-6

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ABBREVIATIONS

| | |
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| BPAB | Benefit Payment Administration Branch |
| CAB | Compliance and Audit Branch |
| CARF | Check Action Request Form |
| CAS | Case Administration System |
| ERISA | Employee Retirement Income Security Act |
| FBA | Field Benefit Administration |
| FOD | Financial Operations Department |
| IOD | Insurance Operation Department |
| IPVFB | Integrated Present Value of Future Benefits |
| IPS | Image Processing System |
| ME | Multiemployer |
| OIG | Office of Inspector General |
| PAS | Premium Accounting System |
| PBGC | Pension Benefit Guaranty Corporation |
| PDA | Participant Data Audit |
| PIF | Payee Information Form |
| PLS | Pension Law Specialist |
| PRISM | Participant Records Information Systems Management |
| PVFB | Present Value Future Benefits |
| SSB | State Street Bank |
| TA | Trust Accountants |
| TPD | Trusteeship Processing Division |

**Fiscal Year 2003 Financial Statement Audit
Management Letter Report
Audit Report (2004-7/23176-6)**

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the Pension Benefit Guaranty Corporation (PBGC) engaged PricewaterhouseCoopers LLP 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, 2003, and 2002. 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 Fiscal Year 2003 audit, we issued an unqualified opinion on PBGC's statements of financial condition, as of and for the years ended September 30, 2003, and 2002, a report on PBGC's compliance with laws and regulations, and a report on internal control that identified one material weakness and three new and three recurring reportable conditions (OIG Report 2004-2/23176-2).

This management report presents 12 findings with 17 recommendations for improvements in the Corporation's internal control that were identified during our audit of the FY 2003 financial statements.

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**Fiscal Year 2003 Financial Statement Audit
Financial Management Letter Report**

Audit Report (2004-7/23176-6)

Introduction

As a government corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, the Pension Benefit Guaranty Corporation (PBGC or the Corporation) protects the pensions of more than 44 million Americans in approximately 29,500 private defined benefit pension plans, including about 1,600 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 voluntary 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 Office of Inspector General (OIG) of PBGC engaged PricewaterhouseCoopers LLP 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, 2003, and 2002.

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 and Multiemployer Program Funds administered by PBGC at September 30, 2003, and 2002, 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.
- PBGC's internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2003, based on the criteria contained in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) was effective.
- PBGC is in compliance with certain provisions of applicable laws and regulations.

Scope and Methodology

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 and about whether internal controls were operating effectively.

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 (SSB), two investment manager sites, and two Field Benefit Administrator (FBA) sites. We did not perform tests related to standard terminations or other areas where such events did not have a direct and material effect on the financial statements.

Audit Results

As a result of our FY 2003 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, 2003, and 2002 (OIG Report 2004-1/23176-1);
2. A report on PBGC's compliance with laws and regulations that noted no instances of non-compliance with the provisions tested (OIG Report 2004-2/23176-2); and
3. A report on internal control that identified one material weakness and three new and three recurring reportable conditions (OIG Report 2004-2/23176-2). The material weakness we noted concerned matters related to internal control over the measurement of the Multiemployer Program's liability for the present value of nonrecoverable future financial assistance. When determining PBGC's best estimate of the multiemployer program's liability for the present value of nonrecoverable future financial assistance, PBGC should use a model that considers market changes from the asset information date to PBGC's financial statement date. The reportable conditions we noted were:
 - (1) PBGC needs to integrate its financial management systems;
 - (2) PBGC needs to complete its efforts to fully implement and enforce an effective information security program;
 - (3) PBGC needs to improve controls related to single-employer premiums;
 - (4) PBGC needs to continue to improve its controls over the identification and measurement of Single-Employer Program Fund contingent liabilities;
 - (5) PBGC needs to improve controls over the estimation of reserves for Single-Employer Program Fund losses incurred but not reported or specifically identified; and
 - (6) PBGC needs to strengthen controls over the identification and classification of Multiemployer plans probable of receiving financial assistance.

Findings and Recommendations

This management letter report contains findings, and recommendations that PBGC should implement to strengthen the Corporation's internal control. The remainder of this report is comprised of a discussion of each current year finding and corresponding recommendations.

1. Log of bank statements received for Interim Paying Agents (IPAs) not updated.

In accordance with Financial Operations Department (FOD) procedures, all bank statements received are to be logged into the Case Administration System (CAS) before being given to the Trust Accountants (TA). The purpose of the control is to track bank statements as they are received to ensure the non-commingled asset balances are recorded appropriately and timely. The log is considered a key control over the proper recording of non-commingled assets. Once the TAs have finished with the bank statements, they are to be filed in the case files.

In order to test this control, we selected 45 plans not yet commingled at State Street Bank and accessed CAS, noting when the latest bank statement was received per CAS for each plan. We then pulled the case files for these plans in order to ensure that the latest bank statement recorded in CAS was indeed present in the case file. Of the 45 plans selected for testing, the following exceptions were noted:

- Eleven cases where the latest bank statements were recorded in CAS but not included in the case files
- Six cases where the latest bank statements were not recorded in the CAS log but were found in the case file
- One case where the bank statements had never been input into CAS but were found in the case file.

Management cannot rely on the completeness of the CAS log to perform their review of the timeliness and accuracy of the recording of non-commingled assets.

Recommendations

We recommend the following corrective actions:

Enforce procedures for receiving and logging bank statements into CAS. (FOD-329)

Enforce procedures for filing bank statements in case files. (FOD-330)

2. Benefit Payment Reconciliations Need Improvement.

In our testing of benefit payments, we noted several instances in which required reconciliations were not performed timely, evidence to support such reconciliations was lacking, or supervisory review was not timely.

2.1 PRISM Balancer reconciliations not performed or reviewed timely.

The post-check run PRISM Balancer module identifies differences between PRISM, PBGC's participant information system, and PLUS, State Street Bank's (SSB) payment system, after payments are processed for the month.

We reviewed three monthly PRISM Balancer reconciliations and related control reports. Balancer reconciliations are prepared for each type of payment (annuity, lump sum) and type of variance. We reviewed a total of 30 individual reconciliations for the selected months. The Benefit Payment Administration Branch (BPAB) procedures require the initial completion of the reconciliation control sheet by the 15th of the month following the reconciling period. In 16 cases, we noted that the initial completion dates either exceeded the due date (14 reconciliations) or no date was noted on the reconciliation (2 reconciliations).

In addition, the BPAB procedures require that the supervisor complete the initial review of the reconciliation by the end of the month following the reconciling period. We noted that in 24 of the 30 cases reviewed, this procedure was not followed. In these cases, the review date either exceeded the due date (21 reconciliations) or no date was noted on the reconciliation (3 reconciliations). Additionally, we noted that the Balancer Administrator completed the final review at a date significantly later than the initial completion or initial review date. We noted that in 13 of the 30 reconciliations reviewed, the final review performed by the Balancer Administrator was completed approximately two months after the initial review.

Lack of timely performance and review of the reconciliations increases the likelihood that errors in benefit payments will not be identified and corrected in a timely manner. Delays in the review of the reconciliation process may result in multiple months of payment errors.

Recommendations

We recommend the following corrective actions:

Enforce the existing procedures regarding the timeliness of initial action and initial review of the Balancer reconciliation. (IOD-219)

Develop a procedure requiring a final review of the Balancer reconciliation by the Balancer Administrator and specifying the timeframe in which the review should occur. (IOD-220)

2.2 Reconciliation of funding requested by SSB to benefits paid by SSB lacked support.

BPAB performs a monthly reconciliation of actual benefits paid to requested funding for benefits. Although we determined that this control was effective, we noted insufficient support for payments other than benefits and for special funding request payments. The performance and review of PBGC's reconciliation process requires that all payments funded be reconciled (per IOD Procedures Manual Technical Procedure 30.1).

For the payments other than benefits, we noted inadequate support that the payment was made. SSB did not provide adequate documentation of payments made to SSB by PBGC for excess reimbursements that SSB originally made to PBGC. For the special funding request payments, we noted that the resolution of differences between requested funding amounts and the funding paid via accessing SSB's accounting systems (PLUS) was not properly supported. Although print screens from PLUS can be obtained, they were not always filed in the reconciliation folder.

Lack of proper support for payments increases the time needed to reconcile these amounts and hampers the ability of someone else to review the reconciliation.

Recommendation

We recommend the following corrective action:

Re-evaluate the monthly reconciliation of actual benefits paid to requested funding for benefits process and determine what support is required to be obtained/maintained in order to sufficiently document and monitor this control. (IOD-221)

3. Sampling methodology missing from Multiemployer financial assistance audit procedures.

Subsequent to a Multiemployer plan's initial request for financial assistance, a Compliance and Audit Branch (CAB) auditor will conduct a field audit of each plan. Part of the purpose of the field audit is for PBGC to determine that the plan administrator has correctly calculated the minimum guaranteed benefit level payment. The auditor conducting the field audit is responsible for testing the individual participant benefit calculated by plan administrators. No policies and procedures exist to provide guidance to the CAB Auditor regarding the sampling methodology to be used to select a representative sample to recalculate the benefits.

Because there are no written policies and procedures for field audit sample selection, the assurance gained from each field audit that the prior plan administrator properly calculated the reduced benefits cannot be easily determined. As such, PBGC may be unable to rely on results of the audits to determine whether the plan administrators' benefit calculations are accurate.

Recommendation

We recommend the following corrective action:

Amend the policies and procedures to include a sampling methodology for the CAB auditor to follow when choosing a sample of benefit calculations for testing during a field audit. (IOD-222)

4. Controls Over Participant Data in PRISM Need Improvement.

PRISM is an integrated information system developed to support PBGC in administering pension plan customers. PRISM also provides an automated interface with State Street Bank for benefit payment information. In our testing of controls over participant data, we noted several controls were not performed timely, were not being reviewed properly, or were missing key supporting elements.

4.1 Participant data audit reports missing key information.

The purpose of the *Participant Data Audit* (PDA) report is to document all actions taken by the Trusteeship Processing Division (TPD) team to obtain the most reliable available data required to make accurate benefit entitlement determinations. The report includes a background on the case, a description of sources of data used to verify information such as date of hire, date of birth, etc., and a determination of the total plan population based on the available data. The output is a report with seven sections, each section containing specific details about the plan, in accordance with IOD Online Procedures Manual Process 12.

The participant data audit is a key control that PBGC relies on to accomplish the following:

- (a) to determine whether each participant data element input from the source documents reflects a confidence level of at least 95;
- (b) to ensure that fictitious participants are not loaded in PRISM; and,
- (c) to ensure that the data from the prior plan administrator can be relied on in determining the liability to PBGC and benefits for those already in pay status at the time of plan termination.

We noted multiple reports lacking key report elements, which support the conclusion reached at the end of the participant data audit. Key report elements include:

- Scope (all information reviewed and relied upon for the audit report)
- Procedures (starting point of the database, Automated Data Transfer (ADT) reasonableness check, sampling parameters, significant errors)
- Findings (summary of population at date of plan termination (DOPT), addressing each type of participant/PRISM record and any data concerns)
- Conclusion (final statement as to the completeness and accuracy of the data)
- Attachments (if applicable)
- Signature of reviewer (Team Leader or above)

If the conclusions of the audit cannot be supported, PBGC cannot attain the required confidence that the prior plan administrator's data can be relied upon. If the data is unreliable, PBGC may miscalculate the liability or may pay improper benefits.

Recommendations

We recommend the following corrective actions:

Design and implement a standard participant data audit report format for PBGC auditors to use that incorporates necessary report elements from IOD Online Procedures Manual Process 12.8. (IOD-223)

Amend procedures to include a final sign-off by management that the participant data audit reports and all required supporting documentation have been properly imaged. (IOD-224)

4.2 Controls surrounding the monitoring of duplicate records lack review and timely performance.

Duplicate records exist in PRISM. The number of duplicate records in PRISM has continued to grow since users of the "PaySourceClean" function are able to create multiple records using the same social security number, which is necessary when original records in PRISM become corrupted. Although not all duplicate records can be combined, we noted weaknesses in the control designed to monitor those records. The control is being performed on a quarterly, rather than monthly, basis as prescribed in PBGC management's comment on closed recommendation IOD-175 ("Delete invalid duplicate participant records in PRISM and implement necessary controls to prevent the creation of duplicate records in future processing") in the September 30, 2003 Office of Inspector General's Semiannual Report of Audit Recommendations. In addition, management is not reviewing the performance of this control.

Lack of timely performance and management review prevents PBGC from relying on the controls to identify possibly invalid data and records. The existence of data exceptions decreases the data integrity of PRISM and increases the risk of duplicate payments.

Recommendation

We recommend the following corrective action:

Perform the duplicate PRISM records monitoring on a monthly basis and evidence review by management of the duplicate PRISM records control. (IOD-225)

4.3 Reconciliations over plan assumptions missing support.

After PBGC becomes trustee of a terminated pension plan, responsibility for paying benefits is transferred from the prior paying agents to State Street Bank (SSB). When assuming the administration of pension benefits of a terminated pension plan, the TPD assigned to the plan will perform a reconciliation of the participants in pay status and total benefits (collectively "payee data") to ensure that all payee data have been correctly loaded into PRISM. In addition, a reconciliation of data is performed when the participants not in pay status ("all other participants") have been loaded into PRISM. This is called a 9A reconciliation. PRISM loads may be performed manually or electronically through Data Hub. The reconciliation support will differ depending on the type of load.

If a manual load of payee data is performed, the Pension Law Specialist (PLS) prepares and executes an Authorization Verification memo stating that the payee data was properly reconciled with the prior paying agent data; this memo is then signed by a supervisor. For all other participants, authorization is not required and no reconciliation is performed at this stage in the process. Because manual loads are often small and reconciliations are performed at later stages during case processing (i.e. participant data audits and the plan closing process), we did not consider a lack of reconciliation of all other participants to be an exception.

If an automated load into PRISM is performed, a Data Hub Reconciler report is generated and a reconciliation is performed manually with the prior paying agent or plan administrator data for payees and all other participants, respectively. The variances, if any, are investigated by the PLS and the results are given to a manager in TPD. PBGC management then approves the reconciliations.

Of the 45 plans selected for testing, the following exceptions were noted:

- There were 3 plans loaded through Data Hub that were missing some or all supporting information for the reconciliation of participants in pay status in the Image Processing System (IPS) at the time of our testing.
- There were 7 plans where the prior paying agent data and the Reconciler Report did not agree and proof of the reconciliation was not imaged. The approval documents from PBGC management were not imaged, so there was not a sufficient audit trail to verify that variances were resolved.
- There was 1 plan that did not have a prior agent data listing imaged in IPS.
- There were 24 plans loaded through Data Hub that were missing some or all supporting information for the 9A reconciliation in IPS at the time of our testing.
- There was 1 plan that had the 9A reconciliation support imaged in another part of the plan file.

This is a control that PBGC relies on to ensure that PRISM has the most accurate and up to date information available from the prior paying agent. If the reconciliation of participants in pay status is not performed and reviewed properly, PRISM may not have accurate information and benefits may be improperly supported. PRISM data are also used to calculate the present value of the future benefits (PVFB). Benefit payments are netted against PVFB in the financial statements. There is a risk that these amounts may be materially misstated in the financial statements.

If a reconciliation of all other participants is not performed at the time of plan assumption for automated loads, there is a risk that incorrect information will be used by PRISM to calculate PVFB and that PVFB may be materially misstated.

If the reconciliations are performed but are not properly imaged, there is no record that the control was performed.

Recommendations

We recommend the following corrective actions:

Amend the IOD Online Procedures Manual Process 9 to include a final sign-off by management that the required documents are prepared and scanned into IPS for all plan assumption reconciliations. (IOD-226)

Amend the IOD Online Procedures Manual Process 9 to include approval and resolution for automated load reconciliations. (IOD-227)

4.4 Death Match Process not performed timely.

PBGC policies and procedures surrounding the Death Match Process are not being strictly followed. On a monthly basis, a report is run to compare the deaths reported on the Social Security Administration Death Index to the information recorded in PRISM. The purpose of this process is to identify any discrepancies and determine if benefits are being paid inappropriately to deceased participants or beneficiaries. IOD Technical Procedure 5.3 requires that PBGC "take initial action on each discrepancy within seven business days for payees." In addition, IOD Technical Procedure 5.1 requires that "if a date of death is entered in PRISM or Customer Communications Network (CCN): (A) before the check run date – specials and annuities; no action is required, (B) on the specials and annuities check run date and no later than noon on the next business day; complete a Check Action Request Form (CARF) to pull check and credit, or (C) after B above – complete CARF to issue stop-pay order."

Specifically, we noted the two FBAs we visited are not taking timely initial action on discrepancies reported on the Death Match report and are not timely terminating benefits. We tested one monthly Death Match report at each location. Out of a combined sample size of 90 participants in active pay status, we identified 47 deviations related to timely initial action regarding discrepancies reported on the Death Match Report and 16 deviations related to timely termination of benefits.

A delay in determining death status or terminating benefits after a date of death has been established could cause PBGC to:

- issue benefit payments to participants/beneficiaries who are deceased
- incur unnecessary costs collecting overpayments of benefits, and/or
- lose monies due if collection efforts are unsuccessful.

As a result, PBGC's assets are not safeguarded for the benefit of all other participants and beneficiaries.

Recommendation

We recommend the following corrective action:

Amend IOD Online Procedures Manual to require management to periodically certify they reviewed the Death Match results and that the process was performed timely.
(IOD-228)

4.5 Documentation in Image Processing System (IPS) and data elements in PRISM missing for participants in pay status.

Through testing performed at two Field Benefit Administrator (FBA) sites, we noted multiple instances where participants in pay status lacked proper supporting documentation in IPS and data elements in PRISM. Per review of a sample of 90 participants who went into pay status during the fiscal year, we noted the following:

- 1) All applicable forms and pension information [participant applications, Payee Information Forms (PIF) and benefit calculations] were either not obtained or obtained and not imaged into IPS in five cases.

- 2) PRISM was not updated for applicable data elements (date of birth and sex) identified on Payee Information Forms (PIF) received in eight cases.

IOD Technical Procedure 16.3 states "core information is required for each participant and is promptly forwarded to the DMC to be imaged into the participant file." It also requires "that information which is pension related, and supports the participant's payment status and beneficiary selections, need be retrieved and imaged with core participant information." This pension-related information includes benefit calculations.

IOD Technical Procedure 13.2 requires that PBGC "reconcile returned data against existing records in PRISM, and update it with any new or revised data elements from returned data verification forms."

Failure to comply with the above procedures increases the likelihood that PBGC will issue benefit payments for invalid participants or beneficiaries and/or issue benefit payments at an inaccurate amount.

In addition, if the relevant data used by the actuaries to calculate the Present Value of Future Benefits for terminated plans are incomplete for plans valued at an individual participant level, the amount of the liability recorded in the financial statements could be misstated.

Recommendations

We recommend the following corrective actions:

Enforce a process to review the benefit application and PIF processing to note when forms for participants are in active pay status have not been received or imaged in IPS and take corrective action when such deficiencies are identified. (IOD- 229)

Enforce a process to review PRISM for incomplete data elements that are relevant to the calculation of the Present Value of Future Benefits and take corrective action when incomplete data elements are identified. (IOD-230)

5. Controls Over Multiemployer Non-Recoverable Future Financial Assistance Process Need Improvement.

In our testing of multiemployer non-recoverable future financial assistance, we noted several findings that rose to the level of a reportable condition, as described in the report on internal control. These findings were regarding the identification of the universe of multiemployer plans, initial screening for plan classification through financial ratios, and classification of plans. Specific recommendations were included in the report on internal control to help management improve controls over the single employer contingent liability process. Two findings were not specifically included in the report on internal control and are included here:

5.1 Forced matching process duplicated each year.

Each year, the Multiemployer (ME) Program Manager reconciles the PAS (Premium Accounting System) Form 1s to the Form 5500s in MES, which is part of PAS. Multiemployer plans that are not directly matched may be forced matched, based on additional research performed by the Multiemployer Program Manager. Each year the same plans need to be reconciled again, because forced matches are not stored in PAS.

Because the ME Program Manager must repeat the same work each year, the opportunity for error during the compilation of the ME universe increases. Inaccuracies in the ME universe increase the risk that plans will be misclassified. The misclassification of plans affects the liability for probable ME plans (present value of nonrecoverable future financial assistance) and disclosures related to reasonably possible ME plans.

Recommendation:

We recommend the following corrective action:

Reprogram MES to include a function which enables forced matches of the ME Program Manager to be saved for future years. (IOD-231)

5.2 Information used in the ratio calculation for Multiemployer plans outdated.

The ME Program Manager uses outdated Form 5500 information in the screening ratio process. Information reported in the Form 5500 filing is uploaded and used by PBGC's MES system to compute the ratios that ultimately create a basis for plan classification and proper inclusion in or exclusion from the present value of non-recoverable future financial assistance liability. If a plan's administrator does not file all required forms or if a plan number is typed incorrectly on one of the required forms, the plan's filing will not be captured by MES. If the current Form 5500 filing (for FY03, this would be the 2001 plan filing) is not available, the ME Program Manager relies on the most recent information available in MES. We noted two cases where more recent filings were available than the data present in MES. We also noted three cases where the most recent filing information (2001) was used in the screening ratio process, but the ratios for the prior year relied on outdated information (i.e. 2000 data were available, but were not used for the FY2002 calculations). In addition, we noted one case where no screening ratio worksheet was prepared due to lack of data in MES; however, the 2001 Form 5500 data were available.

By failing to use the most recent information available, the risk of misclassification increases. Misclassification can lead to the misstatement of the Multiemployer program accrued and disclosed liabilities related to present value of the nonrecoverable future financial assistance. In addition, if outdated information is used in prior years, the information cannot be relied upon for an appropriate trending analysis.

Recommendation:

We recommend the following corrective action:

Develop, document and implement procedures to ensure that the Multiemployer Working Group obtains the most recent available financial information for each plan during the ratio calculation process. (IOD-232)

6. Performance measure reporting process contained control weaknesses.

PBGC reports performance measures in the annual report. During testing of the annual performance measure process, we noted the following weaknesses:

- When obtaining support for the performance measure, we noted that email responses were accepted as support for the result.
- When testing that the results were accurately disclosed in the annual report, we noted 4 of the 11 measures were inaccurately disclosed.

The performance measure is not compared to the original source for accuracy. If results are not recorded accurately, the annual report may be misleading.

Recommendation

We recommend the following corrective action:

Develop, document and implement procedures to report and support the performance measures that are disclosed in the annual report. (OED-30)

ATTACHMENT I
AGENCY RESPONSE



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

MAR 24 2004

TO: Robert L. Emmons
Inspector General

FROM: *Martin C. Broadnax*
Hazel Broadnax, Deputy Executive Director
and Chief Financial Officer

SUBJECT: Response to the OIG Draft Management Letter Report 2004-
7/23176-6 prepared in connection with the 2003 Financial
Statement Audit

We appreciate the opportunity to comment on the subject draft report and your continued support in identifying ways to enhance our internal controls.

We have no disagreements with the subject report. The attachment to this memorandum includes our response to each recommendation, a summary of planned corrective actions, and estimated implementation dates. Under a separate cover, we will be providing corrective action plans (CAPs) that contain additional details.

Attachment

cc: Vince Snowbarger, Acting Executive Director

Response to the Draft Management Letter Report 2004-7/23176-6 prepared in connection with the 2003 Financial Statement audit

1. OIG Recommendation: Enforce procedures for receiving and logging bank statements into CAS. (FOD-329)

Management Response: We agree. We will meet with staff and finalize written procedures to ensure the enforcement these procedures during the fourth quarter of FY 2004.

2. OIG Recommendation: Enforce procedures for filing bank statements in case files. (FOD-330)

Management Response: We agree. We will review a sample of select plans quarterly to ensure that all bank statements have been properly filed in the case file and document any exceptions. We will implement these reviews during the second quarter of FY 2004.

3. OIG Recommendation: Enforce the existing procedures regarding the timeliness of initial action and initial review of the Balancer reconciliation. (IOD-219)

Management Response: We agree. We will take additional appropriate steps to enforce and document these procedures during the third quarter of FY 2004.

4. OIG Recommendation: Develop a procedure requiring a final review of the Balancer reconciliation by the Balancer Administrator and specifying the timeframe in which the review should occur. (IOD-220)

Management Response: We agree. We have begun revising the procedures and will complete implementation during the third quarter of FY 2004.

5. OIG Recommendation: Re-evaluate the monthly reconciliation of actual benefits paid to requested funding for benefits process and determine what support is required to be obtained/maintained in order to sufficiently document and monitor this control. (IOD-221)

Management Response: We agree. We will re-evaluate the monthly reconciliation process during the third quarter of FY 2004. Based on this

reevaluation, we will determine what support is required to be obtained/maintained in order to sufficiently document and monitor this control.

6. OIG Recommendation: Amend the policies and procedures to include a sampling methodology for the CAB auditor to follow when choosing a sample of benefit calculations for testing during a field audit. (IOD-222)

Management Response: We agree. We will incorporate a sampling methodology for multiemployer field audits into CAB Online Procedures Manual and provide training to the CAB auditors during the third quarter of FY 2004.

7. OIG Recommendation: Design and implement a standard participant data audit report format for PBGC auditors to use that incorporates necessary report elements from IOD Online Procedures Manual Process 12.8. (IOD-223)

Management Response: We agree. We have a standard participant data audit format in the IOD Procedures Manual. However, we will meet with IOD managers and auditors to discuss the issues and concerns. We will identify and obtain the resources needed to enforce compliance with the procedures. Also, we will implement a continuous improvement process to ensure compliance is sustained by the first quarter of FY 2005.

8. OIG Recommendation: Amend procedures to include a final sign-off by management that the participant data audit reports and all required supporting documentation have been properly imaged. (IOD-224)

Management Response: We agree. We will amend our procedures as part of our continuous improvement process by the first quarter of FY 2005.

9. OIG Recommendation: Perform the duplicate PRISM records monitoring on a monthly basis and evidence review by management of the duplicate PRISM records control. (IOD-225)

Management Response: We agree. We will update internal procedures to require a monthly review and documentation of that review by management by the third quarter of FY 2004.

10. OIG Recommendation: Amend the IOD Online Procedures Manual Process 9 to include a final sign-off by management that the required documents are prepared and scanned into IPS for all plan assumption reconciliations. (IOD-226)

Management Response: We agree. We will implement such a procedure during the third quarter of FY 2004.

11. OIG Recommendation: Amend the IOD Online Procedures Manual Process 9 to include approval and resolution for automated load reconciliations. (IOD-227)

Management Response: We agree. We will implement such a procedure during the third quarter of FY 2004.

12. OIG Recommendation: Amend IOD Online Procedures Manual to require management to periodically certify they reviewed the Death Match results and that the process was performed timely. (IOD-228)

Management Response: We agree. We will implement such a procedure during the third quarter of FY 2004.

13. OIG Recommendation: Enforce a process to review the benefit application and PIF processing to note when forms for participants are in active pay status have not been received or imaged in IPS and take corrective action when such deficiencies are identified. (IOD- 229)

Management Response: We agree. We will evaluate the current review process, discuss options and adopt a best practice for reviewing benefit applications and PIF processing. We will conduct training to incorporate a process for tracking and reviewing benefit applications and participant information forms during the fourth quarter of FY 2004.

14. OIG Recommendation: Enforce a process to review PRISM for incomplete data elements that are relevant to the calculation of the Present Value of Future Benefits and take corrective action when incomplete data elements are identified. (IOD-230)

Management Response: We agree. We will develop and implement a review program during the fourth quarter of FY 2004.

15. OIG Recommendation: Reprogram MES to include a function which enables forced matches of the ME Program Manager to be saved for future years. (IOD-231)

Management Response: We agree. The PAS is scheduled to be replaced by PPS by the first quarter of FY 2005. PPS will include a function to automatically

retain any required forces matches. The MWG Chair will continue to update forced matches manually until the function in PPS is operational.

16. OIG Recommendation: Develop, document and implement procedures to ensure that the Multiemployer Working Group obtains the most recent available financial information for each plan during the ratio calculation process. (IOD-232)

Management Response: We agree. We will amend our procedures to incorporate our current processing steps during the third quarter of FY 2004 to document that the MWG does obtain the most recent available financial information for each plan during the ratio calculation process.

17. OIG Recommendation: Develop, document and implement procedures to report and support the performance measures that are disclosed in the annual report. (OED-30)

Management Response: We agree. We have already developed and implemented a revised corporate performance measurement program, including new outcome goals and targets that meet GPRA requirements. We will develop a prototype automated business intelligence and analytical OIT support system to improve performance reporting in the fourth quarter of FY 2004. Following an evaluation in FY2005, we plan to fully develop and implement an automated system in the fourth quarter of FY 2007.