



# Pension Benefit Guaranty Corporation

Office of Inspector General

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

September 2, 2014

The Honorable Michael R. Turner  
U.S. House of Representatives  
2239 Rayburn House Office Building  
Washington, DC 20515

I am writing in response to your June 25, 2014 request that our office conduct an inquiry into the Pension Benefit Guaranty Corporation's (PBGC) delay in processing the final benefit determinations for plan participants in the Delphi Retirement Program for Salaried Employees (the Salaried Plan). Your request was based on concerns raised by PBGC's responses to Freedom of Information Act (FOIA) requests from Salaried Plan participants that contained no explanation or justification for the continued delays in completing the final benefit determinations. You also expressed concern that the delays will continue to impose unnecessary hardship on the Salaried Plan participants. I thank you and the members of the Ohio congressional delegation for the opportunity to provide assistance on this matter and for your patience.

Specifically, you requested that PBGC Office of Inspector General (OIG):

1. Identify the reasons for the lengthy delays in the process of calculating final benefit determinations for participants in the Delphi Retirement Plan for Salaried Employees.
2. Determine the status of any preliminary work done by the PBGC to complete the five documents requested in the January 7, 2013 and April 9, 2014 FOIA requests.

In conducting our inquiry, we obtained information from PBGC about the delays and the completion of work necessary to issue final benefit letters for the Delphi Salaried participants. Though the plan was trustee in 2009 and progress in plan processing was delayed, PBGC's current schedule for completing the required work is aggressive with cascading dependencies – that is, one activity must be completed before the next can begin. This schedule has virtually no cushion for any delay. Further, it is being done in an environment of significant operational change and performance of other high-priority activities. OIG believes there are substantial risks to PBGC meeting this schedule.

## Our Inquiry

We initiated a formal inquiry into this matter and contacted Philip Langham, PBGC's Chief of Benefits Administration and Director, Benefits Administration and Payment Department (BAPD). We initially met with Mr. Langham to discuss your request and BAPD's processing activities for the Salaried Plan; we then asked him for a written response. In this letter, we share with you PBGC's information, our evaluation actions, and our observations based on past audit work and BAPD's corrective actions to address weaknesses we identified.

PBGC assured us that they are focused on producing accurate asset evaluations and participant benefit calculations, adding resources and accelerating actions where possible. BAPD is trying to improve its practices to avoid the problems with poor quality control and contractor oversight of the plan asset audits the OIG identified in their processing of the United Airlines and National Steel plans.<sup>1</sup>

PBGC has stated that it will begin to issue benefit determination and detailed supporting statements to participants in October 2015 (see timeline below). The agency acknowledged that this is a delay from the normal timeframe of three to four years for plan processing, and noted that processing a large complex plan such as Delphi can be six to seven years.

**Table 1 - Timeline for BLD Issuance and Completion of the Delphi Salaried Plan**

<b>DATE</b>	<b>ACTIVITY</b>
<b>October 2014</b>	KPMG submits asset evaluation to PBGC
<b>January 2015</b>	PBGC Asset Evaluation Division completes quality control checks on KPMG asset evaluation
<b>February 2015</b>	PBGC staff in financial operations and the Benefits Administration and Payments Department reconcile the amount and value of the assets
<b>July 2015</b>	Actuarial consulting firm (Bolton Partners DC Inc.) submits its calculation of all individual participant benefits
<b>August 2015</b>	PBGC Actuarial Services Division completes quality control on Bolton calculations
<b>September 2015</b>	PBGC benefits staff transfers individual participant benefits data into the system and performs quality control on the transfer
<b>October 2015</b>	PBGC's Field Benefits contractors start issuing Benefit Determination Letters and detailed supporting Benefit Statements

<sup>1</sup> Our office evaluated PBGC's processing of the National Steel and United Airlines pension plans termination activities, focusing primarily on the quality of the plan asset valuations and participant data audits. We found significant errors and deficiencies in the work performed by a contractor and overseen by BAPD. As a result of these two reports, we issued – recommendations to correct the weaknesses and improve operations. BAPD is still working on many of these corrective actions. See *PBGC's Plan Asset Audit of National Steel Pension Plans Was Seriously Flawed*, No.2011-10/PA-09-66-1, issued March 30, 2011 (<http://oig.pbgc.gov/pdfs/PA-09-66-1.pdf>), and *PBGC Processing of Terminated United Airlines Pension Plans Was Seriously Deficient*, No.:2012-05/PA-10-72, issued November 30, 2011 (<http://oig.pbgc.gov/pdfs/PA-10-72-1.pdf>).

PBGC cited several reasons for the delay:

- Delphi is the second largest plan termination in PBGC history
- Delphi investments are the largest and most complex investment pool in PBGC history. These pools are maintained by multiple third party custodians, upon which PBGC must rely for access to asset documentation
- BAPD previously has not had “federal staff trained to adequately process and oversee such a large and unique plan with its unique type of investment pool of assets and complexities.”
- BAPD contracted with a public accounting firm in 2011, but subsequently terminated its asset evaluation work due to concerns about quality. After a failed fixed price procurement effort, PBGC changed its approach to a labor-hour contract and awarded this work to KPMG in June 2013. KPMG’s work on the plan asset audit began in July 2013.

PBGC also provided us with the status of the five documents requested in the January 7, 2013 and April 9, 2014 FOIA requests (see table below).

**Table 2 - Timeline for Completion of Key Documents Related to the Delphi Salaried Plan**

<b>COMPLETION DATE</b>	<b>DOCUMENT</b>	<b>START DATE</b>
<b>April 30, 2013</b>	Participant Data Report	August 2009
<b>October 31, 2014</b>	Recovery Valuation and Allocation Memo	June 2014
<b>February 2015<sup>2</sup></b>	Plan Asset Audit	July 2013
<b>August 31, 2015</b>	Actuarial Case Memo	February 2015 <sup>3</sup>
<b>August 31, 2015</b>	Actuarial Case Report	February 2015 <sup>4</sup>

PBGC noted that members of the public can submit FOIA requests to PBGC’s Disclosure Office; that office will determine whether the document can be released, in whole or in part.

<sup>2</sup> After the Plan Asset Audit is completed in February 2015, PBGC stated it will need to be reconciled by the Financial Operations Department in the Office of the Chief Financial Officer.

<sup>3</sup> The Actuarial Case Memo is started after the Plan Asset Audit data is reconciled by the Financial Operations Department. No completion date was provided for this reconciliation.

<sup>4</sup> The Actuarial Case Report is started after the Plan Asset Audit data is reconciled by the Financial Operations Department. No completion date was provided for this reconciliation.

### **PBGC Deadline Requires Complete Precision, Gives No Flexibility**

To evaluate PBGC's written response to our inquiry, we met with senior BAPD leaders and managers who will be tasked with executing BAPD's plan for processing the Salaried Plan. Multiple officials told us that the timeline leaves no room for slippage or delay. In order for PBGC to achieve its stated milestones, all preceding steps must occur on time. They also acknowledged two other significant risks to the timeline:

- The ability of General Motors Asset Manager (GMAM) to provide information about the more than 4,000 different types of assets to BAPD's asset evaluation contractor KPMG.<sup>5</sup>
- The ability of KPMG to devote enough resources to the asset evaluation,<sup>6</sup> in particular enough auditors to develop work papers and documentation – this has been a noted deficiency in other OIG reviews of BAPD contracted work.

In our conversations with BAPD personnel, we identified other risks to the current process. There are three phases to the testing. Phases I and II began in March 2014 and were for the easy to value assets – funds with audited financial statements, Common Collective Trusts internal only to GM. At this point, BAPD told us these phases remain incomplete because KPMG does not have all the information from GMAM. The data request for Phase III of testing which is for the hard to value assets was just made in mid-July 2014.

Per PBGC's contract with KPMG,<sup>7</sup> BAPD has "reasonable access to the contractor's workpapers on an ongoing basis to facilitate (1) understanding of the evaluations, its progress, conclusions, results, and (2) timely issuance of reports. All of the contractor's workpapers must be available for review when the draft reports are submitted." What is particularly concerning to us is that as of August 20, 2014, PBGC has not yet obtained a single work paper from any of the three phases of test work, even for the easy to value assets for which work began in March 2014. BAPD told us that the work papers must go through KPMG's internal review process before they can be submitted to PBGC. It would seem that BAPD missed an opportunity to access and review work papers to both refine its internal process and provide meaningful feedback to KPMG. Although BAPD is conducting multiple weekly conference calls with KPMG and GMAM, OIG believes BAPD should have exercised its ability to access work papers on an ongoing basis.

At this point, BAPD believes that it should be able to review Phase I and II testing (easy to value assets) in August and September and Phase III testing (hard to value assets) in

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<sup>5</sup> BAPD estimates that 75% of the information has been provided by GMAM to date.

<sup>6</sup> BAPD had a conference call with KPMG in late August to discuss staffing levels.

<sup>7</sup> From contract # GS-23F-8127H, order #PBGC01-DO-13-0042, Section 10.8 *Workpapers*.

October when KPMG delivers its draft report to PBGC. BAPD has essentially three months – November 2014 to January 2015 – to complete its quality control checks on KPMG’s work, resolve the back-and-forth that occurs during a rigorous quality review, and obtain a final, signed asset evaluation report from KPMG. Given that no reviews of KPMG work have yet begun, it is uncertain whether BAPD’s Asset Evaluation Division (AED) will be

- practiced in its own processes and have the opportunity to assess its skills, capabilities and resource needs and
- able to conduct robust and thorough reviews

Historically, we have found at PBGC a tendency to accept contractor work at face value based on the professional reputation of a vendor, especially when it is conducted by a premier, nationally-known firm. Given the visibility of this work and PBGC’s stated commitment to accelerating actions, we are concerned that deadlines for the asset evaluation will be met (otherwise, the BDL’s will not be issued on schedule) but at the risk of a robust quality review.

### **PBGC Deadline Achievable, Challenges Remain**

Noting the above the timeline dependencies and risks, OIG believes that the October 2015 deadline PBGC has set to begin issuing the Delphi Salaried final benefit determinations could be met. We note that when PBGC contracted with KPMG to conduct the asset evaluation of the United Airlines pension plans which had been unsuccessfully performed by two prior contractors, the OIG conducted a limited review of that work. During that review we tested \$6 billion of approximately \$21 billion assets. For the assets tested, we concluded that: “PBGC’s latest contractor [KPMG] had properly valued the assets at the fair market value at the date of plan termination.”<sup>8</sup> We also noted the recurring issue with contractor oversight and acceptance of deliverables which do not meet contract requirements – issues for which AED, in part, was created to address.

However, we also believe the schedule is ambitious because BAPD is concurrently executing so many different other high-priority activities.

- BAPD has been processing a backlog of work that occurred due to a lack of trained personnel with the skills to conduct asset audits.
- BAPD has been and continues to undergo significant restructuring as a result of analysis performed by a national consulting firm to help align organization structure with mission and responsibilities. The changes are occurring throughout the department and require a considerable amount of time to fully execute.

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<sup>8</sup> Letter to Congressman George Miller, February 6, 2013. [http://oig.pbgc.gov/pdfs/LTR\\_2013-09.pdf](http://oig.pbgc.gov/pdfs/LTR_2013-09.pdf)

- BAPD is undertaking several major information technology systems modernization efforts.
- The recently-formed AED was established to conduct plan asset evaluations and compliance reviews. BAPD stated it has personnel to implement industry-based procedures and standards for valuing assets. AED's new procedures and personnel will be tested with handling current work while conducting quality review of the complex Delphi asset evaluation.
- BAPD is in the midst of developing and implementing corrective actions resulting from recommendations in OIG performance audits and the annual financial statement audits. These recommendations relate to systemic issues found in PBGC's processing of plan terminations – see Appendix A for a sample of recommendations. Some of these outstanding recommendations support a Material Weakness in PBGC's adverse opinion on internal control issued as part of the financial statement audit. The PBGC Board of Directors is focusing significant attention on PBGC's corrective actions to address the Material Weakness.

With the emphasis on the Delphi termination, BAPD will be tested to prove that its new structure and procedures are in place and able to operate effectively. Further, though BAPD is expecting to resolve several OIG recommendations later this year and throughout 2015, it remains to be seen if BAPD will be able to implement and institutionalize change and provide evidence to OIG of improved performance in this time of intense change. Finally, we also are concerned whether the attention to the Delphi Salaried Plan will come at the expense of other plans in the pipeline.

Notwithstanding our concerns, we applaud PBGC for taking action to improve BAPD's organization, capabilities, and processes and look forward to assessing its progress when the agency formally submits to us notification that it has addressed OIG recommendations.

We appreciate the opportunity to assist you in addressing this important issue for plan participants in the Delphi Retirement Program for Salaried Employees. We would be happy to meet with your staff, at your request. Alternatively, please feel free to have a member of your staff contact me at (202) 326-4000, x3437, if there is any additional information we can provide.

Respectfully Submitted,



Deborah Stover-Springer  
Acting Inspector General

cc:

The Honorable John A. Boehner, Speaker of the House  
The Honorable Rob Portman, United States Senator  
The Honorable Steve Stivers, United States Representative  
The Honorable Pat Tiberi, United States Representative  
The Honorable Steve Chabot, United States Representative  
The Honorable Bill Johnson, United States Representative  
The Honorable Bob Latta, United States Representative  
The Honorable Brad Wenstrup, United States Representative  
The Honorable Bob Gibbs, United States Representative  
The Honorable Bill Jim Renacci, United States Representative  
The Honorable David Joyce, United States Representative  
The Honorable Jim Jordan, United States Representative

**APPENDIX A: Sample of OIG Recommendations for BAPD**

Report	Recommendation	Agency Due Date
PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient (issued Nov 2011)	Elevate the compliance function for post termination audits and evaluations to promote objectivity and provide a greater emphasis on compliance with standards and audit /evaluation quality. The unit's organizational placement should encourage independence of thought and action for the compliance unit; until quality issues in BAPD have been resolved, the compliance function should report directly to the highest levels of PBGC management. (PBGC-14)	September 2014
PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient	Ensure that PBGC employees and contract personnel who conduct and review post termination audits and evaluations have the necessary knowledge, skills, and abilities by requiring continuing professional education and that at least some team leaders and managers have enhanced qualifications, such as a CPA designation or credible audit experience gained outside of BAPD. (PBGC-12)	September 2014
PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient	As part of the on-going strategic review, develop and implement processes to ensure that post-termination participant audits are done in accordance with applicable standards and in a manner that provides the appropriate level of assurance. (PBGC-20)	September 2015
PBGC's Plan Asset Audit of National Steel Pension Plans was Seriously Flawed (issued March 2011)	Develop and maintain a process to share "lessons learned" and best practices in a formal and consistent manner to ensure that all appropriate personnel become aware of best practices and are able to use them in future audits. (BAPD-82)	September 2014
PBGC's Plan Asset Audit of National Steel Pension Plans was Seriously Flawed	Enhance and formalize training efforts for auditors to better guide them on appropriate planning, risk assessment, and scope of procedures to be performed as part of the audit program. Further, enhanced training on illiquid investments, fiduciary breaches, and other special situations should be provided. (BAPD-81)	September 2014
Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statement (issued Nov 2011)	Improve the training of persons tasked with the calculation and review of benefit determinations to ensure their skills are matched with the complexities of the tasks assigned. (FS-11-12)	September 2014