



Pension Benefit Guaranty Corporation
Office of Inspector General
Audit Report

**FY 2012 Audit of PBGC's Compliance with the
Implementation of the Improper Payments Act**

March 14, 2013

AUD-2013-5/PA-12-92



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

March 14, 2013

TO: Joshua Gotbaum
Director
Pension Benefit Guaranty Corporation

FROM: Joseph A. Marchowsky *Joseph A. Marchowsky*
Assistant Inspector General for Audit

SUBJECT: Audit of PBGC's FY 2012 Compliance with the Implementation of
the Improper Payments Act
Report No. AUD-2013-05/Project No. PA-12-92

As required by the Improper Payments Act (IPIA) (P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act (IPERA) (P.L. 111-204), the Pension Benefit Guaranty Corporation's (PBGC or the Corporation) Office of Inspector General (OIG) audited PBGC's compliance with IPIA requirements. As a result, we determined that PBGC has instituted a systematic method to review its programs and activities for improper payments and has complied with IPIA implementing requirements established in OMB Circular A-123 Appendix C.¹ PBGC reports that it requested and received OMB approval to define the FY 2012 reporting period for IPERA reporting purposes as those payments that were made during the last six months of FY 2011 and the first six months of FY 2012.²

While we concluded that PBGC was in compliance with IPIA requirements, we are including a General Comment for PBGC management's consideration regarding the clarification of the improper payment information in future Annual Reports.

The objective of our audit was to assess PBGC's compliance with the requirements of the IPIA, as amended. We conducted this performance audit in accordance with Government Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform this audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted between December 2012 and March 2013 in Washington, DC.

¹ OMB Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, April 2011.

² PBGC Annual Report FY 2012, Appendix A – Improper Payment Risk Assessment.

Background

On July 22, 2010, the President signed IPERA³ into law. IPERA amended the Improper Payments Information Act.⁴ Under IPERA, the head of each agency shall periodically review and identify all programs and activities it administers that may be susceptible to significant improper payments based on guidance provided by the Director of OMB.⁵

For each program and activity identified, the agency is required to produce a statistically valid estimate or an estimate that is otherwise approved by OMB, of the improper payments and include such estimates in the accompanying materials to the annual financial statements of the agency.⁶ The agency must identify and report programs and activities with significant improper payments and the actions it took to reduce the improper payments.⁷ For significant improper payments, the report must specify, among other things (1) a description of the causes of improper payments, actions planned or taken to correct those causes, and the planned or actual completion date of the actions taken to address those causes, and (2) program- and activity-specific targets for reducing improper payments that have been approved by the Director of OMB.⁸ For FY 2012, PBGC did not have significant improper payments.

To their credit, PBGC made efforts to comply with IPER. PBGC developed, with OMB's approval,⁹ an alternative sampling and measurement approach for its FY 2012 improper payment testing methodology. The Corporation also contracted with a consulting firm to assist in its IPER assessment. PBGC senior staff was directly involved in assessing the payments streams at risk for improper payments and in the determination of error definitions. Consistent with OMB guidance, the two payment streams identified for review, Benefit Payments and Multiemployer Financial Assistance, represent the largest volume of payments made by the Corporation, exclusive of payments made to federal employees (not required by OMB).

Similar to the FY 2011 improper payment assessment, PBGC continues to have difficulties with the adequacy of its historical documentation. On April 27, 2012, PBGC requested approval from OMB for its FY 2012 Improper Payment Testing Methodology. In this letter, PBGC requested to generally "carve out" the testing of underlying documentation for Benefit Payments and focus on testing the improper dollar amount. The request for this approach was due in part to the significant legacy documentation issues identified during the FY 2011 improper payment pilot testing. PBGC received OMB's approval in September 2012, and our audit was conducted based on the approved methodology plan. As a result of this fiscal year's improper payment assessment, testing of the Benefit Payments stream focused on actual dollar errors and essentially eliminated the review of legacy documentation. That is, with OMB's concurrence, PBGC performed an assessment that does not address documentation or other related issues, except in a peripheral manner. In addition, PBGC management revised the improper payment definitions for benefit payments and multiemployer financial assistance.

³ Pub. L. No. 111-204, 124 Stat. 2224 (2010).

⁴ Pub. L. No. 107-300, 116 Stat. 2350 (2002).

⁵ Pub. L. No. 111-204 § 2(a)(1), 124 Stat. 2224 (2010).

⁶ Pub. L. No. 111-204 § 2(b), 124 Stat. 2224, 2225 (2010).

⁷ Pub. L. No. 111-204 § 2(c), 124 Stat. 2224, 2225-2226 (2010).

⁸ Pub. L. No. 111-204 § 2(c)(1) and (4), 124 Stat. 2224, 2225-2226 (2010).

⁹ PBGC Memo to OMB, "FY 2012 Improper Payment Testing Methodology, April 27, 2012."

Audit Results

OMB guidance specifies that each agency's IG should review agency improper payment reporting in the agency's annual performance and accountability report, or the annual financial report and accompanying materials, to determine whether the agency complied with IPIA. Appendix B to this report describes the OMB established factors for our IPIA assessment and our assessment of PBGC IPIA reporting. We concluded that PBGC complied with requirements as specified by OMB in the context of the OMB-approved approach.

General Comment

As a result of our audit, we identified a concern regarding the clarity of PBGC's presentation of the results of their testing of benefit payments in Appendix A of the 2012 PBGC Annual Report. PBGC reported \$24.8 million in improper payments which lacked documentation for benefit payments; however, it did not explain that the underlying documentation was not fully tested. Without such an explanation, users of the report may believe this amount represents the estimated improper payments resulting from documentation issues for the entire benefit payment stream. We note that the 2012 Appendix A does not discuss PBGC's request to OMB for using its specific approach and OMB's subsequent approval to carve-out underlying documentation testing, but rather states only: "PBGC updated the payment definitions and testing approaches to better focus on key payment processing elements." In contrast, in its FY 2011 Annual Report, PBGC highlighted the significant lack of documentation as a legacy documentation issue, but did not disclose the magnitude of the problem. However, the effect of the "carve-out" was to eliminate the vast majority of the documentation issues, a fact that is not clear from PBGC's presentation that provides a dollar value for errors due to "lack of documentation."

We believe that the disparity in the level of information disclosed between both fiscal years and in particular the lack of details with respect to the testing methodology carve-out that occurred in FY 2012 could mislead readers. PBGC can strengthen its reporting by defining error types in greater detail and specifically identifying any changes in testing methodologies. Details such as testing methodology, the approval to OMB, and/or the correlating factors for reporting improper payments with lack of documentations would improve the Corporation's IPIA reporting.

Scope and Methodology

Our objective was to assess PBGC's compliance with the requirements of the IPIA, as amended. In addition, we evaluated the Agency's accuracy and completeness of reporting. To accomplish our objectives, we:

- Reviewed applicable Federal Laws and Office of Management and Budget (OMB) guidance.
- Reviewed PBGC's Improper Payment Assessment documented in Appendix A of the Corporation's FY 2012 Annual Report (AR) for completeness and compliance with OMB requirements and compared the FY 2012 report with the prior year's report.
- Requested source data from PBGC to support the figures in the AR.
- Analyzed the source data to ensure accuracy and completeness of all figures.
- Interviewed staff from PBGC's Chief Financial Office, Contracts and Controls Review Department (CCRD), Benefits Administration & Payment Department (BAPD), Multiemployer Program Division (MEPD), the consulting firm, and OMB.
- Assessed the reasonableness of the payment streams PBGC selected for review.
- Analyzed documents, calculations, and evidence used to determine the amount of improper payments resulting from PBGC operations for correctness.
- Assessed PBGC statistical projections for compliance with OMB guidance.
- Reviewed a sample of the transactions reviewed by the PBGC contractor.

We conducted this performance audit in accordance with Government generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform this audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted between December 2012 and March 2013 in Washington, DC.

APPENDIX A – Agency Response

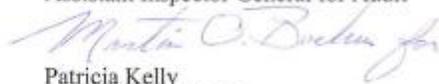


Office of the Chief Financial Officer

MEMORANDUM

March 13, 2013

TO: Joseph A. Marchowsky
Assistant Inspector General for Audit


FROM: Patricia Kelly
Chief Financial Officer

SUBJECT: Response to the Office of Inspector General's (OIG) Draft Report on
PBGC's Compliance with the Implementation of the Improper Payments
Information Act

Thank you for the opportunity to comment on the draft report. We are pleased that your office again found PBGC in compliance with the reporting requirements of Improper Payments Elimination and Recovery Act of 2010 (IPERA).

We understand and will act on your suggestion for additional explanation, as we are committed to complete and transparent reporting under IPERA.

APPENDIX B

OMB ESTABLISHED FACTORS FOR INSPECTOR GENERAL TO REVIEW FOR IPIA COMPLIANCE			
Item	Requirement/Criteria	PBGC Status	Comment
1	Agency has published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Complied	Annual Performance Report published November 14, 2012. Report available on PBGC website.
2	Agency has conducted a program specific risk assessment for each program or activity that conforms to Section 3321 of Title U.S.C (if required).	Complied	Risk assessment of major payment streams completed.
3	Agency published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Not Required	Improper payments below the significant threshold when calculated with consideration of the OMB-approved approach. ¹⁰
4	Agency published programmatic corrective action plans in the PAR or AFR (if required).	Not Required	Improper payments below the significant threshold when calculated with consideration of the OMB-approved approach.
5	Agency published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	Not Required	Improper payments below the significant threshold when calculated with consideration of the OMB-approved approach.
6	Agency reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR ¹¹ or AFR ¹² .	Complied	Improper Payment rates below 10% for all payment streams when calculated with consideration of the OMB-approved approach.
7	Agency reported information on its efforts to recapture improper payments.	Not required	Improper payments below the significant threshold when calculated with consideration of the OMB-approved approach.

¹⁰ Significant improper payment defined as gross annual improper payments in the program exceeding both 2.5 percent of program outlays and \$10 million or \$100 million regardless of outlays. (OMB-Circular A-123 Appendix C Part I A-7 a.

¹¹ Performance and Accountability Report.

¹² Agency Financial Report.

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Or Write:
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Office of Inspector General
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