

Board of Governors of the Federal Reserve System

**APPLYING AGREED-UPON PROCEDURES—
STATEMENT OF FINANCIAL ACCOUNTING
STANDARDS No. 87**



OFFICE OF INSPECTOR GENERAL

February 2007



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

February 2, 2007

Mr. Todd Glissman
Senior Associate Director
Management Division
Board of Governors of the Federal Reserve System
Washington, DC 20551

Subject: *Applying Agreed-Upon Procedures—Statement of Financial Accounting Standards
No. 87*

Dear Mr. Glissman:

The retirement plan for employees of the Federal Reserve System (System) is a defined benefit pension plan established to provide pension benefits to eligible employees of the Federal Reserve Banks and the Board of Governors of the Federal Reserve System (Board). In 2000, the Office of Employee Benefits (OEB) outsourced most retirement plan administrative and processing functions to Hewitt Associates (Hewitt). To administer the plans, Hewitt stores employee census data in their Total Benefits Administration (TBA) system. On an annual basis, Hewitt forwards census data to the Federal Reserve System's actuary, Towers Perrin, to perform year-end actuarial calculations and prepare related financial statement disclosures.

During the 2005 financial statement audit, the Board's external auditors noted issues with the accuracy of census data used for actuarial calculations. As part of an effort to implement recommendations made by the external auditors, Management Division (MGT) staff compared census data used by the actuary to support *Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (FAS87)*, with comparable data in the Board's human resources management system.

The Office of Inspector General has performed the procedures that were agreed upon by you and your staff, solely to help you respond to recommendations made during the 2005 financial statement audit and to assist you in verifying the accuracy of the comparison performed by MGT staff on the FAS87 data files. The adequacy of these procedures to meet your objectives is your responsibility, and we make no representation in that respect. We agreed to compare selected census data provided by Towers Perrin with data retrieved from the Board's human resources management system. The specific data elements we compared and the results of our comparison are described in the enclosure. The enclosure also provides a comparison of our results with that of MGT staff. We provided the details of our exceptions to MGT staff during our closing meeting.

In performing the agreed-upon procedures, we conducted our work in accordance with U.S. generally accepted government auditing standards which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accuracy of the census data. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We completed the agreed-upon procedures on December 8, 2006.

We provided a draft of this letter to MGT staff, along with its enclosure, for review and comment. They concurred with the contents of this letter and its enclosure.

This report is intended solely for the information and use of MGT and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report will be added to our publicly-available web site, summarized in our next semiannual report to the Congress, and is not subject to any distribution limitations. Please contact me if you would like to discuss this report or any related issues.

Sincerely,

/signed/

Barry R. Snyder
Inspector General

Enclosure

cc: Governor Kevin M. Warsh
Vice Chairman Donald L. Kohn
Governor Randall S. Kroszner
Mr. Stephen Malphrus
Ms. Fay Peters
Mr. Darrell Pauley
Mr. Christopher Suma
Mr. Anthony Castaldo
Ms. Cynthia Gray

The table below details the agreed-upon procedures we performed as well as our findings and results. The Towers Perrin file was provided by MGT staff in an e-mail dated September 15, 2006, and includes actuarial data used for the January 1, 2006, FAS87 valuation. The Board file was provided by MGT staff in an e-mail dated November 22, 2006, and includes individuals who were in the Board's human resources management system as of January 1, 2006. The results of the MGT staff comparison were received in an e-mail dated November 22, 2006.

<i>Data elements</i>	<i>Description of findings and results</i>
<p>a. <u>Name</u></p> <p>Compare the TP_Name field in the Towers Perrin file to the Name field in the Board file.</p>	<p>We found two exceptions as a result of the procedure: The names of two employees do not exactly match. The MGT staff comparison found one of these exceptions.</p>
<p>b. <u>Social Security Number</u></p> <p>Compare the TP_SSN field in the Towers Perrin file to the BD_SSN field in the Board file.</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p>
<p>c. <u>Date of Birth</u></p> <p>Compare the TP_BirthDate field in the Towers Perrin file to the BirthDate field in the Board file.</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p>
<p>d. <u>Sex</u></p> <p>Compare the TP_Sex field in the Towers Perrin file to the Sex field in the Board file.</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p>
<p>e. <u>Creditable Service</u></p> <p>Compare the TP_CredSvcDate field in the Towers Perrin file to the CompSeniorityDt field in the Board file.</p>	<p>We found eighty-seven exceptions as a result of the procedure: The creditable service dates of these employees do not exactly match. The MGT staff comparison also found the same eighty-seven exceptions. The differences in creditable service dates for fifty-nine (68 percent) of the eighty-seven employees were two days or less.</p>

<p>f. <u>Annual Base Benefits Rate</u></p> <p>Compare the TP_BasePay field in the Towers Perrin file to the AnnBenBaseRate in the Board file.</p>	<p>We found seven exceptions as a result of the procedure: The annual base benefits rates of these employees do not exactly match. This comparison was included as one of the agreed-upon procedures even though MGT staff did not perform this comparison.</p>
<p>g. <u>Retirement Plan Structure</u></p> <p>Although this comparison was included as one of the agreed-upon procedures, we did not compare this data element because the Towers Perrin file did not contain a retirement plan structure field. The MGT staff also did not perform this comparison.</p>	<p>N/A</p>