GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-265744

August 24, 1995

The Honorable Martin Slate
Executive Director
Pension Benefit Guaranty Corporation

Dear Mr. Slate:

On March 8, 1995, we issued our opinions on the Pension Benefit Guaranty Corporation's Single-Employer Fund and Multiemployer Fund September 30, 1994, financial statements and management's assertions regarding the effectiveness of its system of internal controls as of September 30, 1994. We also reported on the Corporation's compliance with selected laws and regulations during fiscal year 1994 (GAO/AIMD-95-83, March 8, 1995).

The purpose of this letter is to document the results of our July 13, 1995, meeting with the Corporation's Chief Financial Officer, Directors of the Financial Operations and Contracts and Controls Review Departments, and Inspector General. In that meeting we discussed matters identified during our audit of the Corporation's September 30, 1994, financial statements regarding accounting procedures and internal controls where we believe improvement can be made. While these matters are not considered material in relation to the financial statements, we believe they warrant management's attention. The views of Corporation officials expressed at that meeting were considered in preparing this letter. The officials generally agreed with our findings and suggestions.

Our August 29, 1994, management letter (GAO/AIMD-94-168ML) discussed the matters identified during our audit of the fiscal year 1993 financial statements and provided a full description of our findings and suggestions for improvement. During our audit of the Corporation's fiscal year 1994 financial statements, we found that the Corporation had taken action which corrected 15 of the 28 matters reported last year in response to our suggestions for improvement. Further, the Corporation has plans in place to correct the remaining 13 matters. We discussed the status of 2 of these matters in our March 1995 report (page 9), and the remaining

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11 are listed in enclosure I. We believe the actions taken and your planned corrective actions are responsive to our previous suggestions and, therefore, we have no further suggestions. Enclosure II lists the 18 matters reported for the first time and includes the conditions we found and our suggestions for improvement.

We would appreciate receiving your comments and a description of the corrective actions the Corporation plans to take to address the matters in enclosure II within 30 days from the date of this letter. We are sending copies of this letter to the Corporation's Chief Financial Officer and Inspector General. If you have any questions or need assistance in addressing these matters, please contact Kent Bowden, Assistant Director, at (202) 512-5270 or me at (202) 512-9406.

Sincerely yours,

Robert W. Gramling

Robert W. Gramling
Director, Corporate Financial
Audits

Enclosures

cc: Mr. N. Anthony Calhoun
Deputy Executive Director and
Chief Financial Officer
Pension Benefit Guaranty Corporation

Mr. Wayne Robert Poll
Inspector General
Pension Benefit Guaranty Corporation

MATTERS EXISTING DURING BOTH FISCAL YEARS 1993 AND 1994

Single-Employer Program Estimated Recoveries/Receivables

-- Reasons recovery estimates could not be made were not adequately documented (terminated plans).

Financial Assistance to Multiemployer Plans

-- Process for determining face amount of promissory notes was not consistent.

-- Promissory notes were not adequately safeguarded.

Multiemployer Program Contingent Liabilities

-- Required plan information was not consistently obtained from plan administrators for certain high-risk plans.

Premium Revenue

-- Controls over premium refunds need to be strengthened.

Financial Reporting

-- Accounting policies for measuring losses from terminations and certain transactions can lead to misstatements in the financial statements.

-- Interfund allocations were based on incorrectly calculated ratios and inconsistent methods.

-- The Corporation relied on unaudited custodian bank reporting.

Electronic Data Processing

-- Access to the mainframe security system was not adequately limited.

-- Generic user IDs were found in the system.

-- Procedures were not in place to identify invalid access attempts by external users.

MATTERS REPORTED FOR THE FIRST TIME

Single-Employer Program Contingent Liabilities

-- The Corporation used evidence about significant transactions and events which occurred after year-end in an inconsistent manner in assessing and valuing its year-end contingent liabilities. For example, in computing the values of such liabilities, the Corporation considered contributions made to pension plans by plan sponsors after year-end for some plans but not for others. We suggest that the Corporation seek to identify all significant transactions and events, including those which may occur after year-end, that affect the classification and valuation of its year-end contingent liabilities and use that evidence in a consistent manner.

-- In assessing contingent liabilities, the Corporation classified several pension plans based largely or solely on their prior year classifications. Similarly, for several plans, classification decisions were based only on actuarial valuation sheets which updated liability valuations but did not update the prior year's liability risk factors which should be the basis for classification decisions. We suggest that the Corporation determine the significance of each plan for which it lacks current evidence for a probability classification and, for plans considered significant, broaden the scope of the information sources used to obtain financial information on the sponsoring company. Determinations of significance could be based on factors such as prior years' bond ratings, debt/equity ratios, existence of current reportable events, and the current condition of the sponsoring companies' industries.

-- The Corporation often placed singular emphasis on bond ratings and debt/equity ratios when classifying plans, with significantly reduced emphasis on other important factors that warrant consideration, such as recent financial developments of plans sponsors which have not yet been reflected in the bond ratings. We suggest that the probability classifications for those plans that account for the significant majority of the Corporation's contingent liabilities be based on a full consideration of all significant factors.

-- The Corporation's financial statements did not disclose the industries and/or geographic or other factors that represent concentrations of contingent liability risks. We suggest that those disclosures, similar to information included in the Operations section of the Corporation's annual report, be made in the footnotes to the financial statements of the Single-Employer and Multiemployer Programs.

-- The Corporation's disclosure of reasonably possible contingent liabilities, while including the date of the underlying plan data and the actuarial assumptions on which the valuation of the underfunding was based, does not provide explicit disclosure of the monetary effects that changes in interest rates and other actuarial assumptions had on the disclosed amounts between the date of the plan data and the Corporation's fiscal year-end date. We suggest that disclosure of these effects be explicitly stated in the footnotes to the financial statements.

Single-Employer Program Estimated Recoveries/Receivables

-- In several instances, available information about the current status of the Corporation's efforts to recover amounts from sponsors of terminated plans--for example, settlement agreements entered by the Corporation or correspondence received from sponsor representatives--was not appropriately reflected in the Corporation's estimation of those amounts for purposes of its financial statements. We suggest that the Corporation (1) communicate to the personnel involved in its recovery efforts the importance of assuring that such information is used and (2) consider whether related procedures should be revised.

-- The Corporation incorrectly recorded the upper end of a reasonable range of estimated losses from probable and terminated pension plans as a result of recording the lower end of a range of offsetting recoveries. We suggest that the Corporation amend its accounting policies to require that, in accordance with generally accepted accounting principles, the lower end of a reasonable range of loss (that is, upper end of a range of offsetting recoveries) be recorded when evidence does not indicate that a single amount within the range is the most likely loss. In doing so, the Corporation should assure that its methods and procedures for developing reasonable recovery ranges and point estimates are appropriate.

-- The Single-Employer Program's Statement of Cash Flows did not include cash receipts from satisfaction of the Corporation's employer liability claims if the plan sponsors' terminated plans had not yet been trusteed by the Corporation. We suggest that cash received by the Corporation on its employer liability claims, regardless of plan trusteeship status, be presented as a cash receipt in the Single-Employer Program's Statement of Cash Flows.

Financial Assistance to Multiemployer Plans

-- The extent of review performed and documentation maintained for requests for financial assistance and for prior uses of assistance varied among Corporation personnel. We suggest that the Corporation require such reviews to be performed and documented in a consistent manner. Although these inconsistencies still existed, the Corporation's significant improvements--implementing a policy which required audits of initial financial assistance requests and obtaining evidence for recurrent requests and prior uses--enabled us to determine that these matters no longer represented reportable conditions requiring inclusion in our fiscal year 1994 audit report as they did for fiscal year 1993 (GAO/AIMD-94-109).

Multiemployer Program Contingent Liabilities

-- The effectiveness of ratio screens used by the Corporation as a preliminary step in identifying financially troubled plans which require further analysis has not been evaluated through comparison to the Corporation's experience with plans that have received financial assistance or have been reported as probable or reasonably possible contingent liabilities. To determine the effectiveness of these ratios, we suggest that the Corporation evaluate each ratio's parameters and the number of adverse ratios that result in further analysis of a plan's financial condition.

-- Sixteen multiemployer plans were incorrectly listed as inactive in the Premium Processing System. Consequently, they were initially excluded from the inventory of plans for which the Corporation assesses the risk of insolvency. We suggest that the Corporation develop and implement controls to ensure the accuracy of key data on which such decisions are based.

Premium Revenue

-- The "deemed cash out" provision [29 CFR Section 2610.2(a)(2)] of the Employee Retirement Income Security Act regulations requires that, unless otherwise stated when a pension plan was established, employees who terminate during a plan year, but are eligible for rehire, remain plan participants for a year following such termination for a pension plan's calculation of premiums due to the Corporation. A plan's premiums are based in large part on the number of its participants, and plans are responsible for accurately reporting the number of participants and paying correct premium amounts to the Corporation. The Corporation performed various premium audits, including six field audits, in fiscal year 1994. In those six field audits, the "deemed cash out" provision applied to two plans, of which the Corporation found that one had not paid premiums on the terminated participants eligible for rehire and, therefore, owed additional premiums to the Corporation. We suggest that the Corporation, to further assess the accuracy of premium filings by plans, consider performing additional audits of plans to which the "deemed cash out" provision applies.

Financial Reporting

-- The Corporation accounted for the LTV Corporation contingent value rights loss as part of the losses on commingled investments and, consequently, incorrectly allocated a portion of the loss to the Multiemployer Program. We suggest that transactions and events which affect specific trust funds not be accounted for as part of the Corporation's commingled investments.

Electronic Data Processing

-- Through July 13, 1995, the Corporation had not completed implementation of its new computerized premium accounting system, which it had planned for October 1994. We suggest that the Corporation take action to ensure that the system is successfully implemented.

-- The Corporation's disaster recovery plan did not include the Local Area Networks. We suggest that the disaster recovery plan be amended accordingly.

-- System Management Facility records arising when a security-related event is processed by the system were not being recorded on tape for retention similar to records for audit, control, and security usage. We suggest that such records be recorded on tape for retention.

-- Software changes to mainframe systems libraries had not been documented and approved by Information Resource Management Department (IRMD) personnel. We suggest that such changes be documented and approved by appropriate IRMD personnel.

-- Disbursement certification officers had security access rights which would have permitted a given officer to enter into the system transactions which commit, obligate, expend, and certify funds for disbursement within the FARS revolving application system. We suggest that disbursement certification officers' security rights be appropriately limited.

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