119733

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Inadequate Internal Controls Affect Quality And Reliability Of The Civil Service Retirement System's Annual Report

The Office of Personnel Management did not establish adequate internal control and reporting procedures to ensure the reliability of the financial and actuarial information it presented in the Civil Service Retirement System's annual report for fiscal 1980, required by Public Law 95-595 and published in February 1982.

GAO found that

--controls over computer programs used in performing actuarial valuations were weak,

--poor recordkeeping and processing delays resulted in unreliable records of accounts receivable, and

--relevant information, considered essential for a fair presentation of the annual report, was either omitted or not adequately disclosed.

OPM agreed with the basic thrust of this report and has already taken action or plans to act to correct many of the problems discussed.

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

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

This report discusses the need for the Office of Personnel Management to improve the quality and reliability of the financial and actuarial information presented in the Civil Service Retirement System's annual report as required by Public Law 95-595. We made this review to determine whether (1) the Office's internal control procedures were effective in assuring that the information presented in the annual report was reliable and that errors and omissions in the accounting data would be detected and (2) the report complied with prescribed reporting guidelines.

We are sending copies of this report to the Director, Office of Personnel Management; the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairmen, Senate Committee on Governmental Affairs and House Committee on Post Office and Civil Service.

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

INADEQUATE INTERNAL CONTROLS AFFECT QUALITY AND RELIABILITY OF THE CIVIL SERVICE RETIREMENT SYSTEM'S ANNUAL REPORT

D I G E S T

Public Law 95-595 (31 U.S.C. 68) subjects the Office of Personnel Management (OPM), which administers the Civil Service Retirement System, to many of the reporting requirements placed on private pension plans under the Employee Retirement Income Security Act of 1974 (ERISA). The law also requires that an annual report be submitted to the Congress and the Comptroller General of the United States. The guidelines for preparing the report are prescribed by the Director of the Office of Management and Budget (OMB) in consultation with the Comptroller General. (See p. 1.)

GAO undertook this review to determine whether the civil service retirement plan's second annual Public Law 95-595 report, which covered fiscal 1980 (published in February 1982), complied with prescribed reporting guidelines. In addition, GAO reviewed the plan's internal control procedures to determine if they were effective in assuring that the information presented in the annual report was reliable and that errors and omissions in the accounting data would be detected. (See p. 2.)

OPM did not establish adequate internal control procedures to assure itself that the financial and actuarial information presented in the plan's fiscal 1980 annual report can be relied upon. The inadequacies resulted because OPM did not:

--Properly control the design, development, and maintenance of the computer programs used in performing actuarial valuations. (See p. 4.)

--Establish accounting and review procedures to prevent inaccurate financial data from being reported. (See p. 9.)

--Ensure that the annual report was prepared in complete accordance with OMB's reporting guidelines which encompass generally accepted accounting principles and the reporting requirements of section 103 of ERISA. (See p. 14.)

GAO/AFMD-83-3
OCTOBER 22, 1982

Increased management involvement in the plan's financial accounting and reporting practices would help improve the quality and reliability of reported information.

STRICTER CONTROLS NEEDED TO IMPROVE THE RELIABILITY OF THE ACTUARIAL INFORMATION

The plan administrator uses a series of computer programs to perform the actuarial valuations of the retirement plan. These programs produce data for financial reporting as well as for funding purposes. For example, they calculated the present value of future benefits reported in the annual Public Law 95-595 report ($814.3 billion estimated at Sept. 30, 1980). The level of funding required by law ($10.9 billion for fiscal 1980) was also determined using the programs.

GAO found that the plan administrator put the valuation programs into use without (1) adequately documenting the programs for ease of operation and maintenance, (2) properly testing the programs and certifying to their accuracy and completeness, and (3) establishing adequate procedures to control all program modifications. GAO did not find anything to make it believe the programs were developed incorrectly. GAO still believes that, given the developmental problems outlined above, the plan administrator lacks adequate assurance that the programs are producing reliable actuarial information. (See ch. 2.)

MORE EFFECTIVE CONTROLS NEEDED TO IMPROVE FINANCIAL ACCOUNTABILITY AND REPORTING

OPM's internal control procedures were generally effective in detecting errors and omissions for most of the plan's financial accounting and reporting operations. However, several control weaknesses allowed some inaccurate data to be produced and reported.

A poor system of recordkeeping, as well as processing delays, caused a large portion of the detailed records of accounts receivable for overpayments of annuities and refunds to be unreliable. The plan administrator was forced to estimate a large portion of the outstanding receivable balance of almost $27 million. (See p. 10.)

Errors in the computation of yearend accruals were not detected. These errors occurred in the computation of:

--The net change in the fair value of investments. The net change was overstated by more than $15 million.

--Accrued interest income. Interest income and the related receivable were overstated by about $11 million.

--Accrued annuity expense. The accrued annuity expense was understated by nearly $5 million. (See p. 11.)

Although these errors were not material enough to distort the overall financial information presented in the plan's annual report, GAO believes that greater care needs to be exercised in ensuring the proper computation of yearend accruals.

ADDITIONAL DISCLOSURES NEEDED TO COMPLY WITH PRESCRIBED REPORTING REQUIREMENTS

In preparing the plan's annual report, the plan administrator followed most of OMB's reporting guidelines. However, certain disclosures, essential for fair presentation of the annual report, were either omitted or not adequately described.

GAO found, for example, that the general plan description did not adequately disclose such things as (1) the number of years of employment required before retirement benefits become vested, (2) the methods for computing benefits, and (3) the benefits available as a result of death or disability of participants.

It was not disclosed, in the funding policy or elsewhere, that $10.9 billion of the $19.2 billion contributed represented (1) the Government's contribution for the amortized portion of the increase in the unfunded liability, (2) interest on the unfunded liability, and (3) annuities disbursed during the year that were attributable to military service.

The basis for calculating the interest for funding the plan was not disclosed. The interest was computed on a different unfunded liability ($147 billion) than the one presented in the annual report

($469.5 billion). The $322 billion difference between the two unfunded liabilities, resulting from differences in the actuarial assumptions used in the calculations, was not explained. (See ch. 4.)

RECOMMENDATIONS

GAO recommends the Director of OPM require the plan administrator to:

--Document the actuarial valuation programs using guidance provided by the National Bureau of Standards. (See p. 7.)

--Have the valuation programs independently tested to assure accuracy and completeness. (See p. 7.)

--Implement control procedures over program changes. (See p. 7.)

--Establish procedures to properly account for overpayments of annuities and refunds. (See p. 12.)

--Establish review procedures over the computation of yearend accruals. (See p. 12.)

--Establish procedures to assure that information on expenditures is both timely and complete. (See p. 12.)

--Direct the preparer of the plan's annual report to follow appropriate reporting guidelines that includes adequate disclosures as required by generally accepted accounting principles. (See p. 17.)

--Ensure that the enrolled actuary who reviews the actuarial data in the plan's annual report also provide a statement that, to the best of his or her knowledge, the report is complete and accurate. (See p. 17.)

AGENCY COMMENTS AND OUR EVALUATION

OPM agreed with the basic thrust of this report and has, in fact, reached many of the same conclusions from its own internal review. OPM indicated that a number of actions either have been or will be taken to correct many of the deficiencies GAO found. (See app. V.)

Although OPM agreed with GAO's basic findings and recommendations, it believes that placing the actuarial valuation programs under the same control system used to control other data processing programs would be counterproductive in that it would limit the actuaries' access and delay the implementation of needed changes. OPM did not object, however, to the need for additional controls. Whatever controls are ultimately established is OPM's decision, but it should provide the same safeguards during program use and maintenance that are provided for the other data processing programs. (See p. 8.)

OPM did not agree with GAO's recommendation that the enrolled actuary provide a statement that to the best of his or her knowledge the report is complete and accurate. It believes that this recommendation goes beyond the requirements of Public Law 95-595 and section 103 of ERISA. However, GAO notes that this statement is required by section 103(d)(8) of ERISA. (See p. 17.)

Contents

Page

APPENDIX

ABBREVIATIONS

ADP	automatic data processing
ERISA	Employee Retirement Income Security Act of 1974
GAO	General Accounting Office
OMB	Office of Management and Budget
OPM	Office of Personnel Management

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 normal cost contributions.
Actuarial assumptions	Estimates of future conditions 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.
Actuarial 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 (for example, survival), further discounting is necessary for the probability that payment or receipt will occur.
Actuarial valuation	The process by which an actuary estimates the present value of benefits to be paid under a pension plan and calculates the amounts of employer contributions or accounting charges for pension cost.

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.
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.
Entry-age normal cost method	An actuarial cost method which assigns a "level normal cost" to each year of service for each participant. The assumption is made under this method that every employee entered the plan (entry age) at the time of initial employment or at the earliest eligibility date, if the plan had been in existence, and that contributions have been made from the entry age to the date of the actuarial valuation.
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).
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.

Normal cost	The annual cost assigned, under the actuarial cost method in use, to years subsequent to the inception of a pension plan.
Retirement 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.
Unfunded liability	The amount by which the present value of future benefits exceeds the amount in the pension fund and the present value of future normal cost contributions.
Vested benefits	Benefits that are not contingent on an employee's future service.

CHAPTER 1

INTRODUCTION

The Civil Service Retirement System, administered by the Office of Personnel Management (OPM) pursuant to 5 U.S.C. 8347, was established by the Congress in 1920 to provide retirement benefits to the employees of the classified civil service and for other purposes. At September 30, 1980, participation in the retirement plan (plan) numbered about 2,700,000 active employees, 1,300,000 retired annuitants, 460,000 survivor annuitants, and 157,000 former employees eligible for deferred benefits. During fiscal 1980, the plan paid over $14.9 billion in benefits and received over $19.2 billion in retirement contributions from the Federal Government and employees.

The Board of Actuaries, consisting of three actuaries appointed by OPM, is required to (1) perform an actuarial valuation of the retirement plan at least once every 5 years, (2) report annually on whether the plan is maintained on a sound basis, and (3) make recommendations for improvements. The passage of Public Law 95-595 (31 U.S.C. 68), approved November 4, 1978, increased the financial and actuarial reporting requirements of the plan administrator. (See app. I.)

The new legislation subjected Federal pension plans to section 103 of the Employee Retirement Income Security Act (ERISA) of 1974, thereby imposing reporting requirements similar to those that had been placed on private pension plans. (See app. II.) In addition, Federal pension plans are required to submit an annual report to the Congress and the Comptroller General of the United States within 210 days after the close of the plan year. The annual report must include a financial statement and an actuarial statement prepared in accordance with the appropriate generally accepted accounting and actuarial principles and standards. (See apps. III and IV.) The form and content of these statements are prescribed by the Director of the Office of Management and Budget (OMB) in consultation with the Comptroller General.

PLAN ADMINISTRATION

OPM's compensation group, headquartered in Washington, D.C., administers the daily operations of the plan. Some of the group's key functional units and their responsibilities are as follows.

--The retirement claims division is responsible for adjudicating retirement claims submitted by retired Federal employees and survivors of former employees to determine their eligibility for benefits.

--The fiscal management division is responsible for collecting employee withholdings and agency contributions when due, investing the funds, accounting for all transactions, and reporting the results of the financial operations.

--The office of the actuary performs actuarial valuations, prepares the actuarial data contained in the Public Law 95-595 annual report, determines the level of funding required to cover any increase in the unfunded liability caused by increases in pay and/or retirement benefits, and calculates any interest due on the unfunded liability. This interest represents an additional funding source for the system.

--The office of automated systems development is responsible for operating and managing most of the group's ADP systems and applications. Some of the significant systems are the annuity roll system, retirement contributions and withholdings system, and the actuarial valuation system.

--The quality assurance division performs internal audits. It reviews the adjudication process quarterly and other group operations less frequently.

OBJECTIVES, SCOPE, AND METHODOLOGY

Public Law 95-595 (31 U.S.C. 68b) authorizes the Comptroller General to perform reviews of the Civil Service Retirement System's annual report as he deems necessary. Pursuant to this authority, we reviewed the plan's second annual Public Law 95-595 report including the processing of the financial and actuarial data presented in the report. Our review was made in accordance with generally accepted government auditing standards and was designed to determine whether

--the plan's second annual report covering fiscal 1980 (see app. IV) complied with the reporting guidelines prescribed by OMB,

--internal controls were adequate to provide reasonable assurance that the information presented in the report was reliable, and

--internal controls for the financial accounting and reporting operations were effective in detecting errors and omissions in the accounting data.

In conducting our review, we interviewed OPM officials who administer the plan as well as examined the underlying records supporting the information in the annual report. We also reviewed or tested

--the internal control procedures for the cash receipt and disbursement functions and assessed their reliability for detecting errors and omissions;

--the data base on plan participants (both active and retired) that the office of the actuary uses in making actuarial determinations;

--the reasonableness of the actuarial assumptions used in preparing the actuarial statements;

--the control environment for summarizing and reporting financial and actuarial information;

--the annual report and its presentation of financial and actuarial information, including the adequacy of disclosures essential for users to understand the report; and

--the work of the quality assurance division as it relates to the retirement process.

We did not test the accuracy of the computer model used to perform the actuarial valuation because of significant control weaknesses with the model. (See ch. 2.) Further, we did not assess the impact of the current funding policy on the plan's future ability to pay benefits when due.

During the period March 1981 through September 1982, we performed our review at OPM's headquarters office in Washington, D.C., and the Employee Service and Records Center in Boyers, Pennsylvania.

CHAPTER 2

STRICTER CONTROLS NEEDED TO IMPROVE

THE RELIABILITY OF THE ACTUARIAL INFORMATION

The plan administrator uses a computer model to perform the plan's actuarial valuations. The model consists of a series of computer programs that are an integral part of the actuarial valuation process. These programs produce data for financial reporting as well as for funding purposes. For example, the actuarial present value of future benefits was calculated ($814.3 billion estimated as of September 30, 1980) and the level of funding required by the Congress for fiscal 1980 was determined ($10.9 billion). Actuarial assumptions and participant data must be applied against the programs to make the valuations. If the actuarial assumptions are unreasonable, the participant data is inaccurate, or if the programs are prepared incorrectly, the results would be unreasonable or erroneous.

Our review showed that the actuarial assumptions were reasonable, and tests of the participant data disclosed no significant problems. While we did not find anything to cause us to believe the model was programmed incorrectly, OPM's internal control procedures could not ensure that the model's programs were developed and are being maintained accurately and reliably. For example, the programs were not properly documented during any of their development or maintenance phases, they were never independently tested or certified as accurate and complete, and controls over modifications to these programs have been almost nonexistent. Until these deficiencies are corrected, there will be very little assurance that the valuation programs are producing reliable actuarial information.

VALUATION PROGRAMS LACK PROPER DOCUMENTATION

Computer program documentation has not been properly developed and maintained for the model since its implementation in 1977. For example, at the time of our review, existing documentation was limited to a narrative description and source program listings. Other program documentation, such as program specifications, flowcharts, test results, and user and program maintenance manuals, were nonexistent.

Comprehensive and current computer program documentation is necessary for the efficient operation and success of a computerized application. Documentation helps ensure the continuance of an application and should be an integral part of the design, development, and modification process. Good documentation is critical because it (1) provides the primary communication channel among programmers/analysts, acceptance testers, users, auditors, and management, (2) increases the ease and accuracy of computer program maintenance, and (3) provides for continued operation and programmer/analyst support in the event of employee turnover.

Good automated data processing management requires that the original model and all subsequent modifications be documented. Each new model or change to the previous version must be extensively tested to ensure that the results being produced are accurate and that the data has integrity. The data set used to test the new version of the model, as well as the expected results and the actual results produced, must be documented. After a model has been adequately documented and tested, the responsible person should be required to certify its accuracy.

Because of the lack of proper documentation, it is difficult to understand how the valuation programs are actually operating as well as how to operate them. For example, we found that only one employee in the office of the actuary, at the time of our review, understood the programs and could effectively operate and maintain them. In the event this employee resigned, OPM would have great difficulty operating and maintaining these programs. Documentation, such as a user manual and program maintenance manual, if it were available would serve as a reference guide and provide instructions on how to use and maintain the programs. The Federal Information Processing Standards of the National Bureau of Standards provide guidance for developing documentation during an application's design and development process.

PROGRAMS NOT INDEPENDENTLY TESTED FOR ACCURACY AND COMPLETENESS

The actuarial valuation model was not independently tested for accuracy and completeness before it was accepted for use. The programmer, who is also the chief user, performed tests during the development phase, but the results were not documented. Testing by programmers is common in developing an application; however, the programmer and user are not usually the same individual, and such testing does not substitute for an independent test. This is particularly true in the present situation.

Testing by persons independent of the developmental process is an important control technique. An acceptance test normally involves participation by the user of the model (or other persons independent of the developmental process). The user should assist in compiling a test data set using good and erroneous data to test the internal controls and the expected results of the model, then assist in analyzing the results. This type of testing provides greater assurance that the programs are accurate and complete. It determines whether the programs perform in accordance with design specifications and meet user needs and objectives. No new computer-based application, or modifications to existing ones, should be implemented without independent testing. The test procedures and results should be documented, with the tester certifying, in writing, to the program's accuracy and completeness.

The level and amount of testing performed on the valuation programs were not commensurate with the importance of the actuarial data the programs produce. Plan participants, the Congress, and other users must rely on the actuarial information in the plan's annual report, in addition to the financial data, to gain an understanding of the financial condition and funding status of the plan. The level of funding required by the Congress is computed by these programs. As administrator of the retirement plan, OPM has a duty to assure the reliability of the financial and actuarial information it reports each year.

Without an independent test, the plan administrator has little assurance that the programs are free from error and will produce reliable data. Either programming errors or errors in logic could cause the actuarial information produced to be material misrepresentations of the true financial and funding status of the plan.

PROGRAM MODIFICATIONS NOT ADEQUATELY CONTROLLED

The plan administrator did not establish appropriate procedures to control modifications to the valuation programs. For example, modifications to these programs were not formally authorized, documented, independently tested, certified to be accurate and complete, and approved for implementation. These types of controls help prevent unauthorized or incorrect changes to the programs.

Unlike OPM's other major computer-based applications, the valuation programs have been maintained since development in a system development library. This library is an area within computer storage which is used for developing and programming new computer-based applications or program modifications. The programmer controls modifications and related documentation and uses a password to control access to the computer programs in the system development library.

Normally, after an application is fully developed at OPM, it is moved to the production library where additional controls exist over modifications and documentation. For example, all program modifications must be authorized, documented, independently reviewed or tested, and certified before being incorporated into the application. Also, the programmer is not permitted to incorporate modifications; rather, a production program coordinator incorporates all modifications. Finally, the computer system automatically maintains a record of these modifications, thus allowing management and others to determine the substance of each one.

With the programs being maintained in the system development library, none of the above controls are employed. Until the programs are fully tested and transferred to the production library, OPM will not have adequate control over their modifications.

CONCLUSIONS

OPM did not establish an adequate system of internal control over the design, development, and modification of the actuarial valuation programs. Even though its procedures require that such processes for other applications be controlled, the valuation programs were not subjected to the same control environment. As a result, the reliability of the programs remains questionable due to the following control deficiencies:

--Computer program documentation was not properly developed and maintained.

--The programs were not independently tested.

--Program modifications were not adequately controlled.

The programs' calculations are crucial to the actuarial valuation process. Therefore, we believe that the entire process should be better controlled to provide OPM with reasonable assurance that the model produces accurate results.

RECOMMENDATIONS

We recommend that the Director of OPM require the plan administrator to:

--Document the actuarial valuation programs using guidance provided by the National Bureau of Standards. Such documentation should include, as a minimum, source program listings, narrative descriptions of the computer programs, program and data base specifications, descriptions of table organization, a users' manual, a program maintenance manual, and the test plan and results.

--Have an independent test conducted of the valuation programs to assure their accuracy and completeness and to determine whether design specifications and user needs are being met.

--Implement control procedures over program changes. These procedures should include the requirement that each program change be authorized, documented, independently tested and certified, and implemented through the production program coordinator. Further, the programs should be placed in the production library of the computer system.

AGENCY COMMENTS AND OUR EVALUATION

OPM agreed with the basic thrust of this report and have, in fact, reached many of the same conclusions from its own internal review. OPM indicated in its comments (see app. V) that a number of actions either have been or will be taken to correct many of the deficiencies we found.

OPM disagrees with our recommendation that each program change be authorized, documented, independently tested and certified, implemented through the production program coordinator, and placed in the production library.

OPM believes that placing the actuarial valuation programs under the control system used for production programs would be counterproductive because it would limit the actuaries' access and delay the implementation of needed changes. Since the only people at OPM who have sufficient skills and knowledge to deal readily with these programs are in the Office of the Actuary, OPM doubts any meaningful, additional control would be gained. Because of the above and the need for the actuaries to regularly use the programs as research instruments in response to requests from both congressional and executive branch staffs (often on a "same day" basis), OPM believes the users must also be the authorizers, programmers, analysts, and certifiers.

OPM further believes that, since ERISA has no formal requirements for controls and relies completely on the professional opinion of the enrolled actuary, our recommendation is inconsistent with private industry practice.

We recognize the need for the actuaries to maintain control over the valuation programs and to have quick access to them. However, by maintaining the programs in the current poor control environment, OPM continues the risk that unauthorized program changes (either accidental or otherwise) can occur and may not be detected by the actuaries. OPM did not object to the need for additional controls. We recommended using the production library since adequate controls already exist there. This control mechanism is still a valid alternative even though it is outside the Office of the Actuary. If OPM chooses an alternative control system over the valuation programs, it should ensure that an adequate computerized audit trail exists to verify the extent and nature of program modifications.

We agree that the professional opinion of the enrolled actuary should be relied upon provided there are no reasons to question that opinion. We also agree that ERISA has no formal control requirements. The control deficiencies we have identified could adversely affect the reliability of the actuarial information the enrolled actuary's opinion covers. Our position is taken from a control standpoint and was not influenced by the manner in which private industry controls production and actuarial valuation programs. OPM acknowledged that it will now thoroughly document and test new program changes, a practice not being done at the time of our review. We believe our recommendation for increased control over program changes, relative to OPM, is still valid regardless of private industry practice.

CHAPTER 3

MORE EFFECTIVE CONTROLS NEEDED

TO IMPROVE FINANCIAL ACCOUNTABILITY AND REPORTING

OPM's internal control procedures were effective in detecting errors and omissions for most of the plan's financial accounting and reporting operations. However, we found some procedural weaknesses that resulted in erroneous data being produced and reported. For example, poor recordkeeping and processing delays led to unreliable, detailed records of accounts receivable for overpayments of annuities and refunds. The plan administrator was forced to estimate the outstanding balance of these receivables instead of relying on the records. In addition, errors occurred in the computation of yearend accruals, and some administrative expenses were not reported.

POOR RECORDKEEPING AND PROCESSING DELAYS RESULTED IN THE LACK OF PROPER ACCOUNTABILITY FOR ACCOUNTS RECEIVABLE

The accounts receivable caused by overpayments of annuities and refunds represent the amount former employees or survivors of retired annuitants owe the plan. These overpayments occur for a variety of reasons, including the following.

- --When annuitants die and OPM does not become aware of the death, annuities covering a period after death continue to be disbursed.
- --When disabled employees retire under the disability program and receive plan benefits, then later elect to receive benefits under the Federal Employee Compensation Act, duplicate payments covering the same period are made.
- --When survivors lose their eligibility for benefits and OPM does not become aware of their change in status, benefit payments covering the period of ineligibility will continue.
- --When employees leave Federal service and are refunded their retirement contributions, they may be overpaid if the employee's agency provides the wrong information to OPM and does not notify OPM of the error until after the refund is made.

As of September 30, 1980, the plan administrator reported the outstanding receivable balance to be almost $27 million. Nearly $12 million of this balance was due from persons who were still on the annuity rolls, and about $5 million of that amount was being withheld from the annuitants' checks while the remainder was being appealed. The other $15 million of the receivable balance was owed by persons no longer receiving benefits. Nearly $8 million resulted from reasons other than death, and $7 million from payments made on behalf of employee or survivor annuitants after their deaths. OPM failed to properly account for this latter group of receivables in that the records were not properly maintained and no allowance was established for potential bad debts.

Accounts receivable records
not properly maintained

Generally accepted accounting principles require that receivables be accurately and promptly recorded, classified, summarized, and reported. Prompt recording of receivable amounts reduces the risk that the plan will lose funds because of lost or misplaced source documents. The amounts should be properly classified according to the nature of the originating transactions or adjustments, and the individual receivable accounts should be kept current and summarized at least once each accounting period and entered into the general ledger. Periodically, the general ledger balance should be reconciled with the individual account balances to detect errors and omissions.

The plan administrator did not adequately control accounts receivable that resulted from overpayments made on behalf of deceased retired and survivor annuitants. The problems occurred because OPM did not (1) promptly apply collections to individual deceased retired employee accounts and (2) establish receivable accounts primarily for overpayments made on behalf of deceased survivor annuitants.

Overpayments reclaimed by the Treasury and reported to the plan were not promptly applied to the individual accounts. The plan administrator was unable to determine the amount that had been collected and not applied at the end of fiscal 1980. The Treasury credited the plan's account for the funds collected and OPM recorded the amount in the plan's cash records. By not promptly updating the accounts receivable, the plan administrator runs the risk of accounting for the same amount twice--in both the plan's cash and receivable accounts.

Since the plan administrator did not establish accounts receivable for cases involving deceased survivor annuitants, accountability was almost nonexistent for these overpayments. The only records maintained by the plan's accounts receivable staff were copies of the forms used to request the Treasury to reclaim the checks or funds causing the overpayments. These records were of little use to OPM in determining the total amount outstanding because they could not be readily summarized.

Because of the poor condition of the detailed records, the plan administrator could not rely on them and was forced to estimate a large portion of the outstanding balance of accounts receivable for overpayments of annuitants and refunds at September 30, 1980.

INTERNAL CONTROLS NOT EFFECTIVE IN DETECTING ERRORS IN COMPUTATION OF ACCRUALS

The plan administrator made several errors when computing accruals for the net change in fair value of investments, interest receivable, and annuity expense. Adequate review procedures over the computation of these yearend accruals were lacking. As a result, these errors went undetected and inaccurate data was recorded in the accounting records and reported. Some of the errors we found were as follows:

--An accountant erroneously used the par value of investment securities instead of actual cost in computing the net change in the fair value of investments. The net change was overstated by more than $15 million.

--In computing accrued interest income, several incorrect factors were used to allocate interest for a majority of the plan's investments. As a result, interest income and the related receivable were overstated by more than $11 million.

--The accrued annuity expense primarily represents claims for retirement benefits for September 1980. The wrong methodology and average annuity were used in computing the accrued amount for claims being processed. The methodology OPM used did not properly consider annuitants receiving special pay at September 30, 1980. Also, in its computation of accrued annuity expenses for claims being processed, OPM used the the average annuity of all persons on the annuity roll for a month instead of the average annuity of persons added to the benefit rolls during fiscal 1980 (which was appreciably higher). OPM used an average month's annuity for retired employees of $863.53 in its computation, but the average annuity of retired employees added to the benefit rolls in fiscal 1980 was $981. As a result of these differences, the amount accrued for retired employees was understated by nearly $5 million.

Although these errors were not material enough to distort the overall financial information presented in the plan's annual report, we believe that greater care needs to be exercised in ensuring the proper computation of yearend accruals.

ADMINISTRATIVE EXPENSES NOT REPORTED ON A TIMELY BASIS

The procedures for reporting administrative expenses did not allow for timely reporting. OPM's financial management division (not under the plan's organizational structure) makes all disbursements for the plan's administrative expenses, on a reimbursable basis, and maintains detailed records of the transactions. At the end of each fiscal year, this division sends the plan a summary of all the transactions during the year for posting to the accounting records. This division did not provide the plan with complete information on fiscal 1980 administrative expenses until after a draft copy of the annual report was prepared.

The plan's financial information normally covers 13 accounting periods (4-week periods) in each fiscal year. However, in fiscal 1980 OPM omitted nearly $2 million in expenses for the last accounting period. Thus, the total of $29.7 million was understated.

CONCLUSIONS

Because of deficiencies in OPM's internal control procedures, inaccurate financial data was produced and reported in the plan's annual report. Certain accounts receivable records were unreliable because of poor recordkeeping and delays in updating the accounts. Errors in the computation of yearend accruals were not detected because the process was not adequately reviewed. Administrative expenses reported for the year were incomplete because the information was not promptly communicated to the plan.

RECOMMENDATIONS

We recommend that the Director of OPM require the plan administrator to:

--Establish procedures to properly account for overpayments of annuities and refunds. The procedures should require subsidiary records that can be accurately maintained and summarized in a reasonable amount of time.

--Establish review procedures over the computation of accruals to assure that the methods used meet management's criteria and that the results are reasonable.

--Establish procedures to assure that complete information on expenditures is available to the plan on a timely basis and that expenses are properly associated with the fiscal year in which they are incurred.

AGENCY COMMENTS AND OUR EVALUATION

OPM generally agreed with our recommendations to improve financial accountability and reporting. OPM indicated that efforts are under way to correct most of the deficiencies we found. OPM did not believe that its treatment of administrative expenses was a departure from generally accepted accounting principles since it has established a policy of recording in its records one administrative expense reporting period from the prior fiscal year and 12 from the current fiscal year.

We concur with OPM's position that this policy will produce a good approximation of total administrative expenses and would not be a departure from generally accepted accounting principles. However, we believe this policy should only be used when the actual figures cannot be determined, and this policy provides the best estimate. Since OPM had 210 days after September 30, 1980, to prepare its annual Public Law 95-595 report, we believe it had ample time to produce the actual cost data for fiscal 1980. Consequently, we believe that OPM's policy is unnecessary for the annual Public Law 95-595 report and that our recommendation is still valid.

CHAPTER 4

ADDITIONAL DISCLOSURES NEEDED TO

COMPLY WITH PRESCRIBED REPORTING REQUIREMENTS

OPM's reporting procedures did not adequately assure that the plan's annual report complied with the reporting guidelines OMB prescribed. These guidelines incorporated many of the generally accepted accounting principles contained in the Financial Accounting Standards Board's standards for accounting and reporting by defined benefit pension plans and the reporting requirements in the applicable sections of ERISA. Although the plan administrator closely followed many of OMB's guidelines in preparing the report, certain disclosures, essential for a fair presentation of the annual report, were not adequately presented. These essential disclosures included a general description of the plan, the funding policy, and, among other things, the present employees' accumulated contributions as of the report date.

OMB's guidelines provided examples of the type of information that should be disclosed in the plan's annual report. However, since disclosures must be tailored to each specific plan, the guidelines should not be considered all inclusive. The plan administrator should follow generally accepted accounting principles when determining the types of disclosures needed. Accordingly, the plan's annual report should contain sufficient information about the plan, the results of transactions and events that affect the net asset and benefit information, and other factors necessary to enhance the clarity and usefulness of the report.

GENERAL PLAN DESCRIPTION NOT ADEQUATELY DISCLOSED

The plan administrator did not provide an adequate general description of the plan. Several significant vesting and benefit provisions were omitted. For example, the annual report did not disclose

--the number of years of employment required before an employee's benefits become vested,

--the options available to participants upon termination of employment,

--the methods for computing retirement benefits,

--the benefits available as a result of death or disability of participants, and

--a description of the employees generally covered by the plan.

The report made reference to the general plan description in the Board of Actuaries' report (based on a Sept. 30, 1977, actuarial valuation submitted on Mar. 17, 1980). This practice is generally accepted provided the source of the information is published and made available to users of the plan's annual report. However, we believe this practice should be avoided because the Board of Actuaries' report is not a product of OPM and should not be required reading for the plan's annual report users who are interested in a general plan description. Much of the information presented in the Board's report is different from the information presented in the plan's annual report and, therefore, could cause confusion.

MAJOR ASPECTS OF THE FUNDING POLICY WERE NOT DISCLOSED

The plan administrator failed to disclose the methods by which the plan is funded. The source (or origin) of plan contributions was not adequately disclosed in the annual report. The methods for determining the amounts and timing of contributions due from each source were not disclosed at all. In addition, the use of two different, unfunded liabilities for reporting and funding purposes was not explained. These inadequate disclosures could confuse and mislead users of the annual report.

Major components of plan contributions should be disclosed

The plan received more than $19.2 billion in contributions from several sources during fiscal 1980. Neither the report presentation nor disclosures were adequate for users to determine the source or timing of these contributions. For example, although contributions from the agencies and employees were presented separately in the annual report, it was not made clear that each amount represented approximately 7 percent of covered payroll. (See p. 21.) The two amounts differed by more than $70 million, but the cause of this difference was not explained. In addition, nearly 62 percent of the total amount contributed ($11.9 billion of a total contribution of $19.2 billion) was presented in the report as Treasury contributions. The nature of these contributions was not explained. Users of the annual report will not be able to determine from disclosures made that the $11.9 billion was composed primarily of the following:

--The Government's contribution ($2.4 billion in fiscal 1980) for the amortized portion of the increase in the unfunded liability due to increases in retirement benefits and in the pay on which the benefits are computed (amortized over 30 years).

--Interest ($7.4 billion in fiscal 1980), at 5 percent per annum, on the unfunded liability.

--The portion of annuities disbursed during the year attributable to military service ($1.1 billion in fiscal 1980).

--Contributions from the Postal Service ($697 million in fiscal 1980) for (1) the amortized portion of the increase in the unfunded liability due to increases in retirement benefits and in the pay on which the benefits are computed for its present and former employees hired since fiscal 1972 (amortized over 30 years) and (2) interest at 5 percent per annum on the postal portion of the unfunded liability.

Explanation needed to clarify the use of different unfunded liabilities for reporting and funding purposes

In addition to the disclosures mentioned above, the plan administrator needs to explain the difference between the unfunded liability used for accounting and reporting purposes and the one used for funding purposes. Once users determine that a large portion of the Government's contribution represents interest on the unfunded liability, they could be led, by inadequate disclosure, to believe, incorrectly, that the unfunded liability of $469.5 billion was the basis for the interest computation. (See p. 24.)

Users would not be able to determine from the annual report that, using different actuarial assumptions and benefit information dates, a different unfunded liability of $147 billion was computed for funding purposes. Therefore, to improve the clarity and usefulness of the report, the plan administrator must disclose the difference in the methodologies used to calculate the two unfunded liabilities. The difference of more than $322 billion, due to the use of different actuarial assumptions, should be explained. The impact (if any) of using the lesser amount for funding purposes on the plan's future ability to pay benefits when due, needs to be disclosed.

OTHER INFORMATION OMITTED FROM THE ANNUAL REPORT

The plan administrator did not disclose the accumulated employee contributions as required by generally accepted accounting principles and the instructions prescribed by OMB. The amount of these contributions was presented in the annual report in combination with the present value of benefits for annuitants in payment status. However, this presentation does not meet the criteria for adequate disclosure.

In addition, the report did not contain, for comparative purposes, a statement of changes in net assets available for benefits for the fiscal year ended September 30, 1979. The instructions prescribed by OMB required comparative information to enhance the usefulness of the report.

Also, the statement by the enrolled actuary was incomplete. The OMB guidelines implementing Public Law 95-595 require the enrolled actuary to provide a statement on the completeness and accuracy of the annual report. However, the enrolled actuary engaged by the plan administrator did not include an opinion on the accuracy and completeness of the report. (See app. III.) It should be noted that the enrolled actuary was not hired to prepare or assist in preparing the report, only to review it upon completion. To minimize costs and expedite the reporting process, the plan administrator hired the enrolled actuary to review only the methodology and assumptions used in the valuation process.

CONCLUSIONS

The plan administrator did not establish appropriate controls over report preparation to assure that adequate disclosures were made in the plan's annual report. As a result, the general plan description was incomplete, major aspects of the funding policy were not disclosed, accumulated employee contributions were not adequately disclosed, and the comparative statement of changes in net assets available for benefits for fiscal 1979 was omitted. Also, the plan administrator did not engage the enrolled actuary to provide a statement regarding the accuracy and completeness of the plan's annual report as required by the OMB guidelines.

RECOMMENDATIONS

We recommend that the Director of OPM require the plan administrator to:

--Direct the preparer of the plan's annual report to completely follow OMB's instructions which encompass generally accepted accounting principles and the applicable sections of ERISA.

--Ensure that the enrolled actuary who reviews the actuarial data in the plan's annual report also provide a statement that, to the best of his or her knowledge, the report is complete and accurate.

AGENCY COMMENTS AND OUR EVALUATION

OPM did not agree with our recommendation that the enrolled actuary attest to the accuracy and completeness of the annual report. OPM believes that professional standards of the Society of Actuaries would preclude the enrolled actuary from certifying the nonactuarial material. Also, OPM does not believe that Public Law 95-595 requires such certification. It is OPM's opinion that our recommendation goes beyond the reporting requirements that section 103 of ERISA places on private pension plans in that enrolled actuaries for private pension plans only certify the completeness and accuracy of Schedule B, Form 5500 (Actuarial Information) of the ERISA annual report.

We realize that the enrolled actuary is not in a position to certify the completeness and accuracy of the nonactuarial information. However, we are not requesting such certifiction. We are recommending that the enrolled actuary include a statement in the annual report that to the best of his or her knowledge, the report is complete and accurate. This language is required by section 103(d)(8) of ERISA (see app. II). Since the enrolled actuary must use nonactuarial data in computing figures, this statement provides assurance that the actuary believes the data used was complete and accurate. As for the use of Schedule B, Form 5500 in the private sector, it should be noted that this form is used for filing under section 104 of ERISA. Federal pension plans are not subject to this section of ERISA. We continue to believe that our recommendation is a valid one.

Public Law 95-595
95th Congress

An Act

Nov. 4, 1978
[H.R. 9701]

To amend the Budget and Accounting Procedures Act of 1950 to require that the Comptroller General provide for a financial audit with respect to pension plans for officers and employees of the Federal Government and its agencies and instrumentalities, to require that an annual report, including a financial statement and an actuarial statement, be furnished to the Congress and the Comptroller General with respect to such plans, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Budget and Accounting Procedures Act of 1950, amendment. 31 USC 1 note. 31 USC 65 *et seq.*

SECTION 1. Part II of title I of the Budget and Accounting Procedures Act of 1950 (64 Stat. 832) is amended by adding at the end thereof the following new matter:

"Subpart C

"FEDERAL GOVERNMENT PENSION PLANS

"SEC. 120. It is the purpose of this subpart to protect the interests of the Nation and of the participants and their beneficiaries in Federal Government pension plans and certain other pension plans by requiring full disclosure of the financial condition of such plans. 31 USC 68.

"SEC. 121. (a) Notwithstanding any other provision of law or any administrative determination to the contrary, each Federal Government pension plan and each plan described in section 123(b), except as specified in subsection (b) of this section, shall be deemed to be subject to the provisions of section 103 of the Employee Retirement Income Security Act of 1974 in the same manner as an employee pension benefit plan to which such section applies, except that, with respect to such a Federal Government pension plan or a plan described in section 123(b)— 31 USC 68a. 29 USC 1023.

"(1) the annual report required by such section shall be in such form, and shall include such information and data, as the President, in consultation with the Comptroller General (or in the case of a plan described in section 123(a)(9) or 123(b), the Comptroller General) may prescribe;

"(2) the annual report required by such section shall be furnished to the Congress and to the Comptroller General, not later than the end of the two hundred and ten-day period beginning on the day after the last day of the plan year involved;

"(3) unless specifically authorized by the Comptroller General, no provision of such section which provides for waiver of, relief from, or exception to any requirement otherwise applicable to an employee pension benefit plan shall be deemed to apply to such Federal Government pension plan or such plan described in section 123(b);

"(4) the provisions of section 104(b) of such Act shall not apply; 29 USC 1024.

"(5) the report required by this subpart shall be in addition to and shall not supersede other reports or projections required by law; and

39-139 O - 78 (518)

"(6) other than in the case of a plan described in section 123(b), the Comptroller General shall perform such audits as the Comptroller General deems appropriate in lieu of the requirements for the independent qualified public accountant under section 103 of the Employee Retirement Income Security Act of 1974.

29 USC 1023.

"(b) Nothing in this subpart shall be construed as imposing any requirement with respect to a Federal Government pension plan for officers or employees of the Central Intelligence Agency, unless the imposition of such requirement is specifically approved in writing by the President.

"(c) Nothing in this Act shall preclude the use by a plan of the services of an enrolled actuary employed by the agency or agencies administering the plan.

31 USC 68b.

"SEC. 122. If requested by either House of Congress (or any committee thereof) or if deemed necessary by the Comptroller General, the General Accounting Office shall—

"(1) review financial and actuarial statements furnished pursuant to section 121 for the purpose of determining whether the reporting requirements of such section are adequate to carry out the purpose of this subpart; and

Recommendations, submittal to Congress.

"(2) submit to the Congress such recommendations for legislative action as it may deem necessary to carry out the purposes of this subpart.

"Federal Government pension plan." 31 USC 68c. 29 USC 1001 note. 26 USC 3101. 26 USC 3201.

"SEC. 123. (a) For purposes of this subpart, the term 'Federal Government pension plan' means a pension, annuity, retirement, or similar plan (other than a plan covered under the Employee Retirement Income Security Act of 1974, or any plan or program which is financed by contributions required under chapter 21 of the Internal Revenue Code of 1954 (the Federal Insurance Contributions Act) or chapter 22 of the Internal Revenue Code of 1954 (the Railroad Retirement Tax Act)), whether or not such plan is an employee pension benefit plan within the meaning of section 3(2) of the Employee Retirement Income Security Act of 1974, established or maintained by the Government of the United States, or any agency or instrumentality thereof, for any of its officers or employees, without regard to the number of participants covered by such plan, and such term includes but is not limited to the following plan:

29 USC 1002.

"(1) Civil Service Retirement System;

"(2) Foreign Service Retirement and Disability System;

"(3) Military Retirement System;

"(4) Coast Guard Retirement System;

"(5) Commissioned Corps of the Public Health Service Retirement System;

"(6) National Oceanic and Atmospheric Administration Retirement System;

"(7) Tennessee Valley Authority Retirement System;

"(8) nonappropriated fund plans; and

"(9) judicial plans.

"(b) For purposes of this subpart, the plans described in section 123(b) are the following (other than any of the following which are covered under the Employee Retirement Income Security Act of 1974): 29 USC 1001 note.

"(1) Federal Reserve Employees Retirement Plans;
"(2) Federal Home Loan Bank Board Retirement Systems;
"(3) Federal Home Loan Mortgage Corporation Plan; and
"(4) Farm Credit District Retirement Plans.

"SEC. 124. The requirement imposed by section 121(a) shall apply with respect to plan years beginning after September 30, 1978. For purposes of this section, the term 'plan year' means with respect to a plan, the calendar, policy, or fiscal year chosen by the plan on which the records of the plan are kept.". 31 USC 68d. "Plan year."

SEC. 2. Part II of title I of the Budget and Accounting Procedures Act of 1950 (64 Stat. 832) is further amended— 31 USC 65.

(1) by inserting after "PART II—ACCOUNTING AND AUDITING" the following new center heading:

"Subpart A";

and

(2) by inserting after section 111 the following new center heading:

"Subpart B".

Approved November 4, 1978.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 95-1678 (Comm. on Government Operations).
CONGRESSIONAL RECORD, Vol. 124 (1978):
Oct. 10, considered and passed House.
Oct. 15, considered and passed Senate.

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EXCERPT FROM THE EMPLOYEE REITREMENT

INCOME SECURITY ACT OF 1974

ANNUAL REPORTS

Sec. 103. (a)(1)(A) An annual report shall be published with respect to every employee benefit plan to which this part applies. Such report shall be filed with the Secretary in accordance with section 104(a), and shall be made available and furnished to participants in accordance with section 104(b).

(B) The annual report shall include the information described in subsections (b) and (c) and where applicable subsections (d) and (e) and shall also include—

(i) a financial statement and opinion, as required by paragraph (3) of this subsection, and

(ii) an actuarial statement and opinion, as required by paragraph (4) of this subsection.

(2) If some or all of the information necessary to enable the administrator to comply with the requirements of this title is maintained by—

(A) an insurance carrier or other organization which provides some or all of the benefits under the plan, or holds assets of the plan in a separate account,

(B) a bank or similar institution which holds some or all of the assets of the plan in a common or collective trust or a separate trust, or custodial account, or

(C) a plan sponsor as defined in section 3(16)(B),

such carrier, organization, bank, institution, or plan sponsor shall transmit and certify the accuracy of such information to the administrator within 120 days after the end of the plan year (or such other date as may be prescribed under regulations of the Secretary).

(3)(A) Except as provided in subparagraph (C), the administrator of an employee benefit plan shall engage, on behalf of all plan participants, an independent qualified public accountant, who shall conduct such an examination of any financial statements of the plan, and of other books and records of the plan, as the accountant may deem necessary to enable the accountant to form an opinion as to whether the financial statements and schedules required to be included in the annual report by subsection (b) of this section are presented fairly in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Such examination shall be conducted in accordance with generally accepted auditing standards, and shall involve such tests of the books and records of the plan as are considered necessary by the independent qualified public accountant. The independent qualified public accountant shall also offer his opinion as to whether the separate schedules specified in subsection (b)(3) of this section and the summary material required under section 104(b)(3) present fairly, and in all material respects the information contained therein when considered in conjunction with the financial statements taken as a whole. The opinion by the independent qualified public accountant shall be made a part of the annual report. In a case where a plan is not required to file an annual report, the requirements of this paragraph shall not apply. In a case where by reason of section 104(a)(2) a plan is required only to file a simplified annual report, the Secretary may waive the requirements of this paragraph.

(B) In offering his opinion under this section the accountant may rely on the correctness of any actuarial matter certified to by an enrolled actuary, if he so states his reliance.

(C) The opinion required by subparagraph (A) need not be expressed as to any statements required by subsection (b)(3)(G) prepared by a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a State or Federal agency if such statements are certified by the bank, similar institution, or insurance carrier as accurate and are made a part of the annual report.

(D) For purposes of this title, the term "qualified public accountant" means—

(i) a person who is a certified public accountant, certified by a regulatory authority of a State;

(ii) a person who is a licensed public accountant, licensed by a regulatory authority of a State; or

(iii) a person certified by the Secretary as a qualified public accountant in accordance with regulations published by him for a person who practices in States where there is no certification or licensing procedure for accountants.

(4)(A) The administrator of an employee pension benefit plan subject to the reporting requirement of subsection (d) of this section shall engage, on behalf of all plan participants, an enrolled actuary who shall be responsible for the preparation of the materials comprising the actuarial statement required under subsection (d) of this section. In a case where a plan is not required to file an annual report, the requirement of this paragraph shall not apply, and, in a case where by reason of section 104(a)(2), a plan is required only to file a simplified report, the Secretary may waive the requirement of this paragraph.

(B) The enrolled actuary shall utilize such assumptions and techniques as are necessary to enable him to form an opinion as to whether the contents of the matters reported under subsection (d) of this section—

(i) are in the aggregate reasonably related to the experience of the plan and to reasonable expectations; and

(ii) represent his best estimate of anticipated experience under the plan.

The opinion by the enrolled actuary shall be made with respect to, and shall be made a part of, each annual report.

(C) For purposes of this title, the term "enrolled actuary" means an actuary enrolled under subtitle C of title III of this Act.

(D) In making a certification under this section the enrolled actuary may rely on the correctness of any accounting matter under section 103(b) as to which any qualified public accountant has expressed an opinion, if he so states his reliance.

(b) An annual report under this section shall include a financial statement containing the following information:

(1) With respect to an employee welfare benefit plan: a statement of assets and liabilities; a statement of changes in fund balance; and a statement of changes in financial position. In the notes to financial statements, disclosures concerning the following items shall be considered by the accountant: a description of the plan including any significant changes in the plan made during the period and the impact of such changes on benefits; a description of material lease commitments, other commitments, and contingent liabilities; a description of agreements and transactions with persons known to be parties in interest; a general description of priorities upon termination of the plan; information concerning whether or not a tax ruling or determination letter has been obtained; and any other matters necessary to fully and fairly present the financial statements of the plan.

(2) With respect to an employee pension benefit plan: a statement of assets and liabilities, and a statement of changes in net assets available for plan benefits which shall include details of revenues and expenses and other changes aggregated by general source and application. In the notes to financial statements, disclosures concerning the following items shall be considered by the accountant: a description of the plan including any significant changes in the plan made during the period and the impact of such changes on benefits; the funding policy (including policy with respect to prior service cost), and any changes in such policies during the year; a description of any significant changes in plan benefits made during the period; a description of material lease commitments, other commitments, and contingent liabilities; a description of agreements and transactions with persons known to be parties in interest; a general description of priorities upon termination of the plan; information concerning whether or not a tax ruling or determination letter has been obtained; and any other matters necessary to fully and fairly present the financial statements of such pension plan.

(3) With respect to all employee benefit plans, the statement required under paragraph (1) or (2) shall have attached the following information in separate schedules:

(A) a statement of the assets and liabilities of the plan aggregated by categories and valued at their current value, and the same data displayed in comparative form for the end of the previous fiscal year of the plan;

(B) a statement of receipts and disbursements during the preceding twelve-month period aggregated by general sources and applications;

(C) a schedule of all assets held for investment purposes aggregated and identified by issuer, borrower, or lessor, or similar party to the transaction (including a notation as to whether such party is known to be a party in interest), maturity date, rate of interest, collateral, par or maturity value, cost, and current value;

(D) a schedule of each transaction involving a person known to be party in interest, the identity of such party in interest and his relationship or that of any other party in interest to the plan, a description of each asset to which the transaction relates; the purchase or selling price in case of a sale or purchase, the rental in case of a lease, or the interest rate and maturity date in case of a loan; expenses incurred in connection with the transaction; the cost of the asset, the current value of the asset, and the net gain (or loss) on each transaction;

(E) a schedule of all loans or fixed income obligations which were in default as of the close of the plan's fiscal year or were classified during the year as uncollectable and the following information with respect to each loan on such schedule (including a notation as to whether parties involved are known to be parties in interest): the original principal amount of the loan, the amount of principal and interest received during the reporting year, the unpaid balance, the identity and address of the obligor, a detailed description of the loan (including date of making and maturity, interest rate, the type and value of collateral, and other material terms), the amount of principal and interest overdue (if any) and an explanation thereof;

(F) a list of all leases which were in default or were classified during the year as uncollectable; and the following information with respect to each lease on such schedule (including a notation as to whether parties involved are known to be parties in interest): the type of property leased (and, in the case of fixed assets such as land, buildings, leasehold, and so forth, the location of the property), the identity of the lessor or lessee from or to whom the plan is leasing, the relationship of such lessors and lessees, if any, to the plan, the employer, employee organization, or any other party in interest, the terms of the lease regarding rent, taxes, insurance, repairs, expenses, and renewal options; the date the leased property was purchased and its cost, the date the property was leased and its approximate value at such date, the gross rental receipts during the reporting period, expenses paid for the leased property during the reporting period, the net receipts from the lease, the amounts in arrears, and a statement as to what steps have been taken to collect amounts due or otherwise remedy the default;

(G) if some or all of the assets of a plan or plans are held in a common or collective trust maintained by a bank or similar institution or in a separate account maintained by an insurance carrier or a separate trust maintained by a bank as trustee, the report shall include the most recent annual statement of assets and liabilities of such common or collective trust, and in the case of a separate account or a separate trust, such other information as is required by the administrator in order to comply with this subsection; and

(H) a schedule of each reportable transaction, the name of each party to the transaction (except that, in the case of an acquisition or sale of a security on the market, the report need not identify the person from whom the security was acquired or to whom it was sold) and a description of each asset to which the transaction applies; the purchase or selling price in case of a sale or purchase, the rental in case of a lease, or the interest rate and maturity date in case of a loan; expenses incurred in connection with the transaction; the cost of the asset, the current value of the asset, and the net gain (or loss) on each transaction. For purposes of the preceding sentence, the term "reportable transaction" means a transaction to which the plan is a party if such transaction is—

(i) a transaction involving an amount in excess of 3 percent of the current value of the assets of the plan;

(ii) any transaction (other than a transaction respecting a security) which is part of a series of transactions with or in conjunction with a person in a plan year, if the aggregate amount of such transactions exceeds 3 percent of the current value of the assets of the plan;

(iii) a transaction which is part of a series of transactions respecting one or more securities of the same issuer, if the aggregate amount of such transactions in the plan year exceeds 3 percent of the current value of the assets of the plan; or

(iv) a transaction with or in conjunction with a person respecting a security, if any other transaction with or in conjunction with such person in the plan year respecting a security is required to be reported by reason of clause (i).

(4) The Secretary may, by regulation, relieve any plan from filing a copy of a statement of assets and liabilities (or other information) described in paragraph (3)(G) if such statement and other information is filed with the Secretary by the bank or insurance carrier which maintains the common or collective trust or separate account.

(c) The administrator shall furnish as a part of a report under this section the following information:

(1) The number of employees covered by the plan.

(2) The name and address of each fiduciary.

(3) Except in the case of a person whose compensation is minimal (determined under regulations of the Secretary) and who performs solely ministerial duties (determined under such regulations), the name of each person (including but not limited to, any consultant, broker, trustee, accountant, insurance carrier, actuary, administrator, investment manager, or custodian who rendered services to the plan or who had transactions with the plan) who received directly or indirectly compensation from the plan during the preceding year for services rendered to the plan or its participants, the amount of such compensation, the nature of his services to the plan or its participants, his relationship to the employer of the employees covered by the plan, or the employee organization, and any other office, position, or employment he holds with any party in interest.

(4) An explanation of the reason for any change in appointment of trustee, accountant, insurance carrier, enrolled actuary, administrator, investment manager, or custodian.

(5) Such financial and actuarial information including but not limited to the material described in subsections (b) and (d) of this section as the Secretary may find necessary or appropriate.

(d) With respect to an employee pension benefit plan (other than (A) a profit sharing, savings, or other plan, which is an individual account plan, (B) a plan described in section 301(b), or (C) a plan described both in section 4021(b) and in paragraph (1), (2), (3), (4), (5), (6), or (7) of section 301(a)) an annual report under this section for a plan year shall include a complete actuarial statement applicable to the plan year which shall include the following:

(1) The date of the plan year, and the date of the actuarial valuation applicable to the plan year for which the report is filed.

(2) The date and amount of the contribution (or contributions) received by the plan for the plan year for which the report is filed and contributions for prior plan years not previously reported.

(3) The following information applicable to the plan year for which the report is filed: the normal costs, the accrued liabilities, an identification of benefits not included in the calculation; a statement of the other facts and actuarial assumptions and methods used to determine costs, and a justification for any change in actuarial assumptions or cost methods; and the minimum contribution required under section 302.

(4) The number of participants and beneficiaries, both retired and nonretired, covered by the plan.

(5) The current value of the assets accumulated in the plan, and the present value of the assets of the plan used by the actuary in any computation of the amount of contributions to the

plan required under section 302 and a statement explaining the basis of such valuation of present value of assets.

(6) The present value of all of the plan's liabilities for nonforfeitable pension benefits allocated by the termination priority categories as set forth in section 4044 of this Act, and the actuarial assumptions used in these computations. The Secretary shall establish regulations defining (for purposes of this section) "termination priority categories" and acceptable methods, including approximate methods, for allocating the plan's liabilities to such termination priority categories.

(7) A certification of the contribution necessary to reduce the accumulated funding deficiency to zero.

(8) A statement by the enrolled actuary—

(A) that to the best of his knowledge the report is complete and accurate, and

(B) the requirements of section 302(c)(3) (relating to reasonable actuarial assumptions and methods) have been complied with.

(9) A copy of the opinion required by subsection (a)(4).

(10) Such other information regarding the plan as the Secretary may by regulation require.

(11) Such other information as may be necessary to fully and fairly disclose the actuarial position of the plan.

Such actuary shall make an actuarial valuation of the plan for every third plan year, unless he determines that a more frequent valuation is necessary to support his opinion under subsection (a)(4) of this section.

(e) If some or all of the benefits under the plan are purchased from and guaranteed by an insurance company, insurance service, or other similar organization, a report under this section shall include a statement from such insurance company, service, or other similar organization covering the plan year and enumerating—

(1) the premium rate or subscription charge and the total premium or subscription charges paid to each such carrier, insurance service, or other similar organization and the approximate number of persons covered by each class of such benefits; and

(2) the total amount of premiums received, the approximate number of persons covered by each class of benefits, and the total claims paid by such company, service, or other organization; dividends or retroactive rate adjustments, commissions, and administrative service or other fees or other specific acquisition costs paid by such company, service, or other organization; any amounts held to provide benefits after retirement; the remainder of such premiums; and the names and addresses of the brokers, agents, or other persons to whom commissions or fees were paid, the amount paid to each, and for what purpose. If any such company, service, or other organization does not maintain separate experience records covering the specific groups it serves, the report shall include in lieu of the information required by the foregoing provisions of this paragraph (A)

a statement as to the basis of its premium rate or subscription charge, the total amount of premiums or subscription charges received from the plan, and a copy of the financial report of the company, service, or other organization and (B) if such company, service, or organization incurs specific costs in connection with the acquisition or retention of any particular plan or plans, a detailed statement of such costs.

Opinion of the Enrolled Actuary

Actuarial Valuation of the Civil Service
Retirement System as of September 30, 1980

I have reviewed the results of the actuarial valuation of the Civil Service Retirement System as of September 30, 1980 which was prepared by the actuarial staff of the Office of Personnel Management. Based on the information provided to me, in my opinion the actuarial valuation was conducted using accepted actuarial valuation methods and techniques, although my review did not attempt to verify the accuracy of the computer program in making the required calculations.

The actuarial assumptions used in making the determinations are the same as those chosen by the Board of Actuaries (of which I am a member) for its last valuation of the System as of September 30, 1977, except for certain economic assumptions described in the following sentences. The present values shown herein have been determined using a 5.0 percent rate of inflation assumption set by the Office of Management and Budget to meet the P.L. 95-595 requirement for consistency among the enrolled actuary reports for federal retirement systems, instead of the 6.0 percent rate adopted by the Board. However, consistent with the approach used by the Board, this current valuation assumes general salary increases averaging 0.5% higher (5.5%) than the assumed inflation rate, and investment earnings 1.0% higher (6.0%) than the inflation rate. Since the Civil Service Retirement System is fully indexed, the liabilities vary only slightly for sets of economic assumptions with the same differentials, so the results would be almost the same using either the assumptions established by the Board or the variations therein established by the Office of Management and Budget.

In my opinion, the present values included in the report have been estimated on the basis of actuarial assumptions which are reasonable in the aggregate, and reflect my best estimate of the anticipated experience under the plan.

By: Edwin F. Boynton
Edwin F. Boynton
Enrolled Actuary #10

Statement of General Information for
The Civil Service Retirement System
Plan year ending September 30, 1980

The Civil Service Retirement System is a defined benefit single-employer plan which was established by Public Law 66-125 signed May 22, 1920. The plan is funded through the Civil Service Retirement and Disability trust fund and there were no mergers, consolidations, or transfers involving other plans in the last year.

The Civil Service Retirement System is administered by the Office of Personnel Management. The plan administrator is:

James W. Morrison, Jr.
Associate Director for Compensation
Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415
Telephone: 202-632-1854

Actuarial valuations are performed by the Board of Actuaries, established by Section 8347(f) of Title 5, U.S. Code, using an entry-age-normal-cost method. A copy of the Board's latest valuation as of September 30, 1977 is attached. The Board's valuation method and assumed decrements were used in developing the values shown in the enrolled actuaries' report. All values were calculated as of September 30, 1980 using a population which, as of that date, included 2,700,000 active employees; 1,312,000 retired annuitants; 460,000 survivor annuitants and 157,000 former employees eligible for deferred benefits.

The enrolled actuaries' report was based on a five percent annual inflation rate, an annual investment return of six percent and a 5.5 percent annual salary rate increase for years beyond 1986. The 5.5 percent salary rate increase, when added to the assumed individual career salary progressions, produce ratios of salary at the average retirement age of 61 to salary at age 25 of 18.7; at age 40 of 4.6; and at age 55 of 1.5. The same salary scale is used for men and women.

The Board of Actuaries report includes a brief plan description and summaries of the assumed actuarial decrement rates. The decrements were based on plan experience. For most employees, the normal retirement ages, the lowest ages for voluntary retirement with full benefits, are 55 with 30 years of service, 60 with 20 years of service or 62 with 5 years of service.

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

James W. Morrison, Jr.

February 16, 1982
Date

Table 1

Civil Service Retirement System
Statement of Financial Position
(September 30, 1980)

	September 30	
ACCUMULATED PLAN BENEFITS	1980	1979
Actuarial present value of vested benefits:		
Participants currently receiving payments	$266,300,000,000.00	$213,400,000,000.00
Participants not currently receiving payments	124,000,000,000.00	117,200,000,000.00
	$390,300,000,000.00	$330,600,000,000.00
Actuarial present value of nonvested benefits	40,000,000,000.00	38,100,000,000.00
Total actuarial present value of accumulated plan benefits	$430,300,000,000.00	$368,700,000,000.00
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments, at fair value:		
United States Government securities	$72,808,712,709.37	$63,583,828,603.76
Total Investments	$72,808,712,709.37	$63,583,828,603.76
Receivables:		
Employees' contributions	126,632,571.40	138,706,433.62
Government contributions	129,275,198.74	137,016,838.46
Securities sold	-0-	-0-
Accrued interest and dividends	1,274,340,719.37	1,055,764,111.91
Overpayments of annuities & refunds	26,519,646.35	17,169,538.60
Advances for administrative expenses	935,061.00	2,640,536.00
Purchased interest on securities	-0-	2,088,484.38
Total receivables	$ 1,557,703,196.86	$ 1,353,385,942.97
Operations Assets:		
Capital property	187,802.89	213,767.04
Cash	65,884,424.21	120,802 223.85
Total Assets	$74,432,488,133.33	$65,058,230,537.62

Liabilities	1980	1979
Accounts Payable:		
Taxes withheld from annuitants	$ 69,078,219.77	$ 54,038,412.11
Union allotments withheld from annuitants	47,245.50	21,031.61
Insurance premiums withheld from annuitants	46,204,949.86	34,807,447.74
Other	104,699.94 [1]	
Total accounts payable	$ 115,435,115.07	$ 88,866,891.46
Accrued expense:		
Annuity payments	1,302,370,660.74	1,069,893,252.92
Refund of retirement deductions, voluntary contributions and service credit	32,265,260.48	33,455,628.12
Interest on refunds	128,743.68	110,847.39
Accrued annual leave for Trust Fund employees	1,223,165.00	787,553.00
Accrued administrative expense	324,168.00	
Total accrued expenses	$ 1,336,311,997.90	$ 1,104,247,281.43
Total Liabilities	$ 1,451,747,112.97	$ 1,193,114,172.89
Net assets available for benefits	$ 72,980,741,020.36	$ 63,865,116,364.73
Excess of accumulated benefits over net assets (rounded)	$ 357,300,000,000.00	$ 304,800,000,000.00

[1]This amount was erroneously calculated as 24X8135.5 by the Treasury Department.

APPENDIX IV

Table 2

Civil Service Retirement System
Statement of Changes in Net Assets Available for Benefits
(September 30, 1980)

1. Net assets available for benefits at beginning of plan year			$ 63,865,116,364.73
2. Investment Income			
(a) Net appreciation <depreciation> in fair value of investments	$ <295,363,862.38>		
(b) Interest	5,141,193,268.12		
Total Investment Income	$ 4,845,829,405.74		
3. Contributions			
(a) Employer			
(1) agencies	3,616,370,663.23		
(2) Treasury	11,945,638,359.41		
(b) Employees	3,686,429,271.08		
Total contributions	$ 19,248,438,293.72		
4. Total additions		$24,094,267,699.46	
5. Benefits paid: directly to participants	14,948,903,130.64		
6. Administrative expense	29,739,913.19		
7. Total deductions		$ 14,978,643,043.83	
8. Net additions			9,115,624,655.63
9. Net assets available for benefits at end of year			$ 72,980,741,020.36

Notes

The investments on Table 1 are composed of the following securities:

Special Treasury Bonds	$ 56,910,542,000.00
U.S. Treasury Bonds	2,197,947,334.37
Certificates of Indebtedness	13,484,789,000.00
Government National Mortgage Association Participation Certificates	215,434,375.00
Total	$ 72,808,712,709.37

The market value of the Special Treasury Bonds and Certificates of Indebtedness equals the Par Value. The securities are always redeemed at par value regardless of the date of redemption.

The market value of the U.S. Treasury Bonds was determined by the over-the-counter quotations for Tuesday, September 30, 1980, reported in the Wall Street Journal.

The market value of the Government National Mortgage Association Participation Certificates was determined by prices quoted on October 1, 1980, by the Morgan Guaranty Trust Company, Government Bond Department, 23 Wall Street, New York, N.Y. 10015.

TABLE 3

STATEMENT OF CHANGES IN PRESENT VALUE OF ACCUMULATED PLAN BENEFITS

		Year Ended September 30, 1981
1.	Actuarial present value of accumulated plan benefits at beginning of plan year	$368.7 billion
2.	Increase (decrease) during the year attributable to:	
	(a) Benefits accumulated and variations in actual plan experience from anticipated experience	61.6
	(b) Plan amendment(s)	0
	(c) Changes in actuarial assumptions	0
	(d) Allocated insurance contracts transferred to or from insurance companies	0
	(e) All other changes	0
3.	Net increase (decrease)	61.6
4.	Actuarial present value of accumulated plan benefits at end of year	430.3

There were no plan amendments or changes in actuarial assumptions. All changes were included in line 2(a)

FOOTNOTES

The accumulated plan benefits for each year are based on actual employee and annuitant population models as of the end of the respective years, but the decrement rates and economic assumptions were not changed from 1979 to 1980.

The value of the accumulated plan benefits for participants currently receiving benefits as of September 30, 1980, reflects the 6.0% cost-of-living increase effective on March 1, 1980, and the 7.7% cost-of-living increase effective on September 1, 1980.

The value of the accumulated plan benefits for participants not currently receiving benefits assumes no future salary increases and thus assumes no salary increase at the beginning of the next fiscal year. The accumulated plan benefits as of September 30, 1980, includes the effect of the 7.0% salary increase on October 1, 1979, but not the 9.1% salary increase effective on October 1, 1980.

TABLE 4

ACTUARIAL STATUS INFORMATION

AS OF September 30, 1980

	September 30, 1980	September 30, 1979
1. Present value of future benefits:		
(a) Anuitants now on roll	$266.3 billion	$213.4 billion
(b) Separated employees	3.4	3.1
(c) Active employes	544.6	493.9
TOTAL	$814.3	$710.4
2. Less: Present value of future employer/ employee normal cost contributions	$271.8	$243.4
3. Actuarial accrued liability	542.5	467.0
4. Less: Assets in fund	$ 73.0	63.9
5. Unfunded accrued liability	$469.5	403.1
6. Normal cost as a percentage of covered payroll:		
(a) Employee	7.00	7.00
(b) Employer	29.67	29.81
(c) TOTAL	36.67	36.81

7. Ratio of assets in fund to present value of future benefits for annuitants now on roll plus accumulated employee contributions.

(a) Value in line 1 (a) plus accumulated employee contributions	(b) Assets in fund divided by col. (a)	(c) Col. (b) ratio last year
$288.0 billion	.253	.274

FOOTNOTES

Table 4

The present value of benefits and contributions for each year are based on actual employee and annuitant population models as of the end of the respective years, but the decrement rates and economic assumptions were not changed from 1979 to 1980.

The present value of future benefits for annuitants now on the roll as of September 30, 1980, reflects the 6.0% cost-of-living increase effective on March 1, 1980 and the 7.7% cost-of-living increase effective on September 1, 1980.

In determining the present value of future benefits, semi-annual cost-of-living increases totaling 5% for the year were assumed, since legislation changing cost-of-living increase to once-a-year was not effective on September 30, 1980.

The present value of future benefits and contributions for active employees as of September 30, 1980, includes the effect of the 9.1% salary increase effective on October 1, 1980, although the value of the accumulated plan benefits in Table 1 does not.

If all actuarial assumptions had been realized exactly, the unfunded liability as of September 30, 1980 would have been $427.8 billion. The actual value of $469.5 was higher than expected because of salary increases higher than expected (9.1% vs. 5.5%), cost-of-living increases higher than expected (14.2% vs. 5.0%), and also a higher number of retirements than expected.

The normal cost is determined for a typical group of new entrants based on actual experience for the years 1973 through 1976. The new entrant model did not change from 1979 to 1980. The normal cost declined slightly because of the way credit for benefits attributable to post 1956 military service is determined under the system.

TABLE 5

COMPARISON OF ACTUARIAL FUNDING WITH

ACTUAL CONTRIBUTIONS

(in billions of dollars)

(1) Plan Year	(2) Normal Cost	(3) Amortization of Unfunded Liability	(4) Total Actuarial Contribution (Col. 2 plus 3)	(5) Actual Contribution to Plan from All Sources	(6) Difference Between Col. 4 and 5	(7) Col. 5 Divided by Col 4
1979	$17.4	$25.3	$42.7	$16.3	$26.4	.382
1980	18.8	29.4	48.2	19.2	29.0	.398

APPENDIX IV

APPENDIX IV

TABLE 5A

COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTION

(as a percentage of payroll)

(1) Plan Year	(2) Normal Cost	(3) Amortization of Unfunded Liability	(4) Total Actuarial Contribution (Col. plus Col. 3)	(5) Actual Contributions To Plan From All Sources	(6) Difference Between Col. 4 and Col. 5
1979	36.8%	53.3%	90.1%	34.4%	55.7%
1980	36.7%	57.4%	94.1%	37.7%	56.4%

Table 6
Civil Service Retirement System
Past and Projected Flow of Plan Assets
(billions of Dollars)

Fiscal Year	Fund Balance Beginning of Year	Employee Contributions	Employer Contributions	Investment Income	Fund Disbursements	Fund Balance End of Year	Total Covered Payroll
1979	$56.3	$ 3.4	$12.9	$4.2	$12.6	$63.9	$47.4
1980	63.9	3.7	15.6	5.1	15.0	73.0	51.2
1981	73.0	3.9	18.2	6.2	18.1	83.3	56.2
1982	83.3	4.1	19.3	6.2	20.0	92.8	59.1
1983	92.8	4.4	21.1	6.7	22.5	102.3	63.4
1984	102.3	4.8	22.9	7.1	24.9	112.0	68.1
1985	112.0	5.1	24.8	7.6	27.2	122.8	73.2
1986	122.8	5.5	26.6	8.1	29.4	133.4	78.1
1987	133.4	5.8	28.3	8.6	31.6	144.3	82.7
1988	144.3	6.1	29.9	9.1	33.8	155.5	87.5
1989	155.5	6.5	31.6	9.7	36.1	167.0	92.6
1990	167.0	6.9	33.4	10.2	38.4	178.8	97.9
1991	178.8	7.3	35.4	10.8	40.9	191.2	103.6
1992	191.2	7.7	37.5	11.4	43.5	204.1	109.6
1993	204.1	8.1	39.7	12.1	46.1	217.6	115.9
1994	217.6	8.6	42.0	12.7	48.8	231.9	122.5
1995	231.9	9.1	44.5	13.4	51.7	246.9	129.5
1996	246.9	9.6	47.1	14.2	54.6	263.0	136.9
1997	263.0	10.1	49.9	15.1	57.6	280.2	144.7
1998	280.2	10.7	52.8	16.1	60.8	298.6	152.8
1999	298.6	11.3	55.8	17.2	64.2	318.4	161.4
2000	318.4	11.9	58.8	18.3	67.7	339.5	170.4
2005	437.2	15.5	76.3	25.1	88.8	465.0	222.0
2010	590.7	20.2	98.7	33.9	116.8	626.2	288.2
2015	786.7	26.2	127.9	45.2	153.7	831.6	374.8
2020	1034.8	34.2	166.4	59.4	202.8	1091.0	488.1
2025	1335.1	44.6	214.7	76.5	266.9	1402.9	637.4
2030	1714.7	58.4	284.4	98.2	349.0	1805.1	833.7
2035	2220.2	76.3	371.1	127.1	453.8	2339.1	1090.6
2040	2887.4	99.8	483.3	165.4	588.5	3045.0	1425.8
2045	3774.3	130.4	630.0	216.4	763.8	3984.1	1863.2

APPENDIX IV

Table 6 (cont'd)
Civil Service Retirement System
Past and Projected Flow of Plan Assets
(billions of Dollars)

Fiscal Year	Fund Balance Beginning of Year	Employee Contributions	Employer Contributions	Investment Income	Fund Disbursements	Fund Balance End of Year	Total Covered Payroll
2050	4951.5	170.4	821.6	284.0	994.4	5228.9	2434.4
2055	6502.5	222.7	1071.6	373.1	1297.8	6866.5	3180.9

APPENDIX IV

Table 6A
Civil Service Retirement System
Past and Projected Flow of Plan Assets
(as a percentage of payroll)

Fiscal Year	Fund Balance Beginning of Year	Employee Contributions	Employer Contributions	Investment Income	Fund Disbursements	Fund Balance End of Year
1979	118.8%	7.2%	27.2%	8.9%	26.6%	134.8%
1980	124.8	7.2	30.5	10.0	29.3	142.6
1981	129.8	7.0	32.3	11.1	32.2	148.2
1982	141.0	7.0	32.6	10.6	33.9	157.0
1983	146.2	7.0	33.3	10.5	35.5	161.2
1984	150.1	7.0	33.7	10.4	36.5	164.4
1985	153.1	7.0	33.9	10.4	37.1	167.8
1986	157.2	7.0	34.0	10.3	37.6	170.7
1987	161.3	7.0	34.2	10.4	38.2	174.5
1988	164.9	7.0	34.2	10.4	38.6	177.7
1989	167.9	7.0	34.1	10.4	38.9	180.4
1990	170.5	7.0	34.1	10.4	39.3	182.6
1991	172.6	7.0	34.2	10.4	39.5	184.5
1992	174.5	7.0	34.2	10.4	39.7	186.3
1993	176.1	7.0	34.3	10.4	39.8	187.8
1994	177.6	7.0	34.3	10.4	39.9	189.3
1995	179.0	7.0	34.4	10.4	39.9	190.7
1996	180.4	7.0	34.4	10.4	39.9	192.1
1997	181.8	7.0	34.5	10.4	39.8	193.6
1998	183.3	7.0	34.5	10.5	39.8	195.4
1999	185.0	7.0	34.6	10.6	39.8	197.3
2000	186.9	7.0	34.5	10.7	39.7	199.2
2005	197.0	7.0	34.4	11.3	40.0	209.5
2010	204.9	7.0	34.2	11.8	40.5	217.3
2015	209.9	7.0	34.1	12.0	41.0	221.9
2020	212.0	7.0	34.1	12.2	41.5	223.5
2025	209.5	7.0	33.7	12.0	41.9	220.1
2030	205.7	7.0	34.1	11.8	41.9	216.5
2035	203.6	7.0	34.0	11.7	41.6	214.5
2040	202.5	7.0	33.9	11.6	41.3	213.6
2045	202.6	7.0	33.8	11.6	41.0	213.8
2050	203.4	7.0	33.8	11.7	40.9	214.8
2055	204.4	7.0	33.7	11.7	40.8	215.9

APPENDIX IV

Note: The economic assumptions and the date of the increase used in tables 6 and 6A were as follows:

Cost-of-Living Increase		General Schedule Increase		Interest Rate for New Issues	
3/81	4.4%	10/81	4.8%	6/81	13.0%
3/82	10.0	10/82	7.0	6/82	11.9
3/83	8.7	10/83	7.0	6/83	8.3
3/85	7.3	10/84	7.0	6/84	7.3
3/86	6.2	10/85	6.4	6/85	6.8
3/86	5.5	10/86	6.0	6/85	6.6
3/87 and future years	5.0	10/87 and future years	5.5	6/87 and future years	6.0

APPENDIX IV

United States
Office of Personnel Management
Washington, D.C. 20415

AUG 18

In Reply Refer To Your Reference

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review your draft report entitled "Action Needed to Enhance the Quality and Reliability of the Civil Service Retirement System's Annual Report Required by Public Law 95-595" (AFMD-82-93).

We agree with the basic thrust of your report and have, in fact, reached many of the same conclusions from our own internal review. We have also taken a number of actions in preparing the 1981 report which accord with your recommendations and which should correct some of the deficiencies you found in the 1980 submission.

Before commenting on specific issues you raise, I think it is relevant to point out that the environment in which the 95-595 Report is prepared in OPM has changed considerably in the past year. On September 30, 1981, I issued a directive to the Associate Director for Compensation to strengthen financial controls in the administration of the benefit programs. In response to this directive, a comprehensive study on Trust Fund Budget Processes and Financial Controls was prepared which contained specific recommendations aimed at tightening internal controls and improving the tools and processes for developing the program budgets. (A copy of this study was sent to you on May 18, 1982.) One of the major changes that evolved from this study was the establishment of the Office of Financial Control and Management in the Compensation Group, which now serves as the focal point for coordinating all Trust Fund financial activities, including the preparation of the 95-595 Report. Under the leadership of this office our 1981 report has been completely restructured to provide for adequate financial disclosure and to enhance the clarity and usefulness of the report by explaining its relationship to other published materials on the Civil Service Retirement and Disability System.

We have also established as a high priority for fiscal years 1982 and 1983 improved automation of our financial accounting systems. This includes a complete redesign and enhancement of our system that controls the processing of agency contributions and employee withholdings for the benefit programs and the procurement of software packages to automate our debt management and investment processes. These new systems will improve both the timeliness and accuracy of the data needed for the preparation of the 95-595 Report.

Finally, we have worked to upgrade our staff in critical financial areas. On June 1, 1982 we acquired an experienced pension system actuary who is also an enrolled actuary and a fellow in the Society of Actuaries. We will be utilizing his skills in the coming months to improve further the documentation and testing of the computer models used in the preparation of the report. We are also recruiting for a new Chief Actuary and expanding our accounting staff.

I believe we have now established adequate internal control and reporting procedures and taken steps to acquire the necessary technical skills to ensure the reliability of the financial and actuarial information presented in future reports under Public Law 95-595. My comments on specific aspects of your draft report follow:

Chapter 1 - Introduction. Under "Plan Administration" the responsibilities for several offices are stated incorrectly. The Operations Support Division is responsible for adjudicating refund claims for former Federal employees and the Annuitant Services Division is responsible for maintaining the annuity roll. The Office of Automated Systems Development is not responsible for operating and managing the central personnel data file. (See GAO note below.)

Chapter 2 - Stricter Controls Needed to Improve the Reliability of the Actuarial Information. The chapter contained recommendations in three areas.

1. Documentation - Our actuarial valuation programs have been documented and that documentation is currently being expanded and improved by our new enrolled actuary as he reviews the programs line by line. Upon completion of his work the documentation will be such that a pension actuary will be able to review it, along with the tests and program listings, and understand the program fairly quickly.

2. Independent Testing - The actuarial valuation programs were tested when they were written by two of OPM's actuaries. The new enrolled actuary will be testing the programs again in order to gain familiarity with them and prepare for his opinion on the 1982 statements. Test results will be documented and retained for future audit purposes.

GAO note: This section of the report has been deleted.

3. Controls on Program Changes - We take issue with your recommendations that each program change be authorized, documented, independently tested and certified, implemented through the production program coordinator and placed in a production library.

The programs in question are used once a year for the 95-595 Report and they will be certified at the point of such use by the enrolled actuary. Permanent changes to the program brought about by changes in the retirement law will be thoroughly documented and tested. Placing them under the control system utilized for production programs would be counterproductive and would create the illusion of control without the reality. It would limit the actuaries' access to the programs and delay the implementation of needed changes. Since the only people in our organization who have sufficient skills and knowledges to deal readily with these programs are in the Actuary's Office, we doubt any meaningful, additional control would be gained. Many years ago our valuation programs were controlled in the manner you suggest and we abandoned the arrangement as unsatisfactory.

We also believe your recommendation is inconsistent with private industry practice. Private companies make the same distinction we do between production programs, which are heavily controlled, and actuarial valuation programs, which have to be very flexible and are usually controlled, but to a lesser extent, by the actuaries themselves. Further, the intention of Public Law 95-595 is to submit Federal pension plans to the same reporting and disclosure requirements that the Employee Retirement Income Security Act (ERISA) imposed on private industry. There are no formal requirements for controls in ERISA. The requirement is that the report be signed by an enrolled actuary, and thus, ERISA relies completely on the professional opinion of the actuary.

I should also point out that during the year our valuation programs are used as research instruments by the actuaries. They are frequently asked by both Congressional and Executive Branch staff to provide data based on hypothetical legislative and program changes, often on a "same day" basis. To supply results under such circumstances, the users must also be the authorizers, programmers, analysts and certifiers. Placing this sort of temporary program change under the control procedures you recommend would totally undermine our ability to provide this service.

Chapter 3 - More Effective Controls Needed to Improve Financial Accountability and Reporting. In this section of the report you discuss deficiencies in our debt management system. One deficiency concerned the establishment of an allowance for bad debts. For your information, this allowance was established effective with the September 30, 1981 reports submitted to Treasury in November 1981. As I briefly mentioned earlier, we are also actively pursuing the automation of our debt management system and believe the procurement of a software package will be forthcoming shortly. The Compensation Group has also established a task force to coordinate the implementation of the new automated debt management system, which will include evaluating organizational realignments needed to effectively manage our debt collection efforts. (See GAO note below.)

You also discuss in this section errors in the computation of accruals and recommend the establishment of additional review procedures. While we will continue to strive for complete accuracy in the computation of accruals, we believe your presentation is internally inconsistent and distorts the true significance of the errors. We do not believe, by any reasonable standard, that the errors detected, which in all cases represent less than four tenths of one percent of the figures in question, can be considered significant. You state that the errors were "not material" on page 10 of your report, but go on to conclude that they affect the "overall quality and reliability of the information." We disagree with the latter statement.

Finally, you discuss in this section the timely reporting of administrative expenses. Because the Treasury requires the financial records to be closed within 5 weeks after the fiscal year, we have established a policy of recording one administrative expense reporting period from the prior year and twelve from the current year in our records. Each year has the full thirteen periods and adjustments are made for unusual transactions. We know of no generally accepted accounting principle that precludes such a policy when it does not materially impact on the financial statements. We disagree with your recommendation to change this policy.

Chapter IV - Additional Disclosures Needed to Comply with Prescribed Reporting Requirements. We concur with the first two recommendations in this section, and we believe that the new format developed for the 1981 report addresses most, if not all, of the points you raise.

We do not agree with your recommendations that the enrolled actuary certify the report as a whole. We believe that professional standards of the Society of Actuaries would preclude him from certifiying the non-actuarial material. Nor does Public Law 95-595 appear to us to require such certification. That law submits the Civil Service Retirement System to the same

GAO note: The portion of the draft report dealing with the establishment of an allowance for bad debts was deleted from the final report.

requirements that Section 103 of ERISA requires of private pension plans. The enrolled actuary only certifies the completeness and accuracy of Schedule B, Form 5500 ERISA annual report, not the whole report (to which the Schedule B is attached).

We hope the above information is of use and look forward to the release of the final report.

Sincerely yours,

Donald J. Devine
Director

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