



# OFFICE OF INSPECTOR GENERAL AUDIT REPORT

## **Premiums: Ways to Improve Exemption Determinations**

**Report No. AUD-2017-12  
August 1, 2017**

## Premiums: Ways to Improve Exemption Determinations

Background	<p><b>Insurance Premiums.</b> PBGC operations are financed by insurance premiums, along with investment income, assets from trusted pension plans, and recoveries. PBGC receives no funds from taxpayer dollars.</p> <p><b>Coverage Determinations.</b> PBGC covers all defined benefit pension plans, unless an ERISA statutory exemption applies. Plan sponsors may file a request for coverage determination with PBGC, and if granted they are exempt from paying premiums.</p> <p><b>Standard Terminations Compliance Division.</b> The PBGC office that makes coverage determinations.</p> <p><b>350.</b> The number of plan sponsors who were granted exemptions in FY 2015 and are now exempt from paying premiums.</p>
Risks	<p><b>Risk.</b> Improperly granted exemptions may result in lost premium income.</p>
Key Questions	<p><b>Audit Objective.</b> Does the PBGC Standard Terminations Compliance Division have effective internal controls for premium coverage exemptions?</p>
Audit Results	<p><b>Overall Conclusion.</b> Generally yes, but requiring additional supporting documentation would further strengthen existing controls.</p> <p><b>Our sample.</b> We reviewed a random sample of 19 plans (5 percent of approved exemptions).</p> <p><b>Our findings.</b> For 13 of 19 plans, PBGC approved exemption request without supporting documentation. For 3 of these 13 plans, we found conflicting information in other records which may have resulted in a denial of the exemption requests.</p> <p><b>Criteria.</b> While ERISA is silent on the level of supporting documentation required, the GAO Federal Standards for Internal Control addresses the importance of supporting documentation.</p>
Corrective Actions	<p><b>Our recommendations.</b> Our four recommendations to management were to update the <i>Processing and Technical Assistance Branch Manual</i> to require additional supporting documentation, train staff on the manual revisions, review the three plans identified in the report to determine if properly exempted, and update procedures regarding supervisor review of coverage decisions.</p> <p><b>Management's response.</b> Management agreed with the four recommendations and agreed to take corrective action as identified in the report.</p>



Office of Inspector General  
Pension Benefit Guaranty Corporation

August 1, 2017

TO: Karen Morris  
Chief, Negotiations & Restructuring

FROM: Nina Murphy   
Assistant Inspector General for Audits, Evaluations and Reviews

SUBJECT: Issuance of Final Audit Report No. AUD-2017-12/PA-17-116  
*Premiums: Ways to Improve Exemption Determinations*

We are pleased to provide you with the above-referenced final audit report. We appreciate the cooperation you and your staff extended to OIG during this project. We thank you for your receptiveness to our recommendations and your commitment to reducing risk and improving the effectiveness and efficiency of PBGC programs and operations.

This report contains public information and will be posted in its entirety on our website and provided to the Board and Congress in accordance with the Inspector General Act.

cc: Tom Reeder, Director  
Bela Palli, Manager, Standard Termination Compliance Division  
Marty Boehm, Director, Corporate Controls and Reviews Department  
Nicole Puri, Risk Management Officer  
Department of Labor Board staff  
Department of the Treasury Board staff  
Department of Commerce Board staff  
House committee staff (Education and Workforce, Ways and Means, HOCR)  
Senate committee staff (HELP, Finance, HSGAC)

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# Background

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The Pension Benefit Guaranty Corporation is a federal government corporation established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). PBGC's mission is to encourage the continuation and maintenance of private-sector defined benefit plans, provide timely and uninterrupted payment of pension benefits, and keep the insurance premiums to a minimum.

PBGC receives no funds from general tax revenues. The corporation receives financing from plan sponsors' insurance premiums for defined benefit pension plans, and investment income and assets from terminated plans.

## ***PBGC Coverage and Premiums***

All plans covered by PBGC insurance programs must pay premiums. However, some types of plans are exempt from PBGC coverage and the requirement to pay premiums. The 13 types of plans exempt from coverage under Title 29 U.S. Code § 1321(b) are:

1. individual account plans;
2. governmental plans, including plans maintained by the federal government, a state, a county, or a city;
3. non-electing church plans;
4. plans for a society, order, or association, if no part of the contributions to or under the plan is made by the employers of participants in the plan, or of which a trust is a part;
5. plans with no employer contributions after September 2, 1974;
6. unfunded plans maintained by an employer primarily for the purpose of providing deferred compensation for a select group or management or highly compensated employees;
7. plans established and maintained outside of the U.S. for the benefit of individuals substantially all of whom are non-resident aliens;
8. excess benefit plans;
9. plans covering only substantial owners;
10. international organization plans;
11. plans maintained solely for the purpose of complying with workmen's compensation laws or unemployment compensation or disability insurance laws;

12. a defined benefit plan, to the extent that it is treated as an individual account plan; and;
13. professional service employer plans with no more than 25 active participants after September 2, 1974.

ERISA defines the coverage requirements for PBGC. A covered plan may not waive PBGC coverage, and a plan that qualifies for an exemption may not optionally elect to be covered. If an employer is uncertain whether a plan is covered, the employer may apply to PBGC for a coverage determination.

### ***Coverage Exemption Process***

The Processing and Technical Assistance Branch within PBGC's Standard Termination Compliance Division is responsible for coverage exemption determinations. An Employee Benefit Law Specialist reviews the request for a coverage exemption and enters it into the Case Management System. The request for a determination usually contains information about the exemption the plan believes it qualifies for and details on circumstances or changes that led to the exemption request. The specialist reviews the request from the plan and obtains background information on the company to assist in making a determination about the exemption. The specialist also uses the *PTAB Manual* as guidance and other tools such as internet search engines and information from the pension plan sponsor's website to make an exemption determination. If an exemption request is too complex, the specialist may request the Office of Chief Counsel's assistance. After the Office of Chief Counsel's review, that office provides the specialist with a memorandum documenting its decision. For requests referred to Office of Chief Counsel, the specialist reviews the memorandum and develops the coverage determination letter using the Office of Chief Counsel's conclusion.

Prior to issuing a determination letter, exemptions related to church plans, governmental plans, non-routine plans, professional service plans, and substantial owner plans with family members require a team leader review. The other categories of exemptions do not require a team leader review prior to issuance of the determination letter.

The specialist then issues the coverage determination letter to the plan administrator and closes the case in the Case Management System. Lastly, the specialist submits the exemption request and any supporting documents used to make the exemption determination to PBGC's Plan Assets and Data Management Department for upload into an electronic storage system called the "Image Processing System."

### ***Substantial Owner and Professional Employer Exemptions***

In FY 2015, PBGC approved 350 exemption requests from plans relating to 5 of the 13 statutory exemption categories. Our analysis focused on 19 plans, of which 15 plans requested an exemption in 2 of the 5 exemption categories which are as follows:

- plans covering only substantial owners (13 plans) and
- professional service employer plans covering fewer than 26 active participants (2 plans).

According to Title 29 U. S. Code § 1321, the substantial owner exemption applies to plans established and maintained exclusively for:

an individual who, at any time during the 60-month period ending on the date the determination is made—

- (1) owns the entire interest in an unincorporated trade or business,
- (2) in the case of a partnership, is a partner who owns, directly or indirectly, more than 10 percent of either the capital interest or the profits interest in such a partnership, or
- (3) in the case of a corporation, owns, directly or indirectly, more than 10 percent in value of either the voting stock of that corporation or all the stock of that corporation.

To qualify for a professional service exemption, Title 29 U. S. Code § 1321(c)(2)(A)(B) states that plans must be controlled or owned by a professional individual(s) such as a physician, dentist, chiropractor, attorney at law, public accountant, or public engineer. The principal business of the plan sponsor also must be in the same professional service as the professional owner. For example, a dentist must be performing dentistry services and not accounting services to qualify for the exemption.

### ***Objective***

Our objective was to determine whether the division has effective internal controls for premium coverage exemptions.

# Audit Results

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## **Finding: Exemption Determinations Need Additional Supporting Documentation**

Of the 350 exemptions granted in FY 2015, we reviewed 19 and found 13 of the exemptions lacked documentation supporting the plan's basis for exemption. PBGC relied on information the plans submitted for the coverage exemption request and did not always obtain and maintain sufficient supporting documentation for the assertions made. GAO's *Standards for Internal Control in the Federal Government* (2014) establish that a key to an effective internal control system is documentation. PBGC could strengthen its process by requiring specialists to obtain and maintain documentation supporting the change that qualified the plan for the approved coverage exemption. As a result, improper exemptions of covered plans compounds PBGC's increasing financial risk and reduction in premium payments, which GAO identified as a high-risk to the government.

### ***Six Coverage Exemptions with Supporting Documentation***

A pension plan may be exempt from Title IV coverage if it qualifies for 1 of 13 coverage exemption categories identified in Title 29 U. S. Code § 1321(b). If a plan sponsor or administrator believes their plan qualifies for one of the exemptions, they may request a coverage exemption from PBGC. Once received, a specialist uses the plan's submission and guidance in the *PTAB Manual* to make a determination on the exemption request.

Of the 19 exemptions we reviewed, 6 had documentation in the case file supporting the plans request for an exemption. For these six plans, the plan requesting the exemption provided supporting documentation, such as a stock certificate, Internal Revenue Service letter, and pension plan document (Table 1).

**Table 1: Six Sampled Coverage Exemptions with Supporting Documentation**

Exemption Claimed	Office of Chief Counsel Review	Documentation Provided to Approve Exemption
Not Tax Qualified <sup>1</sup>	✓	Department of Treasury Letter
Not Tax Qualified	✓	Plan Document
Individual Account Plan	✗	Plan Document
Church Plan	✗	Department of Treasury Letter
Substantial Owner	✓	Stock Certificate
Substantial Owner	✗	Board of Director’s Minutes

Source: Case Management System and Image Processing System.

We verified, for example, that plans requesting an exemption as a church plan provided PBGC with a copy of the Internal Revenue Service final ruling on the qualification of the church plan as required under the *PTAB Manual*.

***Thirteen Coverage Exemptions Did Not Have Sufficient Supporting Documentation***

The remaining 13 coverage exemptions were for substantial ownership (11) and professional service (2) plans. For substantial ownership plans, the *PTAB Manual* requires the specialist to document in the case file the plan sponsor’s name and percentage of ownership in the business, but it does not require supporting documents. As for professional services, the *PTAB Manual* requires the specialist to obtain the professions and licensing information of the principal owners of the business, but does not require supporting documents.

For these 13 exemptions, we found correspondence between the plans and the specialists as the only supporting documents obtained and maintained in the Image Processing System.

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<sup>1</sup> The plan qualified for the exemption for plans established and maintained outside of the U.S.; however, when entered into CMS, the code used is “not tax qualified.”

For example, a plan requesting a substantial owner exemption submitted a letter stating the plan incorrectly submitted a premium filing when the plan contained only substantial owner participants. The specialist reviewing the plan did not ask any follow-up questions related to the exemption. To qualify for the exemption, the participants of the plan are required to be substantial owners. The plan's submission did not provide detailed information or provide any supporting documentation related to the substantial owner participants.

For the substantial ownership exemptions, when non-owner participants leave the plan and only substantial owners remain, the plan qualifies for the substantial owner exemption. In our review of the substantial owner exemptions, the plans communicated the information to the specialist in an e-mail and the specialist accepted the information without verifying the changes. GAO's *Standards for Internal Control in the Federal Government* (2014) establish that a key to an effective internal control system is documentation. The type of documentation may vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. The lack of sufficient supporting documentation increases the risk of PBGC inappropriately granting a coverage exemption. PBGC could strengthen its coverage exemption process by requiring specialists to obtain and maintain additional supporting documentation for determining premium coverage exemptions.

### ***Team Leaders Did Not Always Review Required Coverage Exemptions***

According to the *PTAB Manual*, team leaders are required to review coverage exemptions for the following:

- church plans,
- government plans,
- non-routine plans,
- professional service plans, and
- substantial ownership plans with family members.

Team leaders are required to document, within the branch's internal tracking spreadsheet, when the review of the coverage exemption is complete. Of the 19 plans in our sample, 14 were required to receive a team leader review. However, according to the branch's internal tracking spreadsheet, six plans were not reviewed. The Division Manager stated that team leaders may document their review in the hard copy file and not in the tracking spreadsheet. Since documenting the review in the spreadsheet is a requirement, we did not verify if files contained any additional documentation of a review. When the team leader review does not

occur, the branch's internal control within the process is not operating effectively and may result in an improper coverage exemption.

### ***Three Substantial Owner Exemptions Require Further Review***

We identified publicly available information to verify information in the plans' exemption requests. Of the 13 plans that lacked supporting documentation, we found information contradicting 3 coverage exemption requests, resulting in the plans receiving exemptions for which they potentially did not qualify.

In one example, the plan informed the branch in its coverage exemption request, "This plan only covers two substantial owners, no one else has a vested benefit and there was no rank and file employees." The specialist reviewed the request and excluded the plan based on the requirements for substantial owner exemption. We obtained publicly available information to verify the statements of the plan. We focused on the change in the number of participants, which was the qualifying factor for the plan. We reviewed the plan's Form 5500s for the years 2009 through 2013, and the number of participants at the end of the plan year ranged from 72 to 91 participants.<sup>2</sup> At the time of the specialist's review, the Form 5500s for 2014 and 2015 were not available. However, they were available at the time of our audit. Thus, we reviewed them to determine if they were consistent with the exemption requests. For these years, we found the plan reported an average of 62 participants, even after the coverage exemption. Additionally, we obtained the plan's premium payment summary from 2009 through 2013 from PBGC's Financial Operations Division, which reflected premium payments for only two participants from 2009-2013 (Table 2).

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<sup>2</sup> The Form 5500 is a plan reporting form jointly developed by the Department of Labor, Internal Revenue Service, and the Pension Benefit Guaranty Corporation. In this example, the plan submitted the Form 5500 prior to requesting a coverage exemption on November 12, 2014.

**Table 2: The Number of Participants Based on the Form 5500s Submitted to the Department of Labor Prior to November 12, 2014 and the Financial Operations Department’s Premium Payment Summary**

Form 5500 Year	DoL Received Form 5500	Participants at the Beginning of the Plan Year	Participants Based on the Premium Payment Summary
2009	July 7, 2010	72	2
2010	March 31, 2011	96	2
2011	May 11, 2012	94	2
2012	May 2, 2013	87	2
2013	April 22, 2014	83	2

Source: The plan’s Form 5500 and PBGC’s Financial Operations Division.

Based on the variances in the number of participants, the plan received a coverage exemption for which it potentially did not qualify.

In another example, the plan informed the branch that the only non-owner employee terminated employment in 2013 and became entitled to a deferred vested benefit, which was paid in the same year. After the payment, the plan covered only substantial owners of the business.<sup>3</sup> Based on the statements in the e-mail, the branch approved the plan’s coverage exemption.

To verify the statements the plan provided, we reviewed the plan’s Form 5500s for 2013 and 2014 and we found the plan reported three total participants at the beginning and end of both plan years.<sup>4</sup> Also, we compared the total plan assets at the end of 2013 to the total plan assets at the beginning of 2014. We did not find a reduction in the amount for the plan assets to verify

<sup>3</sup> Title 26 U.S. Code § 1563 (e)(5) states, “An individual shall be considered as owning stock in a corporation owned, directly or indirectly, by or for his spouse (other than a spouse who is legally separated from the individual under a decree of divorce whether interlocutory or final, or a decree of separate maintenance), except in the case of a corporation.”

<sup>4</sup> Form 5500 for 2013 was available prior to the coverage exemption. The Form 5500 for 2014 was submitted after the coverage exemption.

the deferred vested benefit payment made to the non-owner employee, as stated by the plan in its coverage exemption request.

For the three substantial ownership plans, we identified conflicting information between the plan's Forms 5500s and its assertions to the branch. If PBGC verified the plan's assertions, the specialist would be able to make a more informed decision while reducing the risk of an improper exemption determination.

## **Recommendations**

We recommend that the Office of Negotiations and Restructuring:

- 1. Update the *Processing and Technical Assistance Branch Manual* to require specialists to obtain and maintain documentation supporting the change that qualified the plan for the approved coverage exemption. (OIG Control Number ONR-08)**

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC agreed with the recommendation and provided actions to complete this recommendation by September 30, 2017.

Closure of this recommendation can occur when PBGC updates its *Processing and Technical Assistance Branch Manual* to:

- ensure participant counts reported in the coverage determination requests are correct by comparing the latest Form 5500 and reconciling it with PBGC's Premiums Financial Summary;
  - require certification that all statements, information, records, and documents provided to PBGC in support of the coverage determination request are true, correct, and complete; and
  - require team leader(s) or manager review of all coverage determinations; update the PBGC website with information on Title IV coverage which will include lists of documents PBGC may request to determine if a plan is exempt from coverage.
- 2. Train branch staff to obtain, maintain and document the supporting documentation (see recommendation one) for all coverage exemption decisions. (OIG Control Number ONR-09)**

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC agreed with the recommendation and plans to complete this recommendation by September 30, 2017. Closure of this recommendation can occur when PBGC completes its corrective action of training branch staff on new procedures established in recommendation one.

- 3. Ensure appropriate oversight by requiring team leaders' review and document their approval of required coverage exemptions. (OIG Control Number ONR-10)**

### **PBGC Response and OIG Evaluation**

**Resolved.** PBGC agreed with the recommendation and provided actions to complete this recommendation by September 30, 2017. Closure of this recommendation can occur when PBGC adds the team leader designation, when applicable, to the coverage determination letter and updates the manual to require that coverage determinations made by a team leader or the manager be reviewed by a peer.

- 4. Review the three plans identified in this report, obtain supporting documentation for the change qualifying the plan for the coverage exemption, document the conclusion, and take corrective action, if necessary. (OIG Control Number ONR-11)**

### **PBGC Response and OIG Evaluation**

**Resolved.** PBGC agreed with the recommendation and plans to complete this recommendation by September 30, 2017. The closure of this recommendation can occur when PBGC: reviews the three plans identified in the report, obtains supporting documentation, documents the conclusion, and takes corrective action, if necessary.

## Appendix I: Sampled Coverage Exemptions

Sampled Plan	Coverage Exemption Claimed	Team Leader Review Required	Team Leader Review Performed	Plans Identified by the OIG Needing Further Review
1	Not Tax Qualified	✓	✓	
2	Not Tax Qualified	✓	✓	
3	Individual Account Plan	x	x	
4	Church Plan	✓	✓	
5	Substantial Ownership	x	✓	
6	Substantial Ownership	✓	✓	*
7	Substantial Ownership	✓	✓	
8	Substantial Ownership	✓	x	*
9	Substantial Ownership	x	x	
10	Substantial Ownership	x	✓	
11	Substantial Ownership	✓	x	
12	Substantial Ownership	✓	✓	
13	Substantial Ownership	✓	x	

14	Substantial Ownership	✓	✗	
15	Substantial Ownership	✓	✗	
16	Substantial Ownership	✓	✓	*
17	Substantial Ownership	✗	✓	
18	Professional Service Employer	✓	✗	
19	Professional Service Employer	✓	✓	

Key- ✗- No; ✓- Yes; \*Plans Needing Further Review

Source: OIG compilation of requirement for review and the branch's internal tracking spreadsheet.

# Appendix II: Objective, Scope, and Methodology

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## **Objective**

Our objective was to determine whether the division has effective internal controls for premium coverage exemptions.

## **Scope**

During FY 2015, the branch received 465 requests for exemption from coverage based on 13 exemption categories established in Title 29 U. S. Code § 1321(b). Of the 465 requests, the branch granted 350 exemptions for plans relating to 5 of the 13 exemption categories. We selected a random sample of 5 percent of the approved 350 exemptions and at least one exemption from each category (Table 3). Thus, we reviewed 19 exemptions. We performed fieldwork at PBGC Headquarters in Washington, D.C. from November 2016 through February 2017.

**Table 3: Exemption Type, Quantity of Exemptions Granted by PBGC, and Quantity in OIG Sample**

Exemption Type	PBGC Exemptions for FY 2015	OIG Sample Quantity
Not Tax Qualified	48	2
Individual Account Plan	3	1
Church Plan	1	1
Substantial Owner Plan	267	13
Professional Service Employer	31	2
<b>Total</b>	<b>350</b>	<b>19</b>

Source: PBGC OIG’s sample data obtained from PBGC’s FY 2015 exemption data.

## Methodology

To answer our objective, we reviewed Title 29 U.S. Code § 1321, Title 26 U.S. Code § 1563 and the branch’s internal *PTAB Manual*.<sup>5</sup> We also obtained access to the Case Management System and the Image Processing System, which the branch uses to document and store information related to the premium coverage exemptions. Finally, we interviewed division and branch management on the premium coverage exemptions process and Financial Operations Division personnel involved in the premium payment and refund process.

We compared the documents and correspondence maintained to the established procedures. We reviewed the branch’s internal tracking spreadsheet for exemptions to determine if the team leader notated their reviews, when required. We reviewed the Case Management System for notes made by the specialist related to the exemption. We also ensured the selection of the correct coverage exemption and status was selected when closing the plan in the Case

<sup>5</sup> The *PTAB Manual* does not have an associated policy number or effective date.

**Examples of Supporting Documents  
Contained in the Image Processing  
System**

- plan request for exemption from coverage;
- coverage determination; and
- e-mail correspondence between PBGC and the pension plan administrator or sponsor.

Source: Image Processing System files for sampled coverage exemptions, developed by PBGC OIG.

Management System. Lastly, we determined whether the coverage exemption was appropriate according to the ERISA and internal policies and procedures. We based our conclusions on the information obtained from the Case Management System and the Image Processing System. We independently verified business information from state and local government and other internet research.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate documentation to provide a reasonable basis for our findings and conclusions based on our audit

objectives. We believe that the documentation obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Use of Computer-Processed Data**

We relied on computer-processed data obtained from the Case Management System, the Image Processing System, and Microsoft Excel spreadsheets generated by the branch. To assess the reliability of the data, we compared the computer-processed data to the source documentation across multiple sources. For example, we reviewed and compared Form 5500s, independently verified business information and performed internet searches to ensure consistency among all the sources used. Based on our limited tests, we concluded data from the systems were sufficiently reliable.

### **Review of Internal Controls**

We assessed the internal controls that related to our audit objectives. Office of Management and Budget Circular A-123 provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. To assess internal controls during the audit, we reviewed internal procedures, interviewed management, and sampled 19 coverage exemptions.

# Appendix III: Management Response

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July 20, 2017

**To:** Robert A. Westbrook  
Inspector General

**Through:** Karen L. Morris *KLM 7/20/17*  
Chief of Negotiations and Restructuring

**From:** Bela Palli *Bpalli*  
Program Manager, Standard Termination Compliance Division

**Subject:** Management's Response: Premiums - Ways to Improve Exemption Determinations

Thank you for the opportunity to comment on the subject report and for your office's diligent work in reviewing this important subject.

## **OIG Audit Finding**

*Thirteen Coverage Exemptions Did Not Have Sufficient Supporting Documentation*

**Recommendation 1:** Update the Processing and Technical Assistance Branch Manual to require specialists to obtain and maintain documentation supporting the change that qualified the plan for the approved coverage exemption. (OIG Control Number ONR-XXX)

**Recommendation 2:** Train branch staff to obtain, maintain and document the supporting documentation (see recommendation one) for all coverage exemption decisions. (OIG Control Number ONR-XXX)

## **Agency Response:**

We agree with the recommendations to obtain and maintain documentation and to train staff to do so for all coverage exemption decisions. We will take actions to address the findings in this report as described below.

- ERISA does not require employers to apply for a coverage determination for their plan from PBGC. If an employer is uncertain whether a plan is covered under Title IV, the employer may apply to PBGC for a coverage determination. PBGC determines a plan exempt from coverage if it meets one of the thirteen exemptions under ERISA § 4021(b) or does not meet the provisions of § 4021(a).
- Currently, to make a coverage determination, the Standard Termination Compliance Division (STCD) relies on information submitted by the employer and obtains and documents further information supporting the change that qualified the plan for a coverage exemption. For example, to grant a substantial owner exemption, STCD obtains information such as:
  - a. Plan sponsor/employer's organizational structure;
  - b. Names and percentage of ownership of owner participants;
  - c. Names, dates of termination, dates of payment and amounts paid to former non-owner plan participants; and
  - d. Names, relationship, percentage of ownership, and age of participants related to the owners.

STCD also compares the participant count reported in the coverage determination request with that on PBGC's Premiums Financial Summary and questions variances, if any. STCD's response clearly states that the determination is based on information provided by the employer and could change if non-owner employees enter the plan.

- STCD makes determinations in straightforward and simple coverage determination requests. Cases that are complex or ambiguous are referred to PBGC's Office of General Counsel (OGC). This includes all cases in which a reconsideration of STCD's determination is requested, cases where the ownership structure is questionable, cases in which STCD staff is not familiar with the facts and circumstances, and cases which OGC and STCD have already identified as those that should be referred. Examples of such cases include:
  - plans in which the corporation is located in a community property state and the spouse of the owner has terminated employment;
  - plans which have an offset formula and the non-owner participants' accrued benefits are frozen at \$0;
  - plans in which participants have a \$0 accrued benefit but have comparable benefits from another plan of the same employer;
  - plans in which a participant is an owner of an adopting employer; and
  - plans which have a successor plan or involve a controlled group.

These criteria are regularly discussed at staff meetings and the staff bring such cases to the attention of the team leader and the manager.

OGC requests a significant amount of supporting documentation to make decisions in these cases, recommends a decision, and drafts the response. STCD management meets quarterly with OGC to discuss case inventory, status, and coverage decisions. It is management's

opinion that extensive research is required in the complicated cases referred to OGC and that the Agency's resources should be expended in such cases.

- The majority of coverage determination requests are from very small plans and management considers requiring supporting documentation and proof to be burdensome to a small business.
- Due to the small number of participants in these plans, the financial risk to PBGC in terms of loss of premiums is negligible.

We are committed to continuing to analyze information provided to support our coverage determinations and commit to the following:

- To ensure that participant counts reported in the coverage determination requests are correct, STCD will review the latest Form 5500 available at the time of the determination and reconcile the participant count with that in the coverage request and with the participant count in PBGC's Premiums Financial Summary.
- STCD will require certification that all statements, information, records, and documents provided to the Pension Benefit Guaranty Corporation in support of the coverage determination request are true, correct, and complete. The certification will state that knowingly and willfully making or providing materially false, fictitious, or fraudulent statements or representations to the Pension Benefit Guaranty Corporation is punishable under 18 U.S.C. § 1001.
- STCD will require that all coverage determinations be reviewed by the team leader(s) or manager. This will minimize the possibility of not sending to OGC a case that should be referred.
- To ensure consistency in the information requested to make coverage determinations, PBGC will update its website with information on Title IV coverage which will include lists of documents we may request to determine if a plan is exempt from coverage.

The expected timeline for submitting evidence of adding the new procedures to the manual and training branch staff is September 30, 2017.

**OIG Audit Finding**

*Team Leaders Did Not Always Review Required Coverage Exemptions*

**Recommendation 3:** Ensure appropriate oversight by requiring team leaders' review and document their approval of required coverage exemptions. (OIG Control Number ONR-XXX)

**Agency Response:**

We agree with the recommendation and will continue to exercise appropriate oversight by requiring that team leaders continue to review required coverage exemptions and document their approval as we do now. Coverage determinations in the six plans identified in the report as not reviewed were processed either by the team leaders or the Branch manager. To clearly identify that the determination is made by a team leader, we will add the team leader's designation to the signature block on the coverage determination letter. In addition, we will update our manual to require that coverage determinations made by a team leader or the manager will be reviewed by a peer.

The expected timeline for submitting evidence of the change to the branch manual is September 30, 2017.

**OIG Audit Finding**

*Three Substantial Owner Exemptions Require Further Review*

**Recommendation 4:** Review the three plans identified in this report, obtain supporting documentation for the change qualifying the plan for the coverage exemption, document the conclusion, and take corrective action, if necessary. (OIG Control Number ONR-XXX)

**Agency Response:**

We agree with the recommendation. We will review the three plans identified in the report; obtain supporting documentation, if needed; document the conclusion; and take corrective action, if necessary.

The expected timeline for submitting evidence of work completed is September 30, 2017.

## Appendix IV: Acronyms

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CMS	Case Management System
DoL	Department of Labor
ERISA	Employee Retirement Income Security Act of 1974
FOD	Financial Operations Division
GAO	Government Accountability Office
IPS	Image Processing System
OIG	Office of the Inspector General
OCC	Office of Chief Counsel
OMB	Office of Management and Budget
ONR	Office of Negotiations and Restructuring
PBGC	Pension Benefit Guaranty Corporation
PTAB	Processing and Technical Assistance Branch
STCD	Standard Termination Compliance Division
U.S. Code	United States Code

# Appendix V: Staff Acknowledgements

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Staff Acknowledgement

Brooke Holmes, Audit Manager; Devaughn Moore; Auditor-In-Charge; and Yolanda Young, Auditor, made key contributions to this report.

# Appendix VI: Feedback

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