~~22863~~ 119276

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Audit Of Report Of The U.S. Army Nonappropriated Fund Employee Retirement Plan For Fiscal 1980

UNITED STATES GENERAL ACCOUNTING OFFICE

119276

GAO/AFMD-82-65
JUNE 29, 1982

023185

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

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

B-207673

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

Public Law 95-595 (31 U.S.C. 68), approved on November 4, 1978, requires the administrator of each Federal Government pension plan to submit an annual report to the Congress and the Comptroller General of the United States fully disclosing the financial condition of the plan. Except for plans subject to provisions of Titles I and IV of the Employee Retirement Income Security Act (ERISA) of 1974, the law applies to all pension plans established or maintained for employees and officers of any agency or instrumentality of the U.S. Government. The annual reporting requirement commenced with the plan years beginning after September 30, 1978.

The U.S. Army Nonappropriated Fund Employee Retirement Plan (Plan) was established by the Adjutant General on January 1, 1966. The Plan was established for civilian employees of U.S. Army nonappropriated fund instrumentalities to provide benefits which, when combined with social security benefits, approximate the entitlement of an employee covered under the Civil Service Retirement System.

This report presents (1) our opinion on the Plan's financial statements for the year ended September 30, 1980, and (2) our reports on management's system of internal accounting control and compliance with agreements, laws, and regulations which materially affect the financial statements. We believe that as of September 30, 1980, the Plan was in sound financial condition. Although the problems cited in this report need corrective action, they do not adversely distort the fair presentation of the financial statements taken as a whole. Further, we have rendered an opinion on the actuarial status of the Plan. Our audit was made in accordance with generally accepted government auditing standards and the provisions of the Budget and Accounting Procedures Act of 1950, as amended (31 U.S.C. 68a).

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of Defense, the Secretary of the Treasury, the Adjutant General, and the plan administrator of the U.S. Army Nonappropriated Fund Employee Retirement Plan.

Charles A. Bowsher

Comptroller General
of the United States

Contents

GLOSSARY

Accumulated plan benefits	Benefits that are attributable under the provisions of a pension plan to employees' service rendered up to the benefit information date.
Actuarial accrued liability	The portion of the present value (as of the benefit information date) of a pension plan's projected future benefit costs and administrative expenses that exceeds the present value of future contributions for the normal cost of all applicable plan participants and beneficiaries.
Actuarial assumptions	Estimates of the probable future magnitude of factors affecting pension cost; for example, mortality rate, employee turnover, compensation levels, and investment earnings.
Actuarial cost method	A recognized technique used in establishing the amount of annual contributions or accounting charges for pension cost under a pension plan.
Actuarial gain (loss)	The effect on actuarially calculated pension cost of (1) deviation between actual prior experience and the actuarial assumptions used or (2) changes in actuarial assumptions as to future events.
Annuity	A contract that provides an income for a specified period of time, such as for a number of years or for life. The person receiving the payment is called an annuitant.
Benefits	Payments to which participants may be entitled under a pension plan. Such payments include pension benefits, disability benefits, death benefits, and benefits due on termination of employment.
Benefit information date	The date as of which the actuarial present value of accumulated plan benefits is presented.

Contract value	The value of an unallocated contract as determined by the insurance company in accordance with the terms of the contract.
Deferred vested benefit	A benefit that is not contingent on an employee's future service and under which payment is to begin at some specified time in the future.
Defined benefit pension plan	A pension plan that specifies a determinable pension benefit, usually based on factors such as age, years of service, and salary.
Enrolled actuary	An actuary enrolled under 29 U.S.C. 1242 by a Joint Board for the Enrollment of Actuaries established by the Secretaries of Labor and the Treasury.
Funding policy	The program which describes the amount and timing of contributions by the employer(s), participants, and any other sources (for example, State subsidies or Federal grants) to provide the benefits a pension plan specifies.
Future benefits	An estimate of the total benefits payable at retirement, including benefits anticipated to accrue in the future as well as those accruing before the benefit information date. Future benefits may depend on total length of service but with pay averaged over only a limited number of years (often the final 3 years of service). Dynamic estimates of future pay include an adjustment for anticipated future increases in pay. If future benfits are then allocated to service before and after the benefit information date, the amount of benefit attributable to service before the benefit information date may differ from the amount of "accumulated plan benefits."
Immediate participation guarantee (IPG) contract	A group insurance contract under which the employer's unallocated account is credited with its share of the insurance company's actual

investment income for the year. Annuity payments are charged directly against the account as they are paid.

Net assets available for benefits	The difference between a plan's assets and its liabilities. For purposes of this definition, a plan's liabilities do not include participants' accumulated plan benefits.
Present value	The current worth of an amount or series of amounts payable or receivable in the future. If payment or receipt is certain, the present value is determined by discounting the future amount or amounts at a predetermined rate of interest. If payment or receipt is contingent on future events (e.g., survival), further discounting is necessary to account for the probability that payment or receipt will occur.
Unallocated contract	A contract with an insurance company under which related payments to the insurance company are accumulated in an unallocated fund to be used to meet benefit payments either directly or through the purchase of annuities, when employees retire. Funds in an unallocated contract may also be withdrawn and otherwise invested.
Unfunded accrued liability	The excess of the accrued liability (under an actuarial cost method which so provides) over the present value of a pension plan's assets.
Vested benefits	Benefits that are not contingent on an employee's future service.

OPINION ON FINANCIAL STATEMENTS OF THE

U.S. ARMY NONAPPROPRIATED FUND EMPLOYEE RETIREMENT PLAN

We have examined the statement of financial position of the U.S. Army Nonappropriated Fund Employee Retirement Plan as of September 30, 1980, and the related statement of changes in net assets available for benefits and the statement of changes in present value of accumulated plan benefits for the year then ended. (See tables 1-3 on pp. 3-5.) Our examination was made pursuant to the audit authority contained in 31 U.S.C. 68a and in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The plan administrator omitted relevant information needed for adequate disclosure. The omissions were as follows:

--Neither the accounting and funding policies describing the methods and assumptions used to determine the value of investments (including insurance contracts) nor the percentage of participants' contributions were presented.

--Plan provisions regarding the refund of employee contributions plus interest were not presented. Refunds accounted for almost $1.4 million of the $2.6 million shown for benefits paid (table 2).

--The plan administrator did not separately disclose the amount of present employees' accumulated contributions (including interest) as of September 30, 1980.

--The order of allocating net assets in the event of plan termination is omitted, including the fact that the Plan is not subject to the Employee Retirement Income Security Act of 1974 and, as such, its accumulated benefits are not insured.

--The plan administrator did not identify related party transactions with the Army Morale Support Fund and the Army Medical Life Fund nor disclose the fact that the Plan and these funds are under the same managerial control.

The Plan's net assets of $82.7 million, as reported in tables 1 and 2, were overstated by $340,000. This overstatement was caused by the plan administrator's (1) failure to accrue benefits and related liabilities for unpaid annuities and contribution refund requests, (2) overstatement of investment income, and (3) reporting of the budgeted rather than actual amount for administrative expenses. The effect on table 1 was that the total amount of unallocated insurance contracts was overstated by $129,000 and accrued liabilities were understated by $213,000. In table 2, investment income and administrative expenses were overstated by $266,000 and $117,000, respectively, and benefits (benefit payments) were understated by $191,000.

The plan administrator overstated accumulated plan benefits (table 1) by an estimated $900,000. This occurred because the actuarial present value of the "transfer of retired life annuities" (table 1) was determined using an interest assumption significantly lower than that used by the enrolled actuary in calculating the present value of future plan benefits. (See table 4, p. 19.) The $900,000 represents an actuarial gain which should have been presented in the statement of changes in present value of accumulated plan benefits (table 3).

In our opinion, except for the matters described in the above paragraphs, the financial statements referred to above present fairly the financial position of the U.S. Army Nonappropriated Fund Employee Retirement Plan as of September 30, 1980. The statements also present fairly the changes in net assets available for plan benefits and the changes in the present value of accumulated plan benefits for the year then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.

TABLE 1

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 1980

ACCUMULATED PLAN BENEFITS	
Actuarial Present Value of Accrued Benefits:	
Participants currently receiving IPG monthly annuity payments	$ 6,572,563
Transfer of retired life annuities*	4,917,000
Terminated participants with deferred vested benefits	1,275,322
Active participants	29,834,999
Accumulated Plan Benefits	$42,599,884
NET ASSETS AVAILABLE FOR BENEFITS	
ASSETS	
Unallocated Insurance Contracts:	
Bankers Life Nebraska	$32,837,596
John Hancock	31,108,407
United Benefit Life Insurance Co.	4,727,025
	68,673,028
U.S. Army Central Investment Program	10,494,268
Certificates of Deposit	2,000,000
Total Investments	81,167,296
Receivables:	
Employer and employee contributions	828,905
Interest on investments	708,707
Total Receivables	1,537,612
Cash	47,313
Total Assets	$82,752,221
LIABILITIES	
Accounts payable and accrued liabilities	7,596
Net Assets Available for Benefits	82,744,625
Excess of Accumulated Benefits Over Net Assets	($40,144,741)

*See additional notes on pages 13 and 14.

TABLE 2

STATEMENT OF CHANGES IN NET ASSETS

AVAILABLE FOR BENEFITS

			Year ended 30 September 1980
1.	Net assets available for benefits at beginning of plan year		$64,235,974
2.	Investment Income		
	(a) Interest	$7,045,462	
	(b) Capital gains	34,375	
	(c) Other income		
	(1) Retired life experience refund credit	226,151	
	(2) Experience rating refund	99,485	
	(3) Transfer of assets for retired life annuities	5,417,410	
	(d) Less investment expenses	133,926	
3.	Contributions		
	(a) Employers	5,380,673	
	(b) Employees	3,426,904	
4.	Total additions		21,496,534
5.	Benefits		
	(a) Paid directly to participants	2,597,056	
	(b) Purchased from insurance companies	-	
6.	Administrative expenses	390,827	
7.	Total deductions		2,987,883
8.	Net additions		18,508,651
9.	Net assets available for benefits at end of plan year (note a)		$82,774,625

GAO Note:

a/Due to a mathematical error, this amount is overstated by $30,000. The correct amount of $82,744,625 is reported in table 1.

TABLE 3

STATEMENT OF CHANGES IN PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

		Year ended 30 September 1980
1.	Actuarial present value of accumulated plan benefits at beginning of plan year	$34,429,757
2.	Increase (decrease) during the year attributable to:	
	(a) Benefits accumulated	3,253,127
	(b) Plan amendments	-
	(c) Changes in actuarial assumptions	-
	(d) Allocated insurance contracts transferred to or from insurance companies	4,917,000
	(e) All other changes	-
3.	Net increase (decrease)	$ 8,170,127
4.	Actuarial present value of accumulated plan benefits at end of year	$42,599,884

STATEMENT OF GENERAL INFORMATION

1. Name of plan: U.S. Army Nonappropriated Fund Employee Retirement Plan

2. Name and address of plan sponsor:

   Army Morale Support Fund
   P.O. Box 107
   Arlington, Virginia 22210

3. Name and phone number of plan administrator:

   Dean W. Wright, Colonel, GS
   Custodian, Army Central Retirement Fund
   P.O. Box 107
   Arlington, Virginia 22210
   (703) 325-9730

4. Type of plan entity: Single - employer plan

5. Date plan established: 1 January 1966

6. Plan participants at end of plan year:

   Active employees: 12,983
   Separated employees entitled to deferred benefits: 316
   Retiree annuitants: 1,232 (668 IPG plus 564 single premium)
   Other annuitants: 11

7. Type of plan: Defined benefit plan

8. In this plan year was the plan merged or consolidated into another plan or were assets or liabilities transferred to another plan? No

9. Indicate funding arrangement(s)

   ______ Trust
   ______ Insured
   ______ Combination
   __X__ Other (specify) IPG contracts; Army Central Investment Program

10. Date of most recent actuarial valuation: 30 September 1979

11. Actuarial cost method used in completing Tables 4 and 5: Entry age normal

12. Actuarial assumptions

a. Economic:

(1) Rate of return on plan investments: 7 1/2%

(2) Ratio of salary expected at normal retirement to salary at:

	Men	Women
Age 25	10.28	10.28
Age 40	4.00	4.00
Age 55	1.55	1.55

(3) Inflation rate (in relation to plan provisions for past retirement benefit adjustments).

No plan provision for post retirement benefit adjustments.

b. Decrements:

(1) Basis for mortality assumptions: Published tables; 1971 Towers, Perrin, Forster & Crosby forecast

(2) (a) Normal retirement age 62 with 5 years service

(b) Lowest age at which employee may vountarily retire with full benefits: 50 with 20 years of service

(3) Basis of withdrawal assumption:

______ Published table
______ Plan experience
______ None
__X__ Other (see next page.)

MORTALITY, TERMINATION, AND DISABILITY ASSUMPTIONS

Annual Rate per 1,000 Participants

	Mortality		Termination	
Age	Male	Female	Male	Female
20	0.524	0.439	172.0	234.0
25	0.644	0.506	132.0	172.0
30	0.842	0.615	104.0	132.0
35	1.168	0.794	81.0	104.0
40	1.700	1.089	63.0	81.0
45	3.041	1.571	52.0	63.0
50	5.501	2.674	39.0	52.0
55	8.866	4.933	22.0	39.0
60	13.216	8.124	--	--
65	20.982	12.091	--	--
70	36.284	18.935	--	--
75	55.566	32.595	--	--
80	87.862	51.474	--	--

DISABILITY

Age	Rate
30 or less	.50
35	.65
40	1.50
45	3.20
50	5.55
55	9.90
60	17.25

13. Attached is a brief description of the plan provisions, including a summary of the principal eligibility and benefit provisions and provisions for employee and employer contributions.

* * *

I declare that I have examined this report, including accompanying tables and statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature of plan administrator
(or other responsible plan official) Dean W Wright

DEAN W. WRIGHT
Colonel, GS
Custodian, Army Central
Retirement Fund

8 April 1981
(Date)

UNITED STATES ARMY NONAPPROPRIATED FUND

EMPLOYEE RETIREMENT PLAN

SUMMARY OF PLAN PROVISIONS AS OF SEPTEMBER 30, 1980

1. Effective Date of Plan: January 1, 1966. Most recent amendment January 1, 1976 (amendment number 3).

2. Employees Eligible for Participation: All employees of covered U.S. Army-NAFI activities working a regular schedule of at least 25 hours weekly and who were employed prior to attaining age 65 are eligible to become a member on the first day of the month following 12 months of continuous service. Participation is mandatory unless hired after age 57.

3. Definitions:

   (a) Compensation: Basic compensation exclusive of overtime, special compensation, or bonus.

   (b) Average Annual Earnings: The annual average of the highest 60 consecutive calendar months of compensation.

   (c) Service counted for benefit calculations and for eligibility for benefits: All service from retirement computation date to retirement, death or termination.

4. Retirement Dates:

   (a) Normal Retirement Date: The first day of the month following the later of a member's 62nd birthday and completion of 5 years of service.

   (b) Early Retirement Date: A member may retire on the first day of a month before age 62 provided:

      (i) he has attained age 55 and has completed 10 years of service, or

      (ii) he has attained age 50 and has completed 20 years of service, or

      (iii) he has attained age 52, has completed 5 years of service, and has obtained the specific approval of HQDA-CMF-IG.

   (c) Disability Retirement Date: A member who becomes permanently disabled and unable to perform his duties may retire, provided that he has attained age 52 or has completed 5 years of service.

   (d) Deferred Retirement: A member may remain in employment beyond his normal retirement date.

5. Pension Benefit at Normal Retirement:

(a) Members Eligible: All members who retire on their normal retirement date.

(b) Annual Benefit: The sum of (i) and (ii) with maximum of $20,000, where

(i) .8% of average annual earnings up to $6,600 plus 1.8% of such earnings in excess of $6,600, multiplied by years of service up to 20 years, and

(ii) 2% of average annual earnings multiplied by years of service in excess of 20 years up to 40 years.

6. Pension Benefit at Early Retirement:

(a) Members Eligible: All members who retire on early re tirement date.

(b) Annual Benefit: Calculated as in 5(b) based on average annual earnings and service at the time of early retirement, reduced by 1/15 for each year of the first 5 years that early retirement precedes normal retirement date and further reduced by 1/30 for each year of the next 5 years.

7. Pension Benefit at Disability Retirement:

(a) Members Eligible: All members who retire on disability date.

(b) Annual Benefit: Calculated as in 6(b) based on average annual earnings and service at the time of disability. The benefit will be further reduced actuarially for each year short of normal retirement date in excess of 10.

8. Pension Benefit at Deferred Retirement:

(a) Members Eligible: All members who retire on deferred retirement date.

(b) Annual Benefit: Calculated as in 5(b) based on average annual earnings and service at the time of actual retirement.

9. Vested Benefits:

(a) Members Eligible: All members who complete 5 years of service.

(b) Annual Benefit: Calculated as in 5(b) based on average annual earnings and service at the time of termination of employment, if he does not elect to have his contributions with interest returned to him.

10. Survivor Benefits:

(a) Members Eligible: All members who complete 60 months of service and who are actively employed or in receipt of disability retirement benefit at date of death.

(b) Annual Benefit:

(i) The eligible spouse survivor will receive the amount of benefit that would have been paid had the member retired on the date of death and elected a 100% contingent annuitant option at date of disability.

(ii) In the case of the death of a disabled member, the eligible survivor will receive the amount that would have been payable had the member elected a 100% contingent annuitant option at date of disability.

(iii) In the event there is no eligible survivor spouse, the eligible dependent children will receive the amount which would have been paid to the member had he retired on the date of death.

11. Employee Contribution:

(a) Annual Contribution: 3% of the first $6,600 of annual salary plus 6% of excess over $6,600.

(b) Interest Credited: 3% per annum.

12. Forms of Benefit Payment:

(a) Normal Form: Single life annuity.

(b) Optional Forms: Actuarially equivalent of 5 or 10 years certain and continuous, or a contingent annuitant option.

ADDITIONAL NOTES

The U.S. Army NAF Retirement Plan was amended, effective 1 April 1981. The amended and restated plan realigns benefit levels with the plan's original intent: To provide benefits which, when combined with social security benefits, approximate the entitlement of a general schedule employee of the Federal Government with the same salary and service history.

Principal amendments to the plan are:

(1) Voluntary participation (formerly mandatory).

(2) Eligibility of a new class of employees (those regularly scheduled to work 20-24 hours per week were previously excluded).

(3) Reduction of the contribution rate by employees.

(4) Introduction of a social security offset provision.

(5) Introduction of a minimum benefit provision.

(6) Redefining final average earnings (FAE) from highest 5 years' basic pay to highest 3 years' W-2 earnings.

(7) Increase in the benefit accrual rate.

(8) Reduction of the factor applied to early retirement annuities.

A copy of the plan document is enclosed as well as an explanatory brochure which was distributed to all plan participants. 1/

As a result of the substantive changes discussed above, Tables 6 and 6A (Past and Projected Flow of Plan Assets) have not been prepared. While it is expected that a large number of current participants will discontinue future contributions, an accurate estimate cannot be made. 2/

Another full actuarial valuation has been scheduled for the plan year ending 30 September 1981. At that time adequate participation statistics will make it possible to project the flow of plan assets.

Significant financial transactions were made during the plan year ending 30 September 1980. Until August 1975, the plan made single premium annuity purchases from Bankers Life Nebraska for retirees. After August 1975, new retirees were paid on an IPG basis from the plan's assets managed by The Bankers Life.

1/GAO Note: These documents are not enclosed with the GAO report.

2/GAO Note: Tables 6 and 6A were only required for plans with more than 50,000 participants. This plan had fewer than 13,000 as of September 30, 1980.

In September 1980, the Plan Administrator and Bankers Life agreed to transfer the liability for the annuities purchased under the single premium arrangement from the Bankers Life to the Army Central Retirement Fund. In exchange for the transfer of liability, the Bankers Life transferred the reserves held against the benefit liability to the investment account of the plan. The agreement further required that the transferred assets would participate fully in the investment experience of the Bankers Life general investment pool.

REPORT ON INTERNAL ACCOUNTING CONTROL

As part of our examination of the financial statements of the U.S. Army Nonappropriated Fund Employee Retirement Plan for the year ended September 30, 1980, we studied and made an evaluation of management's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Plan's financial statements.

The management of the Plan is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and properly recorded so that financial statements are prepared in accordance with generally accepted accounting principles. Nevertheless, because of inherent limitations in any system of internal accounting control, errors or irregularities may occur which may not be detected.

During our study and evaluation of management internal accounting controls, we identified significant classes of transactions referred to as cycles.

--Treasury cycle: Process of managing cash and investments, safeguarding securities, and accruing interest and investment income.

--Revenue cycle: Process of billing nonappropriated fund activities for employer/employee contributions, cash receipts, contributions receivable, and collection.

--Expenditure cycle: Process of determining (1) a participant's eligibility for retirement benefits, (2) the amount of retirement benefits or refunds of employee contributions plus interest, and (3) cash disbursements.

--Financial reporting cycle: Process of journal entry preparation, supplemental disclosure data gathering, report preparation, and financial records retention.

--Actuarial reporting cycle: Process of retirement plan participant data gathering, report preparation, and records retention (excluding that performed in other cycles).

Controls were studied and evaluated only for the revenue and expenditure cycles and the portion of the treasury cycle that relates to the Central Investment Program. The other cycles were not reviewed because we judged expanding substantive audit tests more efficient than relying on controls.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. We found the following conditions which, if not corrected, could result in material errors or irregularities that may go undetected:

--Subsidiary records were not maintained for employer and employee contributions (revenue cycle).

--The employee benefits section could not determine the total amount of accumulated contributions by present employees nor the amount of contributions left on deposit by terminated employees with no vested benefits (revenue cycle).

--The plan administrator did not maintain a monthly control total or subsidiary ledger for reconciling with annuity payments made by Bankers Life Insurance Company of Nebraska (expenditure cycle).

--No procedure was established to accrue liabilities for unpaid refund or retirement annuity requests (expenditure cycle).

--Accounting policies and procedures were not adequately documented (all cycles).

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination, and some of them contributed to the reasons cited for qualifying our opinion on the Plan's financial statements.

Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Accordingly, we do not express such an opinion.

REPORT ON COMPLIANCE

Generally accepted government auditing standards require tests of financial transactions of the Plan to determine whether there is compliance with agreements, laws, and regulations that can materially affect the entity's financial statements.

In our opinion, the U.S. Army Nonappropriated Fund Employee Retirement Plan, except for those instances of noncompliance discussed below, complied with the terms and provisions of agreements, laws, and regulations for the transactions tested. Nothing came to our attention in connection with our examination that caused us to believe that the plan administrator did not comply with any of the terms and provisions of applicable agreements, laws, and regulations for those transactions not tested.

The plan administrator did not engage an enrolled actuary to express an opinion on all actuarial assumptions used in preparing the Plan's annual report and on the accuracy and completeness of the report. Office of Management and Budget reporting standards require that the actuary's opinion address the reasonableness of actuarial assumptions used in preparing the annual report in relation to the Plan's experience. Although the plan administrator did obtain an opinion from an enrolled actuary (see app. I), it was expressed on only a portion of the annual report. Since the scope of the enrolled actuary's opinion was limited and did not address all actuarial assumptions used in the report, the plan administrator did not fully comply with the required standards.

The plan administrator's investment of funds with insurance companies does not adhere to Department of Defense policy for nonappropriated fund financial management systems. Department of Defense Instruction 7000.12 limits the kinds of investments and financial institutions in which nonappropriated funds may be invested. Investing in insurance companies to increase earnings goes beyond those limits and, accordingly, does not comply with current Department of Defense policy.

The plan administrator did not present its financial statements on a comparative basis. Office of Management and Budget reporting standards require such a presentation for the current year and one or more of the prior plan years. The presentation of comparative financial statements enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the reporting entity. Comparative financial statements for 2 or more years can provide information more useful than a single set of statements in assessing the Plan's future ability to pay benefits. The plan administrator presented only fiscal 1980 information and, thus, did not fully comply with the Office of Management and Budget's reporting standards.

These instances of noncompliance were considered in determining the nature, timing, and extent of the audit tests applied in our examination and do not affect our opinion on the U.S. Army Nonappropriated Fund Employee Retirement Plan's September 30, 1980, financial statements.

OPINION ON ACCOMPANYING ACTUARIAL INFORMATION

As part of our examination of the financial statements we audited the actuarial status information as of September 30, 1980, and September 30, 1979, (table 4, p. 19) and the comparison of actuarial funding with actual contributions (tables 5 and 5A, pp. 20-21). The actuarial information as of September 30, 1980, has been subjected to the auditing procedures applied in the examination of the financial statements except as indicated in the following paragraph.

We could not attest to the reasonableness of the "present value of benefits in payment status plus accumulated employee contributions" ($21.4 million) as shown in the Actuarial Status Information as of September 30, 1980 (table 4, line 7A). This amount is used as an indicator of the Plan's potential ability to pay benefits. It includes an estimated $14.9 million in accumulated employee contributions which were made by present employees as well as former employees entitled to deferred benefits. Major inadequacies in employee contribution records made it impracticable for us to extend our audit procedures. Neither the amount nor the records' inadequacy are material to the fair presentation of the financial statements. We neither audited the comparative actuarial status information as of September 30, 1979, (table 4) nor the comparison of actuarial funding with actual contribution data for 1979 (table 5) and, accordingly, do not express an opinion on them in this report.

In determining the Plan's present value of future benefits and its unfunded accrued liability, as presented in the accompanying actuarial information (table 4), the enrolled actuary of the Plan was not aware of relevant annuitant information. This omission resulted in a material overstatement of the unfunded accrued liability. The plan administrator did not give the enrolled actuary information relating to the "transfer of retired life annuities" transaction discussed in our opinion on the financial statements. Had this transaction been included, the reported unfunded accrued liability of $1.4 million would be practically eliminated. The plan administrator, however, used the information in preparing the Plan's financial statements.

In our opinion, the accompanying actuarial information, except as described above, is fairly stated in relation to the financial statements taken as a whole, conforms with applicable reporting and disclosure requirements of the Office of Management and Budget, and indicates that the Plan is in sound financial condition as of September 30, 1980.

TABLE 4

UNITED STATES ARMY NONAPPROPRIATED FUND

EMPLOYEE RETIREMENT PLAN

ACTUARIAL STATUS INFORMATION AS OF SEPTEMBER 30, 1980 AND SEPTEMBER 30, 1979 IN ACCORDANCE WITH PUBLIC LAW 95-595

	September 30 1980	September 30 1979
1. Present value of future benefits:		
(a) Annuitants now on the rolls*	$ 6,572,563	$ 6,005,161
(b) Separated employees	1,275,322	1,165,225
(c) Active employees	127,765,877	116,735,984
(d) Total	135,613,762	123,906,370
*Excludes annuitants retired prior to August, 1975 for whom guaranteed annuities were purchased.		
2. Present value of future employer/employee normal cost contributions	57,377,327	56,157,842
3. Actuarial accrued liability: (1)-(2)	78,236,435	67,748,528
4. Assets in fund (excludes premiums and reserves in respect of annuitants retired prior to August, 1975)	76,801,237	64,235,974
5. Unfunded accrued liability: (3)-(4)	1,435,198	3,512,554
6. Normal cost as a percentage of covered payroll:		
(a) Employee	3.95%	3.82%
(b) Employer	2.62	2.62
(c) Total	6.57	6.44
7. Present value of benefits in payment status plus accumulated employee contributions:		
(a) Actuarial value	21,441,360	16,523,724
(b) Plan assets divided by actuarial value: (4) ÷ (7a)	358%	389%

(Information as of September 30, 1978 not available.)

Information as of September 30, 1979 based on an actuarial valuation made as of that date. Information as of September 30, 1980 estimated from the 1979 valuation and a statement of assets as of September 30, 1980.

TPF&C TOWERS, PERRIN, FORSTER & CROSBY

TABLE 5

COMPARISON OF ACTUARIAL FUNDING

WITH ACTUAL CONTRIBUTIONS

(In Dollars)

(1) Plan year	(2) Normal cost	(3) Amortization of unfunded liability	(4) Total actuarial contribution (col. 2 plus (col. 3)	(5) Actual contributions to Plan from all sources	(6) Difference between col. 4 and col. 5	(7) Col. 5 divided by col. 4
1979	6,700,096	300,016	a/7,060,112	9,055,146	2,055,034	1.294
1980	6,128,277	35,880	6,164,157	8,807,577	a/2,643,410	1.43

GAO Notes:

a/The correct amount is 7,000,112.

b/The correct amount is 2,643,420.

TABLE 5A

COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS

(as a percentage of payroll)

(1) Plan year	(2) Normal cost	(3) Amortization of unfunded liability	(4) Total actuarial contribution (col. 2 plus (col. 3)	(5) Actual contributions to Plan from all sources	(6) Difference between col. 4 and col. 5
1979	6.4	.3	6.7	8.7	2.0
1980	6.6	.039	6.639	9.4	2.8

 APPENDIX I

TOWERS, PERRIN, FORSTER & CROSBY
2101 L STREET, N.W.
WASHINGTON, D.C. 20037
(202) 466-4440

January 30, 1981

Colonel Dean W. Wright
Custodian, U.S. Army NAF
Retirement Fund
Office of the Adjutant General
Washington, D.C. 20314

Dear Col. Wright:

Pursuant to your request of December 17, 1980, we have completed Table 4 of the annual pension report required of Federal Government plans under P.L. 95-595.

As stated at the bottom of the table, the actuarial information as of September 30, 1979 and 1980, was derived from the actuarial valuation made as of September 30, 1979.

It is hereby certified that to the best of my knowldege, the actuarial assumptions used in the actuarial valuation are in the aggregate reasonably related to the experience of the plan, and that to the best of my knowledge, the actuarial report of the valuation and the attached Table 4 is complete and accurate.

Very truly yours,

Peter A. Bleyler

Peter A. Bleyler, F.S.A.
Enrolled Actuary #810

PAB:sbs

(920370)

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

U.S. MAIL

THIRD CLASS