



Pension Benefit Guaranty Corporation  
*Office of Inspector General*  
Audit Alert Memorandum

**PBGC Needs to Require Corrective Action Plans to  
Address Audit Recommendations**

***May 21, 2002***

2002-9/23167



Office of Inspector General

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**AUDIT ALERT MEMORANDUM**

**TO:** Steven A. Kandarian  
Executive Director

**FROM:** Wayne Robert Poll  
Inspector General *Wayne Robert Poll*

**SUBJECT:** PBGC Needs to Require Corrective Action  
Plans to Address Audit Recommendations  
OIG Report No. 2002-9/23167

I write to alert you of PBGC's long-standing need to require that a Corrective Action Plan (CAP) be developed to address each recommendation contained in audit reports issued by the Office of Inspector General (OIG) and the General Accounting Office (GAO). These CAPs should contain specific steps PBGC will take to correct the weaknesses identified and reported. By this memorandum, I am officially recording the OIG's concerns to ensure that PBGC complies with external and internal requirements to develop CAPs, and that appropriate steps be included for OIG monitoring.

**External and Internal Requirements for Agency CAPs**

Circular A-50, *Audit Follow-up* (Sept. 29, 1982), issued by the Office of Management and Budget (OMB Circular A-50), provides the policies and procedures for executive agencies' actions in response to OIG and GAO audit reports. OMB Circular A-50 requires that agencies establish follow-up systems that meet eleven (11) standards for resolution and corrective action. Three of these standards apply specifically to CAPs and require the agency to:

- *Require prompt resolution and corrective actions on audit recommendations* (§ 8.a.(2)).
- *Specify criteria for proper resolution and corrective action on audit recommendations... These criteria should provide for written plans for corrective action with specified action dates, where appropriate* (§ 8.a.(3)).
- *Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective actions* (§ 8.a.(4)).

In addition, OMB Circular A-50 states that the agency will provide written comments indicating agreement or disagreement with reported findings and recommendations. Further, comments indicating agreement "...shall include planned corrective actions and,

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where appropriate, dates for achieving actions.” (See § 6.a.)

PBGC has issued its own policy and procedures for audit follow-up in PBGC Directive GA 15-3, *Audit Follow-up System* (5/20/94). Among the provisions that address CAPs are:

- Section 4.b. requires that when the agency agrees with a recommendation in an audit report, its response **shall** include, “planned corrective actions, including actual or estimated dates for achieving actions.”
- Section 5.c.(5) requires Department Directors to “develop action plans for implementing both OIG and GAO recommendations and submit the plans to the Chief Financial Officer (CFO) for approval.”
- Section 7.b.(2) requires Department Directors to “furnish the IG with a copy of the action plans submitted to the CFO.”

In addition, Section 7.b.(1) of Directive GA 15-3 states that in reply to the OIG’s Semiannual Listing, the Department Directors will provide the IG :

*(a) the appropriate policies, procedures, laws, regulations, directives or other documentation reflecting actions taken for those recommendations on which corrective or implementation actions have been completed; and*

*(b) an explanation of actions in process and a timetable for completion for those recommendations on which corrective or implementation actions have not been initiated or completed.*

### **OIG Efforts to Obtain Agency Compliance**

From time to time when meeting with PBGC Executive management, I reminded them of PBGC’s responsibility to develop written CAPs to respond to OIG and GAO audit recommendations. In addition, I note the following specific instances in which the need for CAPs has been raised by my office:

- Beginning with the January 31, 2000 Semiannual Listing of Audit Recommendations and continuing for the next five Semiannual Listings, we have reminded PBGC that CAPs **must** be developed for the open audit recommendations.
- During January 2001, Acting Executive Director John Seal directed PBGC department directors to take actions designed to address and close 80 open audit recommendations assigned to them. Many of these recommendations were outstanding for more than a year and none had a CAP to verify compliance and completion.
- In February 2001, the Inspector General had discussions with Hazel Broadnax, then-Acting Chief Financial Officer, and representatives from the Corporate Controls and Review Department (CCRD) regarding PBGC’s requirement to produce and implement CAPs.

Finally, I note that the OIG has repeatedly sought specific documentation from various departments to substantiate their claims that actions have been completed to close a recommendation. In general, we have been unsuccessful in obtaining the required compliance evidence.

### **Agency Benefits from Developing CAPs**

PBGC's need to develop CAPs stems from more than compliance with external and internal requirements, though that is important. A CAP could shorten the length of time an audit recommendation is open and would reduce untimely questions about what actions are needed to close the recommendation.

Our experience over the years indicates that not having CAPs to address audit recommendations has contributed significantly to the length of time the recommendations stay open. For instance, the following examples are not uncommon:

- PBGC agrees to an audit recommendation in its response to a draft OIG report. When the report is issued in final, PBGC's comments are included. However, in responding to the Semiannual Listing, PBGC has at times expressed disagreement with either the original recommendation or the action necessary to satisfy the recommendation. In some instances, PBGC has used the Semiannual Report on Audit Follow-up as a forum to argue a position different from that presented in the final report.
- Because action was not taken immediately to address the recommendation, PBGC loses focus on the intent of the recommendation. This results in multiple meetings, phone calls, and e-mails to re-explain actions needed to satisfy the recommendation.

I believe recommendations could be closed within a reasonable timeframe if the required CAPs were developed.

### **Suggested Actions**

It is clear that PBGC is not complying with its responsibility imposed by OMB Circular A-50 and Directive GA 15-3 to create and implement CAPs. With the issuance of this Audit Alert Memorandum and PBGC's focus on the issue, there is the opportunity to re-examine GA 15-3 and improve this process.

Recently I received a CAP proposal from the CFO that is a step in the right direction. However, I believe that Directive GA 15-3 does not include all of the necessary elements to ensure that CAPs really accomplish the goal of timely completion of audit recommendations. We suggest the CAP process should include the following steps to be effective:

- High-level CAPs are submitted with PBGC's response to the draft audit report.
- Departments who are assigned audit recommendation responsibility are required to prepare a specific CAP with detailed actions and due dates within 30 days after a final OIG or GAO audit report is issued. The OIG is available for consultation with managers concerning proposed actions.
- The CAP is provided to the CFO and the OIG concurrently for review and comment as to whether the Department's proposed actions meets the intent of the finding and recommendation.
- Department program officials meet with the CFO within 30 days, if necessary, to discuss comments and agree on CAP actions and due dates.

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- The CAP is approved by the CFO within 60 days after the final audit report is issued, unless an extension of time is sought and approved.

If this CAP process is implemented it should result in more timely correction of identified weaknesses and reduce controversy over audit recommendations months after PBGC agreed to them. Further, we believe that improvements to the CAP process will significantly reduce the time that audit recommendations remain open.

cc: Hazel Broadnax, CFO

Marty Boehm, CCRD