



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**FY 2013 Audit of PBGC's Compliance with the
Implementation of the Improper Payments Information Act**

April 10, 2014

AUD-2014-11/PA-14-99


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

April 10, 2014

TO: Joshua Gotbaum
Director
Pension Benefit Guaranty Corporation

FROM: Rashmi Bartlett 
Assistant Inspector General for Audit

SUBJECT: Audit of PBGC's FY 2013 Compliance with the Implementation of
the Improper Payments Information Act

Report No. AUD-2014-11/ PA-14-99

As required by the Improper Payments Information 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

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 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 2013 and April 2014 in Washington, DC.

Background

On July 22, 2010, the President signed IPERA² into law. IPERA amended the Improper Payments Information Act.³ Under IPERA, the head of each agency shall periodically review

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

² Pub. L. No. 111-204, 124 Stat. 2224 (2010).

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.⁴

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.⁵ The agency must identify and report programs and activities with significant improper payments and the actions it took to reduce the improper payments.⁶ A “significant improper payment” is defined as:

“gross annual improper payments (i.e. the total amount of overpayments plus underpayments) in the program exceeding (1) both 2.5 percent of program outlays and \$10,000,000 of all program activity or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays).”

To their credit, since FY 2011, PBGC made considerable efforts to comply with IPIA. As a follow-up to a pilot risk assessment that was coordinated with OMB in FY 2011, PBGC conducted formal risk assessments of all of its payment streams in FY 2012. PBGC identified the following major payment streams:

- Benefit payments to participants in final pay status for plans trusted by PBGC under Title IV of the Employee Retirement Income Security Act (ERISA)
- Financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under requirements of Title IV of ERISA.
- Payments to contractors for goods and services, including government credit card transactions.

Consistent with the OMB parameters established in Step 1 of OMB Circular A-123 Appendix C, PBGC concluded that none of its payment streams were susceptible to significant improper payment risk for FY 2012. Based on these results, OMB guidance did not require the Corporation to perform any improper risk assessment in FY 2013. However, given the agency focus on preventing and detecting improper payments and the nature of PBGC operations, PBGC set a more aggressive schedule to assess the major payment streams referenced above on a rotational basis. For FY 2013 PBGC assessed payments to contractors for susceptibility for significant improper payment risk.

PBGC senior staff was directly involved in assessing the payments streams at risk for improper payments and in the determination of error definitions. The Corporation also contracted with a

³ Pub. L. No. 107-300, 116 Stat. 2350 (2002).

⁴ Pub. L. No. 111-204 § 2(a)(1), 124 Stat. 2224 (2010).

⁵ Pub. L. No. 111-204 § 2(b), 124 Stat. 2224, 2225 (2010).

⁶ Pub. L. No 111-204 § 2(c), 124 Stat. 2224, 2225-2226 (2010).

consulting firm to assist in its IPIA assessment. PBGC reports that it defined the FY 2013 reporting period for IPERA reporting purposes as those payments that were made during the last six months of FY 2012 and the first six months of FY 2013.⁷ For FY 2013, PBGC did not have significant improper payments.

The IPIA as amended requires that each agency's inspector general shall annually determine whether the agency is in compliance with the Act. OMB guidance specifies that each agency's inspector general should review improper payment reporting in the annual financial report and any accompanying materials, to determine whether the agency complied with IPIA.

Audit Results

We concluded that for the FY 2013 review of contractor payments, PBGC complied with requirements as specified by OMB. Appendix B to this report describes the OMB established factors for our IPIA assessment and our assessment of PBGC IPIA reporting.

⁷ PBGC Annual Report FY 2013, Improper Payment Risk Assessment.

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 the PBGC Annual Report 2013 (AR) for completeness and compliance with OMB requirements.
- Assessed the reasonableness of the payment streams PBGC selected for review.
- Interviewed and/or reviewed documentation prepared by the staff of the PBGC Chief Financial Officer, the PBGC Procurement Department, and the consulting firm hired by PBGC for the improper payment assessment.
- Reviewed a sample of the transactions reviewed by the PBGC contractor.
- For the sample transactions we, analyzed documents, calculations, and evidence used to determine the amount of improper payments resulting from PBGC operations for correctness.
- Reconciled PBGC AR improper payments reporting to consulting firm's documents.
- Assessed PBGC statistical projections for compliance with OMB guidance.

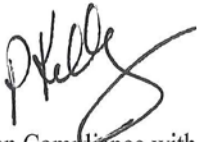
This audit was conducted between December 2013 and April 2014 in Washington, DC. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform this audit to obtain sufficient, appropriate evidence to provide 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.

APPENDIX A – Agency Response



April 10, 2014

To: Rashmi Bartlett, Assistant Inspector General for Audit
Office of Inspector General

From: Patricia Kelly, Chief Financial Officer 

Subject: Response to OIG's FY 2013 Draft Report on Compliance with the Implementation of the
Improper Payments Act

Thank you for the opportunity to review the draft report. We are pleased that your office again found PBGC to be in compliance with the applicable improper payment reporting requirements.

We are dedicated to ensuring compliance in this important area, and we appreciate the OIG's work in support of that purpose.

APPENDIX B

OMB ESTABLISHED FACTORS FOR INSPECTOR GENERAL TO REVIEW FOR IPJA 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 Report published November 15, 2013. 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).	Not Required	Risk assessment of major payment streams completed in FY 2012. As no programs identified as susceptible to significant improper payments, risk assessment only required ever 3 years.
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. ⁸
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 ⁹ or AFR ¹⁰ .	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	Provision not applicable to entities that issue financial statements under the Government Corporation Control Act

⁸ 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.

⁹ Performance and Accountability Report.

¹⁰ Agency Financial Report.

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<http://oig.pbgc.gov/investigation/details.html>

Or Write:
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