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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of The Pension Benefit Guaranty Corporation's Progress Towards Improving Accounting And Internal Control Weaknesses

GAO is required to audit the financial statements of the Pension Benefit Guaranty Corporation at least once every 3 years. GAO's two prior audits identified major accounting and internal control weaknesses which prevented it from expressing an opinion on the Corporation's financial statements.

This report on GAO's fiscal year 1983 audit shows that the Corporation has initiated action to correct these weaknesses. However, these actions are still in process and previous weaknesses have not been completely overcome. As a result, GAO curtailed its audit and, again this year, will not be expressing an opinion on the Corporation's financial statements.

Consequently, this report is limited to an evaluation of the status of actions to improve the Corporation's accounting and internal control procedures. At the time of GAO's audit, the Corporation had not completed preparation of its fiscal year 1983 financial statements.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-164292

To The President of the Senate and
Speaker of the House of Representatives

The General Accounting Office is required to audit the financial statements of the Pension Benefit Guaranty Corporation (PBGC) at least once every 3 years (31 U.S.C. 9105). We have conducted two previous audits of PBGC for the years ended September 30, 1977 and 1980. During those audits we encountered major accounting and internal control weaknesses which led to our inability to verify material account balances. As a result, we were unable to express an opinion on the fair presentation of the financial statements for those years. Our fiscal year 1983 audit commenced with the following objectives: (1) evaluate the status of PBGC's improvement programs to correct previous accounting and internal control problems, (2) review the current year's financial transactions, (3) determine whether applicable laws and regulations were complied with, and (4) express an opinion, if possible, on the financial statements.

On May 20, 1983, PBGC's new executive director requested that we postpone our 1983 audit (see app. I) to allow sufficient time for PBGC to implement its improvement programs. Because of our legislative requirement, we did not postpone the audit, however, we did reduce its scope. Our current work has shown that even though some corrective measures are in process to satisfy our previous audit recommendations (see app. II), they have not progressed far enough for their potential effectiveness to be assessed. Consequently, the scope of our fiscal year 1983 audit was limited to the first audit objective listed above. PBGC had not completed preparation of its fiscal year 1983 financial statements at the time of our audit.

IMPROVEMENT PROGRAMS INITIATED TO OVERCOME
ACCOUNTING AND INTERNAL CONTROL PROBLEMS

Since its inception in 1974, PBGC has been hampered by recurring accounting and internal control problems. For example, nonintegrated manual and automated systems have led to (1) inconsistent benefit determinations, valuations, and payment processes; (2) the lack of an audit trail for significant account balances; and (3) unreliable or incomplete data bases. PBGC has taken several steps to correct these problems. The most significant action was the executive director's initiation of an evaluation of all PBGC's financial and management information systems and data processing needs to see how productivity could be increased and how control could be improved over corporate operations.

In February 1983, as a result of this evaluation, the executive director established a Project Computer Program, the goal of which is to develop PBGC's capability to meet its financial, and

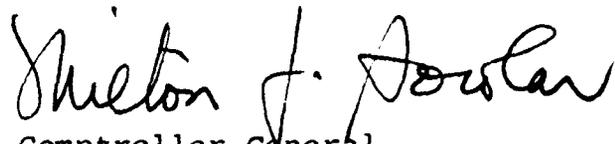
general operations, as well as overall management control needs through an integrated data base management system. Although much of the program planning has been accomplished, final implementation and completion dates are tentative, subject to the development of individual tasks within the specific projects. For example, the completion date of the computer equipment acquisition project depends upon the timely issuance of a request for proposal, selection of a contractor, installation of the equipment (computer mainframe and auxiliary equipment), and test and evaluation of system capabilities. Corporate officials now estimate that it will take at least until October 1985 to complete the Project Computer Program.

Another initiative being implemented in conjunction with the Project Computer Program is the Internal Controls Program. The objective of this program is to ensure that adequate safeguards are built into data processing systems to address all known vulnerabilities. This requires training corporate personnel to design, install, maintain, and monitor internal control systems. PBGC is evaluating its operating systems to systematically develop and record effective internal control objectives and techniques for all corporate functions.

Further, PBGC will engage contractors to help process backlogged pension plan data and develop and revise manual operating procedures and controls. Contract completion time is estimated to be late fiscal year 1984. Completion will allow PBGC to develop a benefit computation and valuation system, which in turn should provide a more reliable calculation of the reserve for guaranteed benefits. The valuation system is not expected to be operational until early fiscal year 1985.

Based on our review of PBGC's plans and activities, we believe the improvement efforts mentioned above have not progressed far enough for us to assess their potential effectiveness or to materially change the conditions which prevented us from rendering an opinion on the financial statements in our prior audits. Our next examination of PBGC's financial statements is scheduled for the fiscal year ended September 30, 1984. In the interim, we will continue to monitor the progress of PBGC's improvement programs.

We are also sending this report today to the Chairman of the Board, Pension Benefit Guaranty Corporation. We are sending copies to the Director, Office of Management and Budget, and to the Executive Director, Pension Benefit Guaranty Corporation.



Acting Comptroller General
of the United States



Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

MAY 20 1983

Ronald J. Points
Associate Director
General Accounting Office
Washington, D.C. 20548

Dear Mr. Points:

This is to request you to schedule the next examination of our financial statements for fiscal year 1984 instead of fiscal year 1983 because the implementation of our program for improving our financial reporting is still in progress.

Briefly, we have made considerable progress in implementing a number of planned improvements and others are underway. A major area among the deficiencies noted in your last audit report concerns the liability for the present value of future benefits for terminated plans. The work required for improving the accounting for this liability represents our most significant effort and will continue beyond this fiscal year. Because of this, we do not believe that an examination of FY 1983 financial statements will result in the removal of the disclaimer of opinion concluded by your previous audits.

We have addressed all of the areas noted by your last audit report. Many of your recommendations have been implemented to the extent feasible and work on the remaining items is progressing. The enclosed memorandum summarizes the status of this improvement program.

The improvements for reporting the liability for future benefits is a major undertaking as mentioned above. Presently, we are in the process of engaging a contractor to assist in -

- a. finalizing the processing and transfer of plans into Division of Benefits Administration obtaining sufficient data to perform individual participant valuations, expediting transfer of payments from interim custodians to PBGC, and completing the processing steps on trusteed plans with final benefit calculations, where available.

- b. developing and/or revising manual operating procedures and controls for the benefit administration processes performed by Division of Benefits Administration.

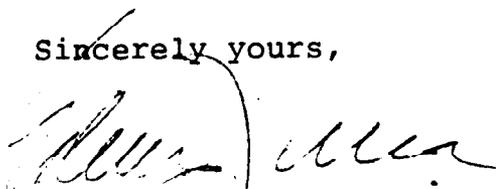
We expect to have a contractor on board next month to work with us on these activities. At the same time, we will also be developing the necessary computer capability to capture and utilize all required data elements for all trustee plans.

I have recently instituted two major and complementary programs embracing our financial improvement plan efforts to focus on internal controls and the use of proper computer systems to provide effective financial, general operations and overall management control. In the Internal Controls Program, I have established policies, standards and responsibilities within PBGC and have directed the development and implementation of internal control objectives and techniques for each system and cycle of agency operations. Project Computers will address the total financial and management systems and data processing needs with the intent to increase productivity and exercise greater control over activities in our single-employer and multiemployer programs, including insurance operations, case processing, personnel records, premium collections, handling of assets entrusted to our care, and satisfaction of our liabilities. Project Computers and the Internal Controls Program will be closely coordinated and implemented concurrently. We expect that these programs will require several years to develop and implement. I am sure that these combined programs will further enhance the immediate efforts we have underway to strengthen our controls and improve our financial reporting.

All of the enhancements in financial reporting so far implemented and those that are continuing will materially improve the quality of our financial statements and we believe will eventually enable PBGC to produce financial statements that can be attested to as fairly stated.

We suggest that in lieu of the regular examination of our financial statements for fiscal year 1983 that the GAO perform a review of our accounts and related procedures that would at least focus on improvements we have made and are making and determine whether other specific items should be addressed.

Sincerely yours,



Edwin M. Jones
Executive Director

STATUS OF GAO RECOMMENDATIONS

In our two previous financial statement audits (GAO/AFMD-82-42; HRD-79-44) we did not express an opinion on PBGC's financial statements. During our current review we determined that PBGC has made some progress in implementing a number of planned improvements. However, major uncertainties continue in the preparation of PBGC's financial statements. Corporate officials believe that the improvements they have made so far and those they are continuing to make will greatly improve the quality of the financial statements and will enable us to render an opinion in the future. This enclosure provides our fiscal year 1980 audit recommendations and PBGC's current and planned actions.

Recommendations

- 1. Develop a system for financial statement reporting that values benefits on a current, individual participant basis.**

Although PBGC has not developed a system that values benefits on a current, individual participant basis, the corporation is in the process of addressing this significant problem area through the issuance of two contracts and the design of a valuation system. The two contracts will address (1) the processing and transferring of backlogged pension plan data and (2) the development and/or revision of manual operating procedures and controls over benefit payments. The contracts are scheduled to be awarded in October 1983 and are expected to be completed by the last quarter of fiscal year 1984. The valuation system will be developed with the intention of providing the capability to calculate a reserve for guaranteed benefits on an individual participant basis. PBGC estimates that the valuation system will be operational by the first half of fiscal year 1985.

- 2. Substantiate the reasonableness of actuarial assumptions, estimation techniques, and models.**

PBGC can make no real improvements to substantiate the model and actuarial assumptions used in the valuation of the reserve for guaranteed benefits until planned actions addressed in recommendation number 1 are implemented. However, PBGC, in conjunction with a national actuarial firm, has improved the estimating techniques for "date of plan termination liability" values, which are used in a preliminary step of the reserve calculation. In addition, PBGC has recently established estimating techniques to value other financial statement account balances. Because the latter estimating techniques are new, sufficient experience has not been acquired to allow an assessment of their ultimate reliability.

3. Determine reasons for changes in the pension plan inventory and establish allowances in the financial statements for expected variances.

In fiscal year 1983, PBGC contracted with a national accounting firm to review the discrepancies in PBGC's 1978, 1979, 1980, and 1981 inventories of terminated pension plans and determine the possibility of establishing an allowance for expected variances. The accounting firm's June 14, 1983, report noted significant fluctuations in the fiscal year 1982 plan inventory. Its analysis (1) revealed gaps in data collection and (2) raised concern about the reasonableness of estimation techniques. The accounting firm concluded that PBGC should improve the accuracy of data collection for individual pension plans before using any statistical assumption techniques. PBGC is reviewing the specific reasons for inventory variances to identify procedures for correcting this problem.

4. Establish accounting controls and procedures to reconcile financial data maintained by separate computer systems.

PBGC has implemented some manual controls to help alleviate the problems of reconciling financial data maintained in separate computer systems. However, no additional manual or automated controls are scheduled to be implemented on any existing application systems because all of PBGC's efforts are being directed toward the recently instituted Project Computer Program. Corporate officials believe this program will require at least 2 years to develop and implement.

5. Develop policies and procedures for substantiating information provided by external organizations.

PBGC has developed policies and procedures to substantiate financial information provided by external organizations. The procedures include

- requesting certifications and confirmations from plan administrators, interim custodians, insurance carriers, and so forth;
- developing onsite audits for high risk plans to substantiate data in the Trust Fund Ledger System; and
- establishing one audit position to review benefit payment information provided by third parties.

Because these procedures have been recently implemented, no comprehensive evaluation of their effectiveness can be made at this time.



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