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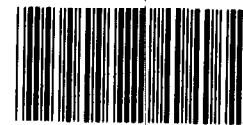
United States General Accounting Office

Report to the Chairman, Subcommittee on
Oversight, Committee on Ways and Means,
House of Representatives

August 1992

PREMIUM
ACCOUNTING
SYSTEM

Pension Benefit
Guaranty Corporation
System Must Be An
Ongoing Priority



147366





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

Information Management and
Technology Division

B-249458

August 11, 1992

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

The Pension Benefit Guaranty Corporation (PBGC) currently insures the basic pension benefits of over 40 million people in approximately 85,000 private-sector defined benefit plans. To process and account for insurance premiums due from pension plan sponsors, the Corporation has an automated premium accounting system. Since 1988, however, PBGC has been forced to use other means primarily to account for premiums because its automated system has not been fully operational after an unsuccessful modification attempt to include legislatively mandated changes.

In November 1991, you requested that we review PBGC's progress in modifying its current automated premium accounting system and procuring a replacement system. We incorporated this request into our ongoing work at PBGC. This letter responds to your request. Our recent report on premium collections and previous financial audits of PBGC have also noted that the Corporation lacks the system and other internal controls needed to adequately process and account for premiums.¹ Details of our objectives, scope, and methodology are described in appendix I.

Results in Brief

PBGC has partially restored its premium accounting system operations, but has continued to be unable to successfully implement system requirements since 1988. This failure can be substantially attributed to a lack of sufficient management attention to its premium system improvement initiatives to modify the current system and procure a replacement system. Acknowledging this weakness, PBGC instituted an interim solution in July 1992 to provide better senior-level management of its premium system improvement initiatives. Although this additional management emphasis is a step in the right direction, PBGC must continue to make management of

¹Pension Plans: Pension Benefit Guaranty Corporation Needs to Improve Premium Collections, (GAO/HRD-92-103, June 30, 1992); Financial Audit: Pension Benefit Guaranty Corporation's 1991 and 1990 Financial Statements, (GAO/AFMD-92-35, Mar. 2, 1992); and Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund, (GAO/AFMD-92-1, Nov. 13, 1991).

the premium accounting system an ongoing priority, even after the replacement system is implemented.

Background

The Employee Retirement Income Security Act of 1974 established PBGC to insure the basic pension benefits of qualified private-sector defined benefit plans. If a plan terminates without sufficient assets, PBGC pays benefits to plan participants. PBGC receives no funds from federal tax revenues to support its operations. Instead, its operations are financed by (1) premiums collected from insured pension plans, (2) investment income, (3) assets from pension plans trustee by PBGC, and (4) recoveries from the companies formerly responsible for trustee plans. Insurance premiums due to PBGC from pension plan sponsors are self-assessed, based on the number of plan participants and, to a limited extent, the level of plan underfunding.² PBGC maintains information to identify, collect, and account for premiums and to bill pension plan sponsors for delinquent premium payment amounts.

In 1979 PBGC began developing an automated system to account for and control premium payments. Subsequently, the system was enhanced to send statements of account³ and past-due filing notices to pension plan sponsors; provide PBGC with a history of payments, refunds, and charges by plan; support internal accounting procedures, preparation of financial statements, and analyses of pension plans; and match certain data with Internal Revenue Service data on the number of pension plan participants.

After an unsuccessful attempt to modify the system in 1988—to accommodate new pension premium requirements resulting from 1987 amendments to the Employee Retirement Income Security Act—the system was of limited use. PBGC could only query the database for basic information and make simple changes to the data (e.g., name of plan and number of participants). This limited PBGC staff to using the system for premium payment information received and processed prior to August 1988. Premium payment information received from August 1988 to November 1990 was maintained using hard-copy documents. Consequently, PBGC had no single source of premium information from which to operate.

²A plan is underfunded if its current assets are not adequate to meet the present value of its future liabilities.

³Statements of account are used for identifying and collecting underpaid premiums, interest, and penalties.

The delay in processing the post-1988 data substantially reduced PBGC's capacity to evaluate and follow up on the accuracy and completeness of premium filings. The system could not generate statements of account or past-due filing notices. Additionally, new requirements to include variable rate premium information could not be met because system display formats had not been modified to include the proper fields.

PBGC Has Partially Restored the System but Modifications Are Still Needed

PBGC's premium accounting system has been partially restored but has not yet been modified to comply with the 1987 legislatively mandated requirements. PBGC undertook a two-phase effort to restore operations and modify its computerized system. The first phase (to restore operations) was substantially completed in November 1990, but the second phase (to implement the modifications) has had repeated delays and is not yet complete. Several factors, including the lack of adequate management oversight, have caused these delays. As of August 5, 1992, PBGC estimated that it may be December 1992 before it completes the second phase.

As a result of PBGC's efforts during the first phase, the system is being used to

- post total payments,
- issue past-due filing notices for all plan years,
- issue statements of account for plan years 1987 and earlier, and
- make refunds based on plans' sponsor requests.

However, because phase two has not been completed, the system still cannot

- identify the variable rate amount of payments due to PBGC, and
- issue statements of account for plan years 1988 to present.

As a result of these operational shortcomings, PBGC is still not issuing statements of account. However, PBGC is developing an interim manual process to produce these statements.

PBGC's milestone to complete phase two has continually changed. PBGC officials attribute the failed system modification attempts to several significant factors, including inadequacies in system development practices (i.e., insufficient system documentation and testing), the lack of a configuration management process, inadequate information system project management and oversight, and insufficiencies in technical expertise and

institutional knowledge in PBGC's Information Resources Management Department.

PBGC has generally relied on contractors to develop and modify the premium accounting system. However, Information Resource Management Department officials said PBGC does not have enough qualified staff to adequately oversee the contractors. They said that after PBGC downgraded positions in their department in 1985, staff with the most knowledge of PBGC's automated information systems left the corporation. Replacement staff hired by PBGC lacked their predecessors' knowledge of the premium accounting system, making it difficult for PBGC to manage the contractors.

As late as mid-April, PBGC senior management still believed that their milestone to complete phase two by the end of April would be met. However, Information Resource Management Department officials said the milestone was missed because their priority between November 1991 and April 1992 was procuring a replacement system; therefore, the contractor's progress on the modifications to the current system did not receive sufficient management attention.

After realizing that the April milestone would not be met, PBGC hired a technical consultant to look at the premium accounting system to determine what would be required to bring it to an acceptable level (i.e., generate statements of account for pension plan years after 1987) and to set realistic milestones. The consultant concluded, among other things, that (1) about 23,000 lines of system code must be modified or added to meet functional requirements, and (2) six staff would be required for 7 to 12 months to modify the system. The consultant recommended developing a realistic schedule and appointing a senior-level project manager because contract and project management had been ineffective.

PBGC Is Acquiring a Replacement Premium Accounting System

PBGC is also pursuing the acquisition of a new premium accounting system. Senior PBGC officials said that in order to meet PBGC's long-range requirements, the Corporation needs a flexible premium accounting system to accurately record premium operations, incorporate additional features such as correspondence generation, and be responsive to legislative changes. According to these officials, the current system uses outdated technology; lacks adequate system documentation; and has an inflexible system design and construction (e.g., poorly structured code and no data dictionary), which make it difficult to modify the system for

functional and legislative changes (e.g., implementing the variable rate premium enhancement).

PBGC issued a request for proposals for a replacement system in February 1992. After a limited review of the request, we sent a letter to PBGC's Executive Director outlining concerns we had.⁴ We noted that several important functional and system requirements were ambiguous and subject to misinterpretation. Specifically, we explained that such ambiguity increases the risk that expected system performance, milestones, and cost objectives will not be met. We also noted that indeterminate requirements can thwart the cost containment objective of a fixed-price contract, especially if change orders are necessary to correct a contractor's misinterpretation of the requirements. In July 1992, PBGC issued two amendments to the request for proposals that addressed our concerns.

PBGC Takes Action to Improve Project Management

PBGC obtained a second consultant to review the current and proposed systems and develop a premium improvement initiatives management strategy. The consultant provided PBGC with its report on June 30, 1992. One key element of the strategy was that PBGC define and implement a new management structure, including a new position of Premium Program Manager, who would have responsibilities for the premium system initiatives and report directly to the Chief Financial Officer. The position would be at least at the GS-14/15 level.

On July 15, 1992, PBGC's Chief Financial Officer told us that PBGC agrees that closer senior-level management of the premiums initiatives is needed, but that it has chosen to implement a different approach in its management plan. The Chief Financial Officer said that because of its limited resources to hire new staff and the time constraints of the hiring process, PBGC has decided not to establish a separate senior-level manager position. Instead, PBGC assigned two department directors as the day-to-day managers to accomplish three objectives:

- Develop and implement an interim manual system to produce statements of account for plan years after 1987 until the computerized system is operational.
- Complete phase two modifications to enable computer generation of statements of account for plan years after 1987.
- Procure and implement the replacement system.

⁴PBGC's Premium Accounting System RFP, (GAO/IMTEC-92-49R, May 6, 1992).

As of August 5, 1992, PBGC estimated that the phase two modifications would be completed by December 1992 and that the replacement system would be operational by May 1993.

Under PBGC's new arrangement, the Director of the Financial Operations Department is responsible for implementation of the manual system for statements of account and procurement of the replacement system, and the Director of the Information Resources Management Department is responsible for the phase two modifications. Each of the directors is chairman of a program management committee comprised of functional and technical advisors, as well as contractor support. Also, a high-level Chief Financial Officer Executive Committee was formed to oversee the projects. The Chief Financial Officer said he realizes that other PBGC projects may suffer because of these increased hands-on responsibilities given the two department directors. For the long term, PBGC has not decided how the premium accounting system will be managed.

Conclusions

PBGC's attempts to modify its premium accounting system have fallen short of expected results. Milestones have continually slipped and the system is still not fully operational after almost 4 years. These problems might have been averted if PBGC management had devoted more attention to the project. Recent efforts by PBGC to provide better senior-level management of both the modifications to the current system and procurement of the replacement system are encouraging. However, this is an interim solution, and PBGC management must continue to make the premium accounting system an ongoing priority.

Recommendation

In order to ensure the long-term success of the premium accounting system, we recommend that the Executive Director, Pension Benefit Guaranty Corporation, establish a permanent management structure, with senior-level technical staff responsible for the day-to-day operation and maintenance of the system.


Our review was conducted from May 1991 to August 1992, in accordance with generally accepted government auditing standards. We discussed the facts in this report with the Chief Financial Officer and other responsible senior officials at PBGC, and have incorporated their suggested revisions as appropriate. The Chief Financial Officer agreed with our conclusion that close management attention over these premium initiatives is needed. He

said that the interim arrangement should address our concerns in the near term, but he did not know yet what PBGC would do as far as the structure for managing the system in the long term.

Copies of this report are being sent to the Executive Director and Board of Directors, PBGC; appropriate House and Senate committees; and other interested parties. We will also make copies available to others upon request.

Please contact me at (202) 512-6408 if you have any questions about this report. The major contributors to this report are listed in appendix II.

Sincerely yours,



Frank W. Reilly
Director, Human Resources
Information Systems

Objectives, Scope, and Methodology

Our review objectives were to determine PBGC's (1) progress in restoring operations to the August 1988 level and implementing modifications to the current system, and (2) actions and plans for procuring a replacement system. Our work was performed primarily at PBGC headquarters, in Washington, D.C.

To understand why past attempts to enhance the premium accounting system have not been successful, we conducted numerous initial and follow-up interviews with both present and former PBGC employees and contracting firms. We also examined available agency records and supporting documentation, such as contract statements of work, contractor studies, and in-house correspondence and documents that provided additional information concerning the environment in the Information Resource Management Department. We also reviewed pertinent previous PBGC Office of Inspector General reports.

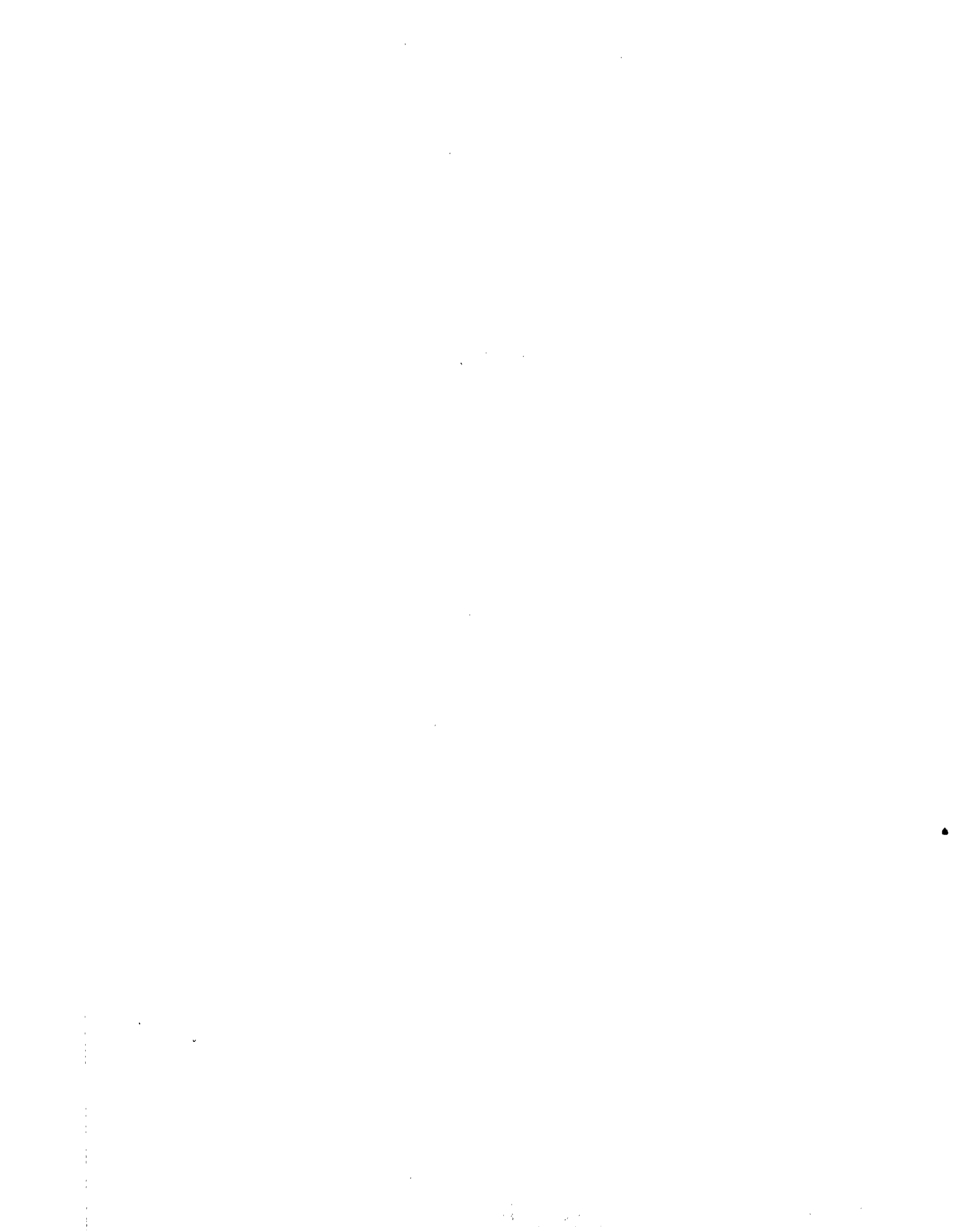
To find out how PBGC plans to fix and enhance the current system, we reviewed project activities and status reports that included project goals, objectives, and milestones. We interviewed PBGC and contractor personnel responsible for implementing the system. We also reviewed an independent software contractor's May 1992 report on what needs to be done to modify the system, but did not verify its contents.

We reviewed PBGC's plans to replace the current system, and we interviewed PBGC officials and consultants involved with the replacement effort. We also reviewed the agency's functional requirements document, alternatives analysis, and the request for proposals. In addition, we reviewed a June 1992 contractor's management plan on how PBGC should proceed with its premium initiatives, but did not verify its contents.

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