

Board of Governors of the Federal Reserve System

**APPLYING AGREED-UPON PROCEDURES—
STATEMENT OF FINANCIAL ACCOUNTING
STANDARDS No. 106**



OFFICE OF INSPECTOR GENERAL

February 2007

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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. 106*

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. 106, Employers' Accounting for Postretirement Benefits Other than Pensions* (FAS106), 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 FAS106 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 January 18, 2007.

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

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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 December 1, 2006, and includes actuarial data used for the January 1, 2006, FAS106 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 December 6, 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>(i) Active employees</p> <p>(ii) Inactive employees</p>	<p>We found nine exceptions as a result of the procedure: The names of nine employees do not exactly match. The MGT staff comparison also found the same nine exceptions.</p> <p>We found ten exceptions as a result of the procedure: The names of ten inactive employees do not exactly match. The MGT staff comparison also found the same ten 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>(i) Active employees</p> <p>(ii) Inactive employees</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p> <p>We found two exceptions as a result of the procedure: The social security numbers of two inactive employees do not exactly match. The MGT staff comparison also found the same two 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>(i) Active employees</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p>

<p>(ii) Inactive employees</p>	<p>We found two exceptions as a result of the procedure: The birth dates of two inactive employees do not exactly match. The MGT staff comparison also found the same two 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>(i) Active employees</p> <p>(ii) Inactive employees</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p> <p>We found two exceptions as a result of the procedure: The sex of two inactive employees does not exactly match. The MGT staff comparison also found the same two exceptions.</p>
<p>e. <u>Annual Base Benefits Rate</u></p> <p>Compare the TP_BasePay field in the Towers Perrin file to the AnnBenBaseRate field in the Board file.</p> <p>(i) Active employees</p> <p>(ii) Inactive employees</p>	<p>We found no exceptions as a result of the procedure. The MGT staff comparison also found no exceptions.</p> <p>N/A</p>
<p>f. <u>BGLI Amount</u></p> <p>Compare the TP_OrigLifeAmount field in the Towers Perrin file to the BGLI_Amount field in the Board file.</p> <p>(i) Active employees</p> <p>(ii) Inactive employees</p>	<p>N/A</p> <p>We found four exceptions as a result of the procedure: The BGLI amounts of four inactive employees do not exactly match. The MGT staff comparison also found the same four exceptions.</p>