



Pension Benefit Guaranty Corporation
Office of Inspector General
Memorandum Report

**Lessons Learned from FY 2005
Financial Statement Audit**

April 6, 2006

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Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

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MEMORANDUM

TO: Bradley D. Belt
Executive Director

James C. Gerber
Chief Financial Officer

FROM: Luther L. Atkins
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SUBJECT: Lessons Learned from FY 2005 Financial Statement Audit

Introduction

We are pleased to note that overall the Corporation continues to improve its financial management activities. In 2005, the Corporation received its thirteenth consecutive unqualified opinion on its fiscal year (FY) 2005 financial statements and met the government-wide reporting deadline of November 15. Examples of continued improvement include the Corporation's correction of two of the five reportable conditions cited in the FY 2004 financial statement audit report. A great deal of this year's success can be attributed to a strong commitment by top-level PBGC management to take corrective actions to address needed improvements.

In January 2006, the Inspector General (IG) in cooperation with the Chief Financial Officer (CFO) conducted a survey to identify lessons learned during the audit of the FY 2005 financial statements. PBGC and Clifton Gunderson (CG) employees primarily responsible for the preparation and audit of the financial statements were asked to provide feedback on the processes and procedures that:

- worked well and were successful (best practices)
- could be improved, and
- could potentially impact the FY 2006 audit.

After the survey responses were compiled, the key stakeholders, including the CFO, IG, and CG managing partner, met in February 2006 to discuss the survey results and provide suggestions for improvements. Our goal is to incorporate best practices into our audit of the financial statements and improve on those practices and procedures that were

not efficient or effective. We thank the CFO, CG, and other stakeholders for their dedication in producing our second lessons learned report.

Results in Brief

Respondents to our survey identified a number of best practices and areas where our processes and procedures can be improved upon. Best practices identified include:

- CG's notice of findings report notified managers in a written format of identified audit findings and recommendations. This served as an early warning system to management of potential findings and gave management an opportunity to respond and discuss with the auditors before disclosure in a draft report.
- Following the theme of reporting early, CG also provided a copy of their internal control report to the Corporation in mid-October, about a month earlier than in past years.
- Regular audit status meetings with key stakeholders were a means to provide information on audit issues, obstacles, and time lines.
- The CFO began conducting quarterly close meetings, and auditors were invited to participate in open discussion about the various financial statement accounts. In last year's lessons learned report, we said that closing the financial records more often during the year would reduce the pressure to close the records at year-end and help meet the November 15 deadline.

There were also a number of suggestions for improvement in the financial processes and procedures. The details and specific comments are included in the body of this report. However, one overriding theme we want to highlight should go a long way towards promoting accountability and improving communications. There was general agreement among the participants that management should have one point of contact that is responsible for coordinating and directing management activities supporting the audit. Because the CFO is ultimately accountable for the financial statement and providing supporting documents and evidence to auditors, he should be responsible for overseeing these activities. This would include ensuring that:

- Documents on a single Provided by Client (PBC) list are provided to auditors on time,
- Corrective actions for reportable conditions and material weaknesses are fully implemented, documented and provided to auditors,
- Corrective actions for management letter items are documented and available, and
- Financial reporting activities are fully coordinated with stakeholders of the corporation.

In addition, CG would prepare a single management letter, rather than one for financial issues and another for information technology issues.

While all of these lessons learned are important, there are two ongoing initiatives that we believe will help make meeting the annual November 15 deadline a more routine business practice:

- continuing to close the financial records quarterly, and
- completing the consolidation of the Corporation's three general ledgers.

Survey Results

Some of the topics discussed in the Lessons Learned from FY 2004 Financial Statement Audit (OIG report 2005-12/23193) were identified again this year, in particular, communications, responsibility for and commitment to the process, and integration of financial systems.

Examples of how Communications worked well

Several processes designed to improve communications were introduced or refined this year:

- Notice of Findings and Recommendations (NFRs),
- Audit status meetings held with key stakeholders,
- CFO's third and fourth quarterly financial close meetings, and
- Preliminary draft of internal control report.

Notice of Findings and Recommendations--CG provided written NFRs during the audit so that management was made aware as soon as feasible of the issues identified by the auditors. This process facilitated the resolution of any disagreements with the facts or recommended corrective actions and allowed management time to understand the issues and determine whether the auditors had all relevant information.

Audit Status Meetings--Beginning in late September, key stakeholders met for regular audit status meetings. Stakeholders included PBGC management, CG partners and senior managers, and OIG representatives. These meetings were primarily a means for CG to provide information on audit issues, obstacles, and time lines; however, they also provided an opportunity for management to ask questions and express any concerns. The meetings were very effective in ensuring that upper management was kept informed and involved in the audit process.

Quarterly Close Meetings--CG's managing partner and senior manager and OIG staff were included in the CFO's quarterly financial close meetings. The auditors were given the chance to listen to the presentations and ask questions. Since this was CG's first year as PBGC's financial statement auditors, these meetings also helped CG gain an understanding of PBGC.

Early Internal Control Report--For the first time, PBGC management received a preliminary draft internal control report for comment in mid-October. CG's early preparation of the internal control report facilitated the communication process and allowed management an opportunity to bring forth any comments, questions, or concerns early on in the reporting process. An additional preliminary draft was provided in early November to allow comments before the issuance of the official draft for comment.

Examples of how Communications can still be improved

Auditors can improve communications by clarifying procedures for performing the audit. Some survey comments indicated that the auditors did not give sufficient notice of visits, requested that additional information be provided too quickly, made duplicate requests for the same information and did not speak with the subject matter expert on a particular issue.

CG can also improve communications by preparing a single management letter in FY 2006, rather than one for financial issues and another for information technology issues.

Management can improve the way it communicates follow-up actions to correct recommendations from prior years' financial statement audits and the status of planned corrective actions. For example:

- PBGC provided the auditors with a memorandum detailing the status of open audit recommendations as of 6/30/05. Although each recommendation was included, the comments section for several recommendations indicated "status pending," instead of providing a discussion of the status of the corrective action. In addition, there was no standardized documentation and review process to support the closure of corrective actions. There was also confusion on who was responsible for maintaining documentation of corrective actions.
- In some cases, CG found that although PBGC indicated that corrective actions were completed, inadequate or no support to justify completion and closing the recommendation was provided and there was no evidence of management review of the closure. For some recommendations, conflicting information was provided to CG on whether corrective actions had been completed.

Suggestions to Improve Communications

1. Clearly define roles and responsibilities for documenting corrective actions for audit recommendations. Specifically:
 - Assign responsibility for receipt, distribution, and maintenance of all updates on the status of corrective actions one individual.
 - Be proactive in providing documentation that corrective actions are complete to the responsible individual.
 - Provide monthly reports to the CFO on the status of corrective actions.
 - Provide routine reports to auditors on time lines for corrective actions and expected closure dates so the auditors can plan their testing accordingly.
2. The auditors will look for opportunities to familiarize PBGC managers and staff on the purpose, scope, and methodology of the audit. This will promote a better understanding of the audit process and the reasons why auditors need requested information.

3. Start audit status meetings earlier in the audit, perhaps even during the planning phase. In addition to these regular audit status meetings, the CFO, CG managing partner, and IG will hold periodic meetings to address important issues and situations, as appropriate.
4. Identify PBGC subject matter experts and determine their role in assisting the auditors in understanding their area of expertise.
5. Provide documentation of PBGC's internal controls testing earlier in the audit process.

Examples of how Responsibility and Commitment worked well

When the audit started, PBGC and the auditors agreed on information that would be provided during the course of the audit. This information was included on a list commonly referred to as the Provided By Client (PBC) list. A separate list was prepared for information technology (IT) and financial matters.

PBGC staff members were very effective in managing the financial matters PBC list process and coordinating PBGC's responses to auditors' requests. The responsible staff members were organized and responsive to CG thus enabling the auditors to effectively gather the needed information to perform the audit. As part of this process, PBGC, CG, and OIG representatives attended weekly PBC list meetings to discuss PBC items coming due within the next two-week period. This facilitated communication between CG and PBGC of any delays (or accelerations) in providing information as well as clarification on any of the requests. In addition, these meetings were used by both CG and PBGC to discuss any concerns relating to the audit. Key success factors included the following:

- One PBGC employee was responsible for handling the detailed tracking of the PBC list. This included ensuring that the persons responsible for a deliverable knew when and what information was to be provided.
- One CG auditor was responsible for coordinating the PBC list requests to PBGC and responses from PBGC.
- The PBGC Controller's involvement in the PBC list process in both an oversight and "enforcement" role was key to ensuring that the audit stayed on track.
- The CG Senior Manager's involvement in the PBC list process in a similar oversight and "enforcement" role was also key to timely completion of the audit.
- A single financial matters PBC list was maintained.

Examples of how Responsibility and Commitment can be improved

The process for managing the IT PBC list should be changed. Unlike the single financial matters PBC list, there were several IT PBC lists addressed to individual departments. Although a PBGC employee was identified as the primary contact for PBC requests, there was a lack of coordination and central tracking of the lists. The PBC lists were not updated on a regular basis. The information requested by the auditors and the department responsible for delivery was not always clearly defined. There were also disagreements on whether items were delivered to CG.

PBGC, CG and OIG representatives met biweekly to discuss the IT PBC lists, instead of weekly, until later in the audit process. Problems generally were not resolved during these meetings. In addition, representatives from all the responsible departments did not attend the meetings.

PBGC referred the auditors, particularly IT, to PBGC's portal and intranet for documentation. However, the auditors found that documentation available on the PBGC portal was not consistent with documentation on the PBGC intranet. More than one version of documentation of procedures was available on the portal and intranet. These inconsistencies led to inefficient use of the auditors' time in determining the official PBGC document.

Suggestions to Improve Responsibility and Commitment

1. The CFO is committed to be accountable for preparation of the financial statements and will emphasize this accountability. The IG, along with CG's managing partner, will emphasize their accountability for the audit of the statements. This responsibility then will be delegated, but key leaders should be kept informed of issues and resolve them as they arise.
2. Consolidate the PBC list for financial and IT matters into one list, and adopt procedures similar to the best practices used for managing the 2005 financial matters PBC list process. Conduct weekly meetings throughout the audit to discuss the PBC items coming due within the next two-week period.
3. Conduct planning meetings with CG, OIG and key players in PBGC to discuss the logistics of maintaining the PBC list. These meetings should address how the list should be structured; the format, method and means of delivery and storage of documents; and how to update the PBC list for documents requested during the audit that were not on the original list.
4. Assign responsibility for each deliverable to an individual to ensure that the official PBGC document is given to the auditor.

Events with Potential Impact on FY 2006 Audit

PBGC plans to implement a new general ledger system, Consolidated Financial System (CFS), during FY 2006. This new system is part of PBGC's corrective action plan to resolve the continuing reportable condition in the FY 2005 internal control report concerning lack of integration of PBGC's financial systems.

Suggestions

1. PBGC should proactively share planned data conversion procedures with the auditors. This will allow auditors to verify the completeness and accuracy of converted data earlier in the process.
2. Auditors need to conduct an early assessment of the impact of the CFS project implementation on the procedures, testing and financial reporting for the FY 2006 audit.
3. Auditors should consider performing interim testing prior to June because the Controller's Office will be performing the conversion process during June.

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