



Pension Benefit Guaranty Corporation

Office of Inspector General

Evaluation Report

**Evaluation of PBGC's
Accounts Payable Process**

June 3, 2005

2005-15/23189



Pension Benefit Guaranty Corporation

Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

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To: James C. Gerber
Chief Financial Officer

From: Luther Atkins
Assistant Inspector General for Audits

Subject: Evaluation of PBGC's Accounts Payable Process

The Office of Inspector General (OIG) has completed an evaluation of the Pension Benefit Guaranty Corporation (PBGC) accounts payable process. The purpose of OIG's evaluation was to identify the controls in-place for vendor payments, and to evaluate the effectiveness of the controls in limiting the risks related to fraud, waste, or abuse.

OIG concluded that PBGC has established solid controls to reduce or mitigate the risks associated with the accounts payable process. Our review did not uncover any cases of fraud, waste, or abuse. However, in the report we identified observations that PBGC should consider when designing and implementing the new performance accounting system.

OIG did not make any recommendations in this report and PBGC management did not provide written comments to the draft report.

We would like to thank staff in the Controller Operation's Division and the General Accounting Branch for their cooperation and efforts during this evaluation. If you have any questions, concerns, or need additional information please do not hesitate to contact me on ext. 3928 or Della Whorton on ext. 3661.

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EVALUATION OF PBGC'S ACCOUNTS PAYABLE PROCESS

REPORT 2005-15/23189

TABLE OF CONTENTS

INTRODUCTION1

RESULTS IN BRIEF1

OBJECTIVE, SCOPE, AND METHODOLOGY1

OVERVIEW OF ACCOUNTS PAYABLE PROCESS2

OIG OBSERVATIONS3

 DOCUMENTATION OF A/P PROCESS3

 PAYMENT CERTIFICATION PROCESS EFFICIENCY3

 OTHER MATTERS4

 TIME/DATE STAMP MACHINE4

 TIMELY UPDATED COTR LIST4

ABBREVIATIONS

A/P	Accounts Payable
COTR	Contracting Officer Technical Representative
GAB	General Accounting Branch
ITS	Invoice Tracking System
OIG	Office of Inspector General
PBGC	Pension Benefit Guaranty Corporation
PA	Performance Accounting

INTRODUCTION

The Office of Inspector General conducted an evaluation of the Pension Benefit Guaranty Corporation (PBGC) Accounts Payable process to:

- Identify the controls associated with making vendor payments, and
- Evaluate the effectiveness of the controls in limiting the risks related to fraud, waste, or abuse.

As part of its financial systems integration project, PBGC is replacing the existing performance accounting (PA) system that supports the accounts payable (A/P) process. We believe this review will assist management in the development of the new system.

RESULTS IN BRIEF

Based on our review and analysis of the A/P process, OIG determined that PBGC has established controls to reduce or mitigate the risks associated with fraud, waste, or abuse. As such, OIG's review did not uncover any cases of fraud, waste, or abuse. However, we identified observations that PBGC should consider when designing and implementing the new performance accounting system. Overall OIG found that the:

- A/P process has inadequate and obsolete procedures that lacked full documentation.
- documented procedures to either identify the A/P process or identify the person that is responsible for performing the process was inadequate, missing, or obsolete.
- Documentation for the data dictionary used to identify the types and use of data for the A/P process was either incomplete or unavailable.
- Documentation for the A/P process did not lead to a clear and consistent audit trail.
- Procedures needed to complete the payment process should be revised.
- Steps involved in the payment certification process appear to be cumbersome.
- Time/date stamp machine's control key was continually left in the machine.
- Newly appointed contracting officer technical representatives (COTR) authorized invoice payments late because the General Accounting Branch (GAB) did not keep the COTR list current.

Once brought to their attention, management immediately corrected the problems with the time/date stamp machine and newly appointed COTR's. OIG believes that clearly defined A/P procedures that promote accountability are crucial for effective disbursement controls. Therefore, PBGC should review the observations OIG has outlined concerning documentation and revision to the payment process procedures, to ensure they are addressed before implementing the new PA system.

OBJECTIVE, SCOPE, AND METHODOLOGY

OIG's objective was to identify whether the controls for vendor payments operate as intended for the A/P process, thereby reducing or mitigating the risk of erroneous payments, fraud, waste, or abuse.

We conducted our evaluation in accordance with the *Quality Standards for Inspections*¹, at PBGC headquarters from August 2004 through March 2005. Our work was designed to meet our evaluation objective and consisted of the following:

- Analyzed vendor payments for goods and services covering FY 2002 through FY 2004.
- Statistically sampled 4,360 transactions totaling \$150 million;
- Conducted interviews with: GAB managers and staff, a limited selection of COTRs, PBGC Procurement Department managers and staff.
- Conducted a walkthrough of the A/P Process.
- Reviewed documentation such as PBGC directives, procedures, and policies.
- Selected and physically reviewed a random statistical sample of paid invoices for supporting documentation and appropriate authorizations.

OVERVIEW OF ACCOUNTS PAYABLE PROCESS

OIG determined that PBGC has controls in-place for the A/P process. OIG reviewed the A/P process and our review did not unveil any instances of fraud, waste, or abuse. However, we found that the COTR did not have a standardized method to inform GAB on how to allocate payments among the different suffix codes. The A/P procedures are as follows:

- Vendor goods and services invoices are sent to GAB where they are copied, date/time stamped, and entered into the Invoice Tracking System (ITS).
- The original invoice is then filed and an invoice package is created and sent to the COTR for review and payment authorization.
- After reviewing the invoice package to determine if the vendor's submission is complete and correct, the COTR notes the amount to be paid, then signs and returns the invoice package to GAB.
- If the COTR determines the invoice package is not correct, the invoice is simultaneously returned to the vendor with a correction request and to GAB with an explanation for non-payment.
- The COTR allocates invoice amounts to suffix codes, sub-categories of obligations used as a supplemental code by departments to track their costs.
- When GAB receives the invoice package from the COTR the:
 - receipt date is entered into ITS and the COTR's signature is verified.
 - original invoice is date and time-stamped again.
 - invoice is forwarded within GAB for entry into the PA system.

¹ The *Quality Standards for Inspections* issued January 2005 by the President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency

- invoice is certified by verifying the vendor and amount to be paid and another review is conducted
- authorization releasing payment from the Department of Treasury is made and confirmed

Approximately once a week GAB prints a report of all outstanding invoices and sends a reminder to the COTR via the ITS. In addition, about once a month GAB sends COTR's a copy of the "Obligation Balance Report" and requests they reconcile the balances per the obligation recorded in the PA system, against what was recorded in their tracking system. GAB management is responsible for resolving any differences.

OBSERVATIONS

Based on our review and analysis of the A/P process OIG determined that PBGC has established solid controls that are effective in reducing or mitigating the risks associated with erroneous payments, fraud, waste or abuse. Since PBGC plans to replace the current performance accounting system OIG suggests management consider the observations we outlined below, when implementing the new PA system.

Documentation of A/P Procedures

OIG identified inadequate, missing, or obsolete documented procedures used to complete payment processing to either identify the A/P process or describe who is responsible for performing the process. OIG's review of PBGC's procedural manuals indicated that some areas of the A/P process did not have any procedures, while other areas either had outdated procedures, or procedures that were not fully documented. For example, OIG was given an outdated procedural manual, that management subsequently replaced with another version that was more up-to-date, but was still outdated.

OIG further found that documentation for the data dictionary used to identify the types and use of data for the A/P process, were incomplete or unavailable. This document is an important tool that provides a detailed description of the data that is stored in the database and is acceptable for use in normal processing. In addition, based on the support documentation we were provided, OIG could not determine the definition and use of data elements in the PA database. We suggest that PBGC create a data dictionary for current accounts payable data use and the data dictionary be required for the new PA system.

Furthermore, OIG discovered that PBGC did not have a clear and consistent audit trail for the A/P process. For example, the COTR did not have a consistent process to communicate with GAB on how to allocate payments among the different suffix codes within single obligations. OIG determined that though it appears vendors were paid the correct amounts, we had difficulty tracing the vendor invoice amounts to the general ledger. Therefore, OIG suggest that GAB develop and implement a method that clearly allocates obligation payments that are easily traceable to invoices.

Lastly, OIG suggest that documentation for the A/P process should be revised and periodically reviewed as steps or procedures change. This should include all procedures

for supporting the A/P process such as oversight and accountability. OIG believes if this is done it could assist PBGC with identifying areas where improvements can be made in designing the new PA system.

Payment Certification Process Efficiency

OIG observed the A/P payment process and noted that once the invoice package is processed there were 30 additional steps that had to be completed before payment is made. OIG reviewed the checklist that identified 24 of the 30 steps in the payment certification process that must be completed in a specified order. We found that the certifier must enter “like” data into the system multiple times. If an error occurs in any steps, the certifier must start the process over, beginning at step 2. A GAB manager must then complete 6 additional steps in the final authorization process. These steps involve another review, payment authorization, releasing the payment from the Department of Treasury, and confirming that the payment was made.

Thus, OIG determined that the steps in the payment certification process appear to be cumbersome. Control of this process is extremely important and OIG believes improved efficiency in the process will also enhance and improve controls. Therefore, we suggest that PBGC review how the efficiency of the payment process can be improved when designing the new PA system.

OTHER MATTERS

Time/Date Stamp Machine

OIG’s evaluation revealed a control weakness in the time/date machine, which staff uses to verify when invoices are received. The time/date machine is used to establish PBGC’s time frame for compliance with the Prompt Payment Act. By law Federal agencies have 30 days to pay valid vendor invoices. If vendors are not paid in 30 days, agency may incur interest penalties. Throughout our review OIG observed that the key controlling the time/date machine was left in the machine at all times. Hence, lax controls increase internal control risks. OIG did not find any instance where the time and date stamp was inappropriately applied. However, having the key in the machine gives personnel an opportunity to manipulate the time and date invoices are received.

OIG brought this situation to management’s attention and the problem was rectified immediately. Management removed the key from the machine and informed personnel that management would retain control of the key.

Timely Updated COTR List

A newly appointed COTR authorized invoices for payment late, because GAB did not update the COTR list in a timely manner. As a result, though the aggregate amount was minimal, PBGC paid unnecessary interest charges. OIG brought this situation to management’s attention and corrective action was taken immediately. Appropriate staff is now notified immediately when a new COTR is appointed.