



Office of Inspector General  
Pension Benefit Guaranty Corporation

May 23, 2017

TO: Karen Morris  
Chief, Negotiations & Restructuring

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

SUBJECT: Audit Memorandum Report - Insolvent Multiemployer Plans: Ensuring  
Administrative Expenses are Reasonable, Necessary, and Adequately Supported  
(AUD 2017-11/ PA-16-113)

We conducted this audit to determine if the Multiemployer Program Division (MEPD) ensured administrative expenses were reasonable, necessary, and adequately supported for insolvent multiemployer plans receiving financial assistance from PBGC. We reviewed the recurring requests for financial assistance of nine multiemployer plans. This memorandum report provides the results of our audit work and includes other matters for your consideration. It 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.

## Summary

We found that MEPD adequately ensured that financial assistance recurring administrative expenses were reasonable, necessary, and adequately supported. For the nine plans we reviewed, MEPD auditors properly assessed multiemployer plans' administrative expenses and processed recurring financial assistance requests in accordance with PBGC MEPD *Multiemployer Plan Procedures*, dated October 1, 2015. However, we identified two opportunities where MEPD could strengthen data quality and monitoring to ensure recurring administrative expenses for financial assistance are necessary and reasonable.

## **Background**

### *Multiemployer Pension Insurance Program*

PBGC's multiemployer pension insurance program protects about 10 million workers and retirees in about 1,400 pension plans. In FY 2016, PBGC paid \$113 million in financial assistance to 65 multiemployer plans, of which 10 plans became insolvent during 2016. PBGC's FY 2015 Projections Report indicates that the multiemployer pension insurance program's financial risk rises over time, with the risk of insolvency rising rapidly over the following 10 years, reaching 98 percent by the end of FY 2035. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay the full level of guaranteed benefits for insolvent plans.

### *Financial Assistance Reviews*

As mandated in Title 29 U.S. Code § 1431, PBGC must provide financial assistance to plans that can no longer meet their benefit obligations. MEPD is responsible for reviewing financial assistance requests and determining funding amounts. The financial assistance process starts when PBGC receives a notice of insolvency (initial financial assistance) from a plan and continues each time a plan requests financial assistance (recurring financial assistance). Once the plan submits a request for assistance, an MEPD auditor reviews the information, reconciles the supporting documentation, and recommends a payment amount. MEPD auditors prepare an analysis memo to document their actions and any exceptions to process a request for financial assistance.

*Multiemployer Plan Procedures* further outline the submission and review requirements for initial and recurring financial assistance requests. MEPD provides financial assistance on a quarterly and semiannual basis, depending on the size of the plan. The plan provides invoices and other supporting documents for those expenses incurred during the prior financial assistance request period. Using the actual expense types and amounts from the prior period, the MEPD auditor ensures that the projected expenses for the current period remain necessary and reasonable (Figure 1).

**Figure 1: Example of Review Process for a Financial Assistance Request**

Prior Request Period - Actual Expenses	Current Request Period - Projected Expenses
The MEPD auditor reconciles supporting documentation such as invoices, bank statements, and checks to a spreadsheet showing the cash flow activity that occurred with the funds PBGC provided. This review of actual expenses ensures the plan adequately supported all expenses and the amounts are correct.	The MEPD auditor reviews the projected expenses for the current financial assistance request period. This review determines whether requested expenses are necessary and reasonably priced.

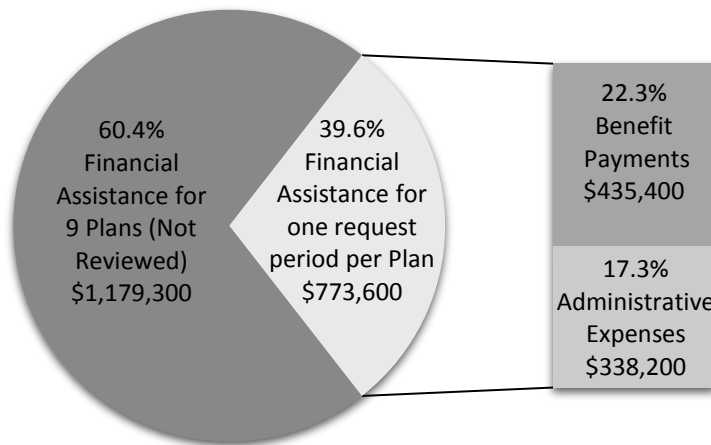
Source: OIG overview of *Multiemployer Plan Procedures* for reviewing financial assistance requests.

### *Administrative Expenses*

A plan's financial assistance request includes estimated expenses required to fund the benefit payments and the administrative expenses for the upcoming period. According to *Multiemployer Plan Procedures*, administrative expenses are the costs to administer the plan and are a significant expense. Examples of administrative expenses are professional service fees, rent, utilities, and office supplies. The professional services may include a variety of services including plan administrators, auditors, actuaries, accountants, and lawyers. The fees for these services are the majority of a plan's administrative expenses.

Using the *Multiemployer Plan Procedures* for administrative expenses, we reviewed the recurring requests for financial assistance of nine multiemployer plans. As shown in the pie chart below, MEPD approved \$1.95 million in financial assistance in FY 2016 for the nine plans sampled. Of the total financial assistance requests approved, we selected one request per plan, which totaled about \$773,600. The \$338,200 in financial assistance administrative expenses for all 9 plans represented 17 percent of the total amount approved (Figure 2). We did not review the benefit payments portion of the recurring financial assistance, nor the remaining 60 percent in financial assistance payments MEPD approved.

**Figure 2: Breakdown of the Total \$1.95 Million in Financial Assistance Paid for 9 Sampled Plans in FY 2016**



Source: OIG analysis based on plan financial data (rounded) from PBGC Team Connect.

## Results

We evaluated the recurring financial assistance review process, interviewed MEPD auditors and supervisory auditors, and assessed *Multiemployer Plan Procedures* that pertained to administrative expenses. For the nine plans in our audit sample, we found that MEPD ensured the financial assistance administrative expenses were reasonable, necessary and adequately supported.

For the plans we sampled, four auditors and two supervisory auditors from MEPD were involved in the plan's recurring financial assistance requests. The approval authority for every request involves the Program Division Manager and the Chief of Negotiations and Restructuring. When MEPD receives a request for financial assistance, the MEPD auditor assigned to the plan performs a review to ensure the request is complete and the administrative expenses are necessary, reasonable and adequately supported. The MEPD auditor assigned to review the plan's initial request typically reviews that plan's recurring request as well. This creates a basis for familiarity for the auditor to determine if recurring requests for expenses are necessary and reasonable.

### *Ensuring Administrative Expenses Are Necessary*

To determine if an administrative expense is necessary, MEPD auditors verify whether it directly relates to the plan by reviewing supporting documentation and applying their knowledge of past plan-related expenses. According to *Multiemployer Plan Procedures*,

auditors should ensure expenses relate to the plan's operations and are not for more than one plan.

We found for the nine plans in our sample, MEPD auditors relied on supporting documentation as well as their professional judgment to evaluate whether expenses supported administering the pension plan. Using the same documentation MEPD used to approve necessary plan administrative expenses, we reviewed invoices and other documentation supporting the plans' prior request for financial assistance. We also found, similarly to the MEPD auditors, that for the nine plans in our sample, the related expenses were necessary for the plans to operate.

For example, Plan C had administrative expense projections of about \$65,000 for the current financial assistance period of June 2016 through November 2016. The prior financial assistance request period of December 2015 through May 2016 had expenses that totaled about \$60,000. To determine if the projected expenses were necessary, we reviewed the actual services invoiced in the prior period. The prior period had auditor fees, insurance fees, actuarial costs, and bank fees. The documents provided in support of those fees included the audited financial statements, the fiduciary liability insurance policy, the actuarial valuation report, and copies of bank statements with banking charges. We determined the types of projected expenses, including professional services, for Plan C were both consistent with the plan's historical expenses and directly related to the plan's operations.

Overall, we found MEPD auditors used their professional judgment based on the details provided from invoices and other supporting documentation to determine the necessity of administrative expenses.

#### *Ensuring Administrative Expenses are Reasonable*

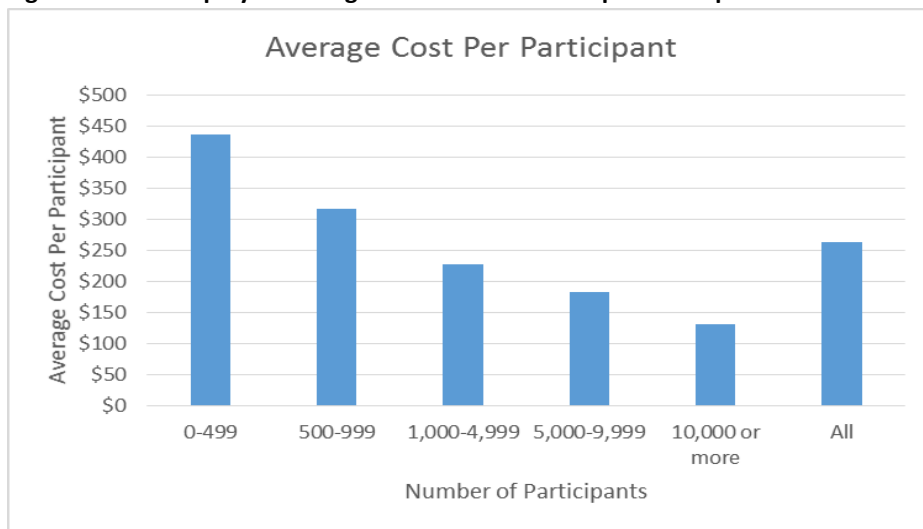
In determining the reasonableness of administrative expenses in recurring financial assistance, MEPD auditors focus on cost variances. When plan administrators submit a financial assistance request, they must provide a cash flow spreadsheet that summarizes expenses by category. According to *Multiemployer Plan Procedures*, MEPD auditors should review estimated expenses for reasonableness as compared to the actual expenses. *Multiemployer Plan Procedures* further establish that MEPD auditors should investigate any significant variances.

To verify this process for the nine plans in our sample, we reviewed the expense categories for variances between financial assistance periods and found the administrative expenses were reasonable based on the trend of the plan and the supporting documentation from the previous financial assistance period. For example, for Plan I we compared the current financial assistance period projected plan administration expenses of \$4,450 per month to the previous

financial assistance period's actual plan administration expenses of \$4,450 per month and noted no difference. In fact, this \$4,450 administrative expense was consistent across multiple financial assistance requests. We also reviewed the plan administration invoice supporting the previous funding period. Based on this comparison, in our professional judgment, the MEPD auditor properly concluded on the reasonableness of the expense.

MEPD also considers fair market costs in determining whether an administrative expense is reasonable. In 2015, MEPD conducted a study of the administrative expenses incurred by all multiemployer plans (MEPD 2015 cost study) to arrive at an objective measure of what it generally costs to administer a multiemployer plan. This study divided plans into five categories by the number of participants and developed an average cost per participant for each range. MEPD could then compare the reasonableness of plan expenses in the financial assistance requests against the average cost developed in the MEPD 2015 cost study (Figure 3).

**Figure 3: Multiemployer Average Administrative Cost per Participant**



Source: MEPD's 2015 study of the administrative expenses incurred by all multiemployer plans.

While the MEPD 2015 cost study summarizes external data from all multiemployer plans, MEPD started a recent initiative of maintaining average costs per participant for those plans that receive financial assistance. MEPD auditors also mentioned they consider the average cost per participant during their review of plans and factor it into their reasonableness determination. Of the 9 plans we reviewed, 8 had participant totals in the 0 to 499 category for which MEPD identified an average cost per participant of \$435. The remaining plan had about 580 participants that placed it in the 500-999 category with an average cost per participant of \$316. MEPD also identified an overall average cost per participant of \$263 for all plans. Comparably, two plans in our audit sample, Plan B and Plan D had above average cost per participant as

defined for plans in the smallest participant category and all nine plans had participant costs above the overall average of \$263.

To select plans with high administrative cost per participant as criteria for our audit sample, we chose plans with an average cost per participant of \$300 or greater, notwithstanding plan participant totals. However, MEPD is aware of those plans with costs per participant that exceed the study averages. Moreover, their study also found that the larger the plan, the lower the cost per participant. In our professional judgment, this inverse correlation between the cost per participant and the number of participants in the plan fully explained the higher cost per participant of the nine plans in our audit sample since they all had small participant totals.

We found MEPD auditors determined recurring administrative expenses were reasonable by considering various factors such as, but not limited to, the size of the plan, expense trends, fees incurred from prior professional services, and average costs per participant based on the MEPD 2015 cost study.

#### *Ensuring Adequacy of Supporting Documentation for Administrative Expenses*

*Multiemployer Plan Procedures* require supporting documentation for each financial assistance request. Upon receipt of the financial assistance request, the MEPD auditor may need to request additional information from the plans. Plans submit invoices and service agreements as support for administrative expenses. To process recurring financial assistance requests, MEPD requires plans to submit the following documents:

- financial assistance request letter;
- spreadsheet for cash flow activities from prior funding periods;
- budget projections for the current funding period;
- bank statements with reconciliations to book balances;
- check register for operating accounts;
- invoices for all expenses;
- all outstanding checks; and
- all checks voided or stopped payment issued.

MEPD auditors traced each administrative expense to source documents provided by the plan. For example, MEPD auditors compared invoice amounts and due dates to check payments and issuance dates and recorded this analysis in their review notes within the financial assistance spreadsheet. MEPD requires auditors to follow-up on expenses that do not have adequate support documentation. We found an example where a plan did not promptly submit documentation necessary for the MEPD auditor to complete their review, and MEPD

management intervened by sending a letter to the plan to raise the urgency of the documentation request.

MEPD auditors used a checklist to verify receipt of all required documents. In addition to the auditor's checklist, MEPD auditors reuse their analysis memo for each financial assistance request review to track outstanding items and to add to the current list of missing items.

Based on our interviews with MEPD auditors, reviews of MEPD auditors' checklists and analysis memos, and our analysis of financial assistance documents for the nine plans, we concluded MEPD ensured the adequacy of documentation supporting plans' administrative expenses.

## **Other Related Matters**

During the audit, we identified two opportunities to strengthen MEPD's quality of data and assurance in the necessity and reasonableness of expenses paid through recurring financial assistance. The observations detailed below extend beyond the nine plans sampled, are outside of the scope of this audit, and therefore do not constitute formal audit recommendations.

### *Quality of Data for Administrative Expenses*

MEPD's 2015 administrative cost study, created from information submitted by plans to the Department of Labor on their 2008 to 2012 Forms 5500, developed a range of costs per participant by plan size (Figure 3). The data includes the solvent and insolvent multiemployer plans and summarizes an overall average administrative cost per participant of \$263. MEPD used this study to assist in its analysis of the reasonableness of administrative expenses for financial assistance requests. Although our audit sample selection focused on one financial assistance period, we found that MEPD maintained all plan administrative expenses requested and approved for every request for financial assistance. With this data, MEPD could use current expense data to develop updated administrative expense averages for multiemployer plans.

In PBGC's Multiemployer Supplement 2015 Data Tables, PBGC reported that administrative expenses averaged \$229.94 per participant for all multiemployer plans. For insolvent plans, the average was \$143.18. These estimates are lower than the current rates MEPD used when reviewing requests for financial assistance.

Based on this analysis, we believe MEPD has an opportunity to refine their cost per participant data further and to reflect the administrative costs incurred by plans more accurately. MEPD auditors already tracked detailed expense data on each insolvent plan. By combining this information, there is an opportunity for MEPD to have a better understanding of insolvent

multiemployer plans administrative costs versus the solvent multiemployer plans administrative costs. By developing a macro-level study of the financial assistance plan-level data, MEPD has an opportunity to have greater assurance that administrative expenses are reasonable based on the most current data.

During our audit, we requested the cumulative year-end total of administrative expenses paid to each multiemployer plan and each plan's respective participant totals. While MEPD was able to provide the totals, we learned it had only recently started to compile such information. We believe MEPD should continue to monitor costs for participant ratios for all plans receiving financial assistance. By separating total financial assistance between benefit payments and administrative expenses, the macro-level study (detailed above), MEPD would have a consistent measure of reasonable administrative expenses relevant to its financial assistance program.

#### *Monitoring of Professional Service Agreements*

Since professional services are a significant cost for plans receiving financial assistance, the professional service agreements are valuable resources for ensuring administrative expenses are necessary. MEPD auditors review these agreements at a plan's initial request for financial assistance and then revisit them as needed. Over time, these contractual agreements will either expire or become dated. While we acknowledge that MEPD is not a signatory party to the agreements, we believe MEPD could more proactively engage plan administrators to ensure the service agreements are current and meeting the plans' needs.

We requested service agreements for the administrators of the nine plans in our audit sample and MEPD had only one service agreement readily available. Since reviewing service agreements can affect MEPD's determination on whether the expenses covered through financial assistance are necessary and reasonable, we believe MEPD could improve their monitoring of service agreements by performing periodic reviews.

cc: Tom Reeder, Director  
Rossi Marcelin, Manager, Multiemployer Program 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

## **Appendix I: Objective, Scope and Methodology**

### **Objective**

Our objective was to determine if MEPD ensures administrative expenses are reasonable, necessary, and adequately supported for insolvent multiemployer plans receiving financial assistance. Our audit of MEPD's controls of administrative expenses marks the fourth in a series of projects in the multiemployer area. In 2013, we initiated an audit survey of the multiemployer insurance program. Since then, we have reviewed multiemployer financial assistance field audits, the accuracy of selected benefit payments, two MEPD expert services contractors, and the "bundled" administrative expenses of Western Growers Pension Trust Plan A and Metal Trades Industry Pension Plan.

### **Scope**

To answer our objective, we reviewed Title 29 U.S. Code § 1426, 1431, and 1441, and PBGC *MEPD Multiemployer Plan Procedures*, dated October 1, 2015. We judgmentally selected the 9 plans in our audit sample from the universe of 62 multiemployer plans based on the following parameters: (1) plans that requested financial assistance during FY 2016, (2) plans that MEPD approved financial assistance for during FY 2016, and (3) plans with a cost per participant equal or greater than \$300.

We calculated the administrative cost per participant based on each plan's total administrative expenses and participant census data reported on its most recent Form 5500 available as of March 2016. The financial assistance requests we reviewed were generally from smaller multiemployer plans with less than 600 participants.

**Figure 4 –Sampled Plans Administrative Cost Per Participant**

<b>Plan Name</b>	<b>Total Participant Count</b>	<b>Total Administrative Expenses Paid</b>	<b>Administrative Cost Per Participant</b>	<b>Form 5500 Filing Year</b>
Plan A	102	\$31,102	\$305	2013
Plan B	32	\$29,956	\$936	2013
Plan C	166	\$60,609	\$365	2014
Plan D	178	\$78,140	\$439	2014
Plan E	154	\$46,947	\$305	2011
Plan F	582	\$191,649	\$329	2014
Plan G	211	\$70,257	\$333	2014
Plan H	39	\$13,600	\$349	2014
Plan I	268	\$196,514	\$361	2013

Source: PBGC OIG obtained current plan Form 5500s, as of March 2016, from <https://www.efast.dol.gov>.

## **Methodology**

For the nine multiemployer plans in our sample, we reviewed the most recent financial assistance request that MEPD approved in FY 2016. We reviewed the sampled plans to determine if MEPD ensured reasonableness, necessity, and adequacy of supporting documentation the financial assistance administrative expenses. In order to do this, we obtained access to Team Connect, which MEPD uses to process financial assistance requests. Finally, we interviewed MEPD auditors and supervisory auditors responsible for processing the nine plans in our audit sample.

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 evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

To assess the reliability of the data, we compared the computer-processed data, which consisted of two components: (1) financial assistance documentation stored in Team Connect repository system and (2) financial assistance spreadsheets in Excel format, to the source documentation or compared from multiple sources to ensure consistency across the range of data. We did not find any errors in the data. Since we did not identify any issues and in our professional judgment, the data was sufficiently reliable for the purposes of this report.

## **Review of Internal Controls**

We assessed the internal controls that related to our audit objectives. OMB 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 multiemployer program audit staff, participated in a Team Connect demonstration, and tested nine multiemployer plans. We did not identify any internal control weakness relating to MEPD's control activities.

## **Appendix II: Management Response**



Pension Benefit Guaranty Corporation  
1200 K Street, N.W., Washington, D.C. 20005-4026

MAY 18 2017

**TO:** Robert A. Westbrooks  
Inspector General

**FROM:** Karen L. Morris *KLM*  
Chief of Negotiations and Restructuring

**SUBJECT:** Memorandum Audit Report – Insolvent Multiemployer Plans:  
Ensuring Administrative Expenses are Reasonable, Necessary,  
and Adequately Supported (Project PA-16-113)

Thank you for the opportunity to comment on the subject report and for your office's diligent work in reviewing this important subject. We are pleased to note that you have deemed our processes adequate to ensure that the financial assistance we provide to insolvent multiemployer pension plans for administrative expenses is reasonable, necessary, and adequately supported.

As was discussed in our exit conference, we will look into implementing the opportunities to strengthen MEPD's quality of data assurance suggested in your report.

cc: Marty Boehm

**Appendix III: Acronyms**

FY	Fiscal Year
MEPD	Multiemployer Program Division
PBGC	Pension Benefit Guaranty Corporation
OIG	Office of the Inspector General
OMB	Office of Management and Budget
U.S. Code	United States Code

**Appendix IV: PBGC OIG Contact and Staff Acknowledgement**

PBGC OIG Contact

Nina Murphy, (202) 326-4000 extension 3487 or  
murphy.nina@pbgc.gov.

Staff Acknowledgement

In addition to the contact named above, Brooke Holmes,  
Audit Manager; Teresa Rogers, Auditor-In-Charge; and  
Tiara Grotte, Auditor, made key contributions to this  
report.

### **Appendix V: Feedback**

Please send your comments, suggestions, and feedback to [OIGFeedback@pbgc.gov](mailto:OIGFeedback@pbgc.gov) and include your name, contact information, and the report number. You may also mail comments to us:

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If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.