



# OFFICE OF INSPECTOR GENERAL EVALUATION REPORT

## **PBGC Can Improve the Effectiveness of the ERM Program**

**Report No. EVAL-2021-07  
March 1, 2021**

## PBGC Can Improve the Effectiveness of the ERM Program

<b>Background</b>	<p><b>Enterprise Risk Management (ERM).</b> OMB Circular No. A-123 requires agencies to implement an ERM capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act of 2010, the internal control processes required by the Federal Managers' Financial Integrity Act of 1982, and the Government Accountability Office's Standards for Internal Control in the Federal Government.</p> <p><b>ERM Program in PBGC.</b> PBGC's ERM program aids executive leadership in obtaining an enterprise-wide view of potential events that could affect the Corporation's ability to complete its mission and objectives. The Risk Management Council (RMC) coordinates the agency-wide ERM program and acts as an advisory council to the Director and the Executive Management Committee on external, financial, human capital, insurance, legal, operational, reputational, strategic, and technology risks. The Risk Management Officer (RMO) is the chair of the RMC. The RMO serves as a strategic advisor to PGBC leadership and facilitates the integration of ERM practices into day-to-day business operations and decision-making at the department level.</p>
<b>Key Question</b>	<p><b>Objective.</b> To assess PBGC's implementation of the Enterprise Risk Management program.</p>
<b>Evaluation Results</b>	<p><b>Conclusion.</b> We found PBGC has made substantial progress in implementing its ERM program. However, we also found PBGC lacks:</p> <ul style="list-style-type: none"><li>• A properly documented succession plan for the RMO position, which may hinder proper succession and continuity of operations.</li><li>• Formalized training for those directly involved with the ERM program, which may cause inconsistencies in knowledge bases across PBGC.</li></ul> <p>Finally, we noted PBGC uses an outdated directive that does not capture the current ERM guidance covered in OMB Circular A-123, which may lead to ineffective guidance for remediating risks.</p>
<b>Corrective Actions</b>	<p><b>Our recommendations.</b> We made four recommendations, including that the Office of Management and Administration prepare a succession plan for the RMO position and formalize ERM training for those responsible for the ERM program, and the Office of Chief Financial Officer update a directive used to manage the ERM program.</p> <p><b>Management agreement.</b> Management agreed with the recommendations and to take the corrective actions identified in the report.</p>



March 1, 2021

MEMORANDUM

TO: Alice Maroni  
Chief Management Officer

FROM: John Seger *John A Seger*  
Assistant Inspector General for Audits, Evaluations, and Reviews

SUBJECT: Issuance of Final Evaluation Report, PBGC Can Improve the Effectiveness of the ERM Program (Report No. EVAL-2021-07)

We are pleased to provide you with the above-referenced final report. We appreciate the cooperation you and your staff extended to OIG during this project. We thank you for your receptiveness to our recommendations and your commitment to reducing risk and improving the effectiveness and efficiency of PBGC programs and operations.

This report contains public information and will be posted in its entirety on our website and provided to the Board and Congress in accordance with the Inspector General Act.

cc: Latreece Wade, Risk Management Officer  
Frank Pace, Director, Corporate Controls and Reviews Department  
Kristin Chapman, Chief of Staff  
Russell Dempsey, General Counsel, Office of General Counsel  
Department of Labor Board staff  
Department of Treasury Board staff  
Department of Commerce Board staff  
House committee staff (Education and Workforce, Ways and Means, HOCR)  
Senate committee staff (HELP, Finance, HSGAC)

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# Background

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The Pension Benefit Guaranty Corporation (PBGC) guarantees the retirement benefits of over 34 million workers and retirees through insurance coverage with single employer and multiemployer plan sponsors. The Corporation is directly responsible for the pension benefits of about 1.5 million current and future retirees in trustee pension plans and pays over \$6 billion a year in benefits. PBGC receives no taxpayer funds. Because of its vital mission and operating model, one of the three strategic goals articulated in PBGC's Strategic Plan is to "maintain high standards of stewardship and accountability."

The Corporation adopted views stated in the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, in the implementation of an Enterprise Risk Management (ERM) process.

## *Enterprise Risk Management in the Federal Government*

On July 15, 2016, OMB issued its revised Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123), which established various ERM processes in the federal government. As defined by the Circular, ERM is "an effective Agency-wide approach to addressing the full spectrum of the organization's external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos."

OMB Circular No. A-123 requires agencies to implement an ERM capability coordinated with the strategic planning and strategic review process established by the *Government Performance and Results Modernization Act of 2010*, and the internal control processes required by the *Federal Managers' Financial Integrity Act of 1982*, and the Government Accountability Office's *Standards for Internal Control in the Federal Government*.

Further, the Circular requires agency leadership to establish a governance structure to effectively implement and oversee the implementation of a robust risk management and internal control process. The ERM and internal controls are components of a governance framework. As Figure 1 shows, internal controls are an integral part of risk management and ERM.

**Figure 1. The Relationship Between Internal Controls and Enterprise Risk Management.**



Source: OMB Circular No. A-123 (July 15, 2016)

OMB Circular No. A-123 states that the responsibilities of managing risks are shared throughout an agency from the highest levels of executive leadership to the service delivery staff executing federal programs. It further says that ERM reflects forward-looking management decisions and balancing risks and returns so an agency enhances its value to the taxpayer and increases its ability to achieve its strategic objectives. According to the Circular, most agencies should first build their capabilities to conduct more effective risk management. In order to implement ERM, agencies should rate those risks in terms of impact and, finally, build internal controls to monitor and assess the risk developments at various times. To complete this circle of risk management, agencies must incorporate risk awareness into their culture and ways of doing business.

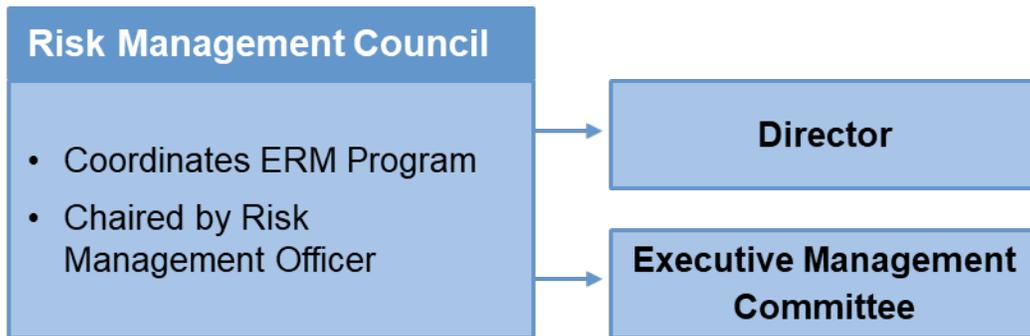
As stated in OMB Circular No. A-123, to provide governance for the risk management function, an agency may use a Risk Management Council (RMC) to oversee the establishment of the agency's risk profile, regular assessment of risk, and development of appropriate risk response. According to the Circular, to support this work, some agency governance structures include a Chief Risk Officer (CRO) or equivalent function who champion agency-wide efforts to manage risk within the agency and advise senior leaders on the strategically aligned portfolio view of risks at the agency.

### *ERM Program in PBGC*

PBGC's ERM program aids executive leadership in obtaining an enterprise-wide view of potential events that could affect the Corporation's ability to complete its mission and objectives. As Figure 2 shows, the Risk Management Council (RMC) coordinates the

agency-wide ERM program and acts as an advisory council to the Director and the Executive Management Committee (EMC) on external, financial, human capital, insurance, legal, operational, reputational, strategic, and technology risks. The Risk Management Officer (RMO) is the chair of the PBGC RMC.

**Figure 2. PBGC ERM Program Governance: RMC as the Advisory Council to the Leadership.**



Source: OIG Analysis

The RMC has 14 members across 7 offices at the Corporation. Appendix IV identifies the PBGC offices represented on the RMC. Considering the shared organizational reporting structure of the ERM program, the RMO position is assigned to the Office of Management and Administration (OMA) and is a full-time position at PBGC. The RMO has an equivalent function to the CRO discussed in OMB Circular No. A-123. As the CRO, the RMO serves as a strategic advisor to PGBC leadership and facilitates the integration of ERM practices into day-to-day business operations and decision-making at the department level. The RMO works closely with RMC members and with their broader offices on their ERM activities.

*Objective*

Our objective was to assess PBGC’s implementation of the Enterprise Risk Management program.

# Evaluation Results

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## Summary

We found PBGC has made substantial progress in implementing its ERM program. At the same time, PBGC can improve the effectiveness of the program by:

- preparing a succession plan for the RMO position,
- formalizing ERM training for those responsible for the ERM program, and
- updating a directive used to manage the ERM program.

Not having a properly documented succession plan for the RMO position may hinder proper succession and continuity of operations. Additionally, without formalized training for those directly involved with the ERM program, there may be inconsistencies in knowledge bases across PBGC. Further, the outdated directive could lead to ineffective guidance for remediating risks. Last, each knowledge gap, alone or combined, may significantly increase the likelihood of the risk management process not detecting and mitigating the proper risks within the organization, jeopardizing effectiveness of the ERM program.

## Finding 1: PBGC Needs a Succession Plan for the RMO Position

According to the OMB Circular A-123 Section II, A., *Governance*, if an agency chooses to use an RMC, the RMC should be chaired by the Agency Chief Operating Officer (COO) or a senior official with responsibility for the enterprise. Further, it states:

A CRO may serve as a strategic advisor to the COO and other staff on the integration of enterprise risk management practices into the day-to-day business operations and decision-making. CROs generally work with business unit managers within their organizations to identify issues in a timely manner to allow for proactive management of the program and to facilitate informed, data-driven decision-making.

In addition, the Circular leverages the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (known as the "Green Book") to guide the implementation of risk and control programs. Principle 4 of the Green Book states that "management should demonstrate a commitment to recruit, develop, and retain competent individuals" through succession and contingency plans and preparation. Sections 4.06 through 4.08 of this principle describe the need for succession and contingency plans to help the entity continue achieving its objectives through the replacement of competent personnel over the long-term and short-term.

The PBGC RMC Charter states that the RMO is to be appointed as the committee chair. In this capacity and in consultation with the EMC, the RMO may designate an Acting Chair to fulfill the functions of the Chair. When the RMO position is vacant, PBGC's Director will designate an Acting Chair. While a provision exists to appoint an Acting Chair of the RMC should the RMO position be vacant, the Acting Chair would perform this function as a collateral duty. Currently, only the tasks of the RMC Chair are addressed by the provision; therefore, there is no contingency plan for the tasks performed by the RMO on behalf of the RMC.

We noted that the RMO chairs the Risk Management Council and is responsible for working collaboratively with PBGC senior leadership to develop and implement a comprehensive risk framework; this includes support and facilitation of risk assessments at the office level of the Corporation and risk management coaching as needed. Through our walkthrough discussion and follow up meeting with the RMO, we discovered the RMO keeps an active dashboard of the top risks, which is monitored and updated with new mitigating factors, as the RMO and department heads work to reduce the scoring of various risks. Also, the RMO stated that she works with all departments on a constant basis to determine emerging risks and what steps can be taken to mitigate risks. The RMO closely assists those charged with oversight of the risk management process. As such, the scope of these responsibilities is both wide and deep.

We found that PBGC's ERM Program does not have a succession or contingency plan that will facilitate a seamless transition and decrease the risk of interruption to the program when the RMO is unavailable. Initially, the lack of a succession plan resulted from management decisions. According to the RMO, during the formation of the ERM function at PBGC, PBGC leadership consolidated all ERM functions into the RMC, which enables the RMO, as the RMC Chair, to lead a collaborative approach to ERM governance.

Sustaining effective performance of the ERM program would be difficult should the RMO position be vacant, either in the short or long-term, as there is a heavy reliance on the RMO for guidance. Lack of a properly documented and structured succession plan for the RMO position could negatively impact retention of institutional knowledge and operational performance, potentially causing inefficiencies, such as:

- the successor and those involved with the ERM program hindered in achieving a seamless transition,
- the failure to perform duties essential to the continuous identification of risk, and
- increased likelihood of risks going undetected.

## Recommendations

We recommend that the Office of Management and Administration:

1. Develop a succession plan that clearly outlines ERM program duties that the RMO provides.

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC concurred with the recommendation. OMA stated it would develop a succession plan outlining the ERM program duties that the RMO provides. OMA's goal is to complete the planned action by August 15, 2021.

Closure of this recommendation will occur when PBGC provides OIG the developed succession plan.

2. Identify contingency support for the RMO so day-to-day operations are not impacted by short-term unavailability of the RMO.

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC concurred with the recommendation. OMA stated it would identify contingency support for the RMO to ensure daily operations are not impacted in the short-term due to RMO unavailability. OMA's goal is to complete the planned action by August 15, 2021.

Closure of this recommendation will occur when PBGC provides evidence of the contingency support for the RMO.

## **Finding 2: PBGC Needs to Improve Training Among RMC Members**

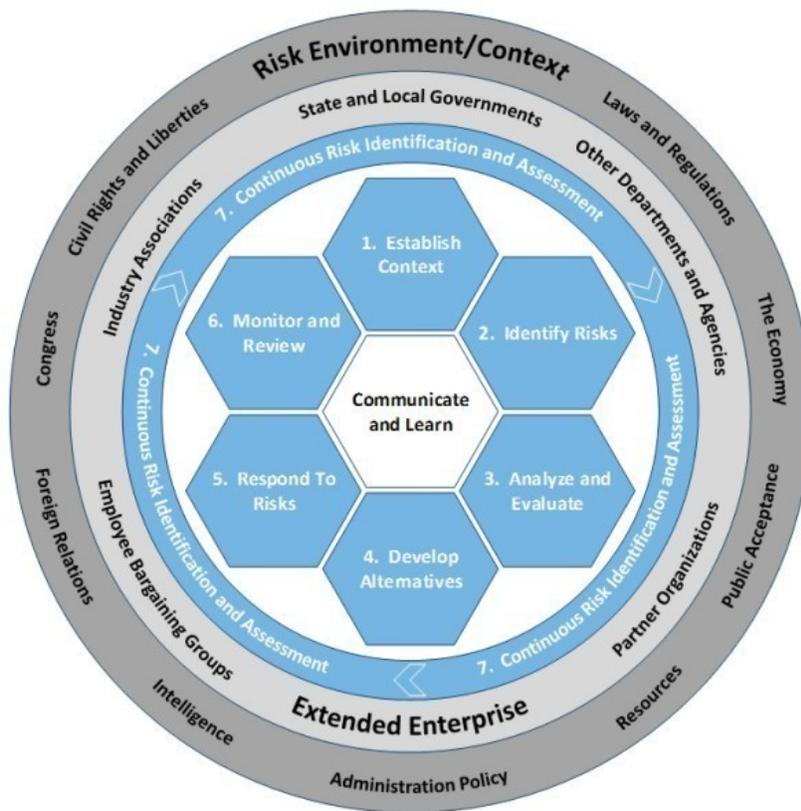
OMB Circular A-123, Section II, *Establishing Enterprise Risk Management in Management Practices*, states:

Most agencies should build their capabilities, first to conduct more effective risk management, then to implement ERM, rating those risks in terms of impact, and finally building internal controls to monitor and assess the risk developments at various time points. To complete this circle of risk management, the Agencies must incorporate risk awareness into the agencies' culture and ways of doing business.

Further, according to the Circular's Section II, A., *Governance*, the responsibilities of managing risks are shared throughout the agency from the highest levels of executive

leadership to the service delivery staff executing federal programs. As OMB states, these risk management leaders are responsible for developing and implementing core risk management policies and procedures. Expanding on this, the Green Book says: “Competence is the qualification to carry out assigned responsibilities. It requires relevant knowledge, skills, and abilities, which are gained largely from professional experience, training, and certifications.” The Circular’s chart in Figure 3 represents the elements of the ERM program, highlighting that learning is a central focal point for effective ERM.

**Figure 3. Illustrative Example of an Enterprise Risk Management Model.**



Source: OMB Circular No. A-123 (July 15, 2016).

We found that ERM training, at any level within PBGC, has not been formalized. According to the RMO, there is ERM training and an informative speaker series, which includes instructions on how to identify, escalate, and categorize risks, available and archived on the RMO webpage for staff to view. The RMO provided the PowerPoint presentation of the ERM training available on the RMO webpage. However, staff are not required to review the training materials. We also noted that, although ERM training modules exist at PBGC, they are not part of the agency’s required training. During our discussions with the RMO, we noted the lack of required ERM training for those directly involved with ERM activities at the RMC level and for the departments who are

responsible for executing risk assessments and other ERM activities. In response, the RMO acknowledged there is no requirement for employees to take the available training.

We also found that an ERM training class was available for all department managers, but our interviews revealed varying levels of training completed by department managers. One department head mentioned being new to the ERM process and taking the initiative to sign-up for training. Another department head was not able to say whether there was a particular training for evaluating risk.

If PBGC does not formalize training for RMC members (Appendix IV) and those with direct responsibilities of risk management, there will be an inconsistent base of ERM knowledge across PBGC officials charged with the ERM governance, which may result in:

- inconsistent application of ERM methodologies and practices, and
- increased likelihood for risks going undetected while performing annual and continuous risk assessments.

## **Recommendations**

We recommend the Office of Management and Administration:

3. Develop formal ERM training requirements for RMC members and department leads to ensure those in management have a consistent knowledge base.

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC concurred with the recommendation. OMA stated it would develop formal ERM training requirements to ensure a consistent knowledge base among RMC members and department leads. OMA's goal is to complete the planned action by August 15, 2021.

Closure of this recommendation will occur when PBGC provides the formalized ERM training requirements.

### **Finding 3: PBGC Needs to Update the Guidance on Improving Accountability and Effectiveness of PBGC Programs and Operations**

OMB Circular No. A-123, *Introduction*, states:

Federal leaders and managers are responsible for establishing and achieving goals and objectives, seizing opportunities to improve effectiveness and efficiency of operations, providing reliable reporting, and maintaining compliance with relevant laws and regulations. They are also responsible for implementing management practices that effectively identify, assess, respond, and report on risks.

Further, OMB Circular No. A-123 provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by identifying and managing risks, establishing requirements to assess, correct, and report on the effectiveness of internal controls.

The Circular emphasizes the need to integrate risk and control activities as an essential part of managing an agency. The Green Book states that management establishes the organizational structure necessary to enable the entity to plan, execute, control, and assess the organization in achieving its objectives. As the guidance document for these activities, the Circular and its appendices have been updated numerous times since first issued in 1981. In addition, the Green Book has been updated twice since its issuance in 1983.

We found PBGC is using Directive GA-15-01, *PBGC Management Control Program* (March 16, 1998), that does not capture the current ERM guidance covered in the OMB Circular A-123 of July 15, 2016. The purpose of the directive is to provide guidance to PBGC management on improving the accountability and effectiveness of PBGC programs and operations by establishing, assessing, correcting, and reporting on management controls. This directive is intended to implement the management control requirements of the *Federal Managers' Financial Integrity Act*, *Chief Financial Officers Act* and OMB Circular No. A-123. The directive also contains an outdated reference to OMB Circular A-127, *Financial Management Systems*, which was rescinded and replaced with OMB Circular No. A-123, Appendix D. Thus, the guidance does not incorporate authoritative references prompted by the ERM developments since 1998, including the addition of the ERM concept to OMB Circular A-123 in 2016. The lack of an updated directive may lead to irrelevant and ineffective guidance to remediate risks.

PBGC officials have acknowledged the use of Directive GA-15-01 and confirmed it was an oversight on their part. The Corporate Controls and Reviews Department within the Office of Chief Financial Officer will update the directive in fiscal year 2021.

## Recommendations

We recommend the Office of Chief Financial Officer:

4. Update Directive GA-15-01 in accordance with the current standards and requirements.

### **PBGC's Response and OIG's Evaluation**

**Resolved.** PBGC concurred with the recommendation. OMA stated that the Corporate Controls and Reviews Department (CCRD) has begun the process of updating Directive GA-15-01 to include the current standards and requirements. CCRD is planning to complete the planned actions by September 30, 2021.

Closure of this recommendation will occur when PBGC provides OIG the updated directive.

# Appendix I: Objective, Scope, and Methodology

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## Objective

Our objective was to assess PBGC's implementation of the Enterprise Risk Management program.

## Scope

Our scope was an evaluation of the current PBGC ERM program. We conducted this evaluation remotely because of CDC guidelines and PBGC OIG Virtual Office guidance issued due to the COVID-19 pandemic.

## Methodology

To answer our objective, we reviewed and gained an understanding of all pertinent ERM criteria captured in the Office of the Management and Budget (OMB) Circular A-123 and PBGC-specific policies and procedures related to the ERM program. We used the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Inspectors General Guide to Assessing Enterprise Risk Management* (January 2020) during our evaluation as a reference for assessing ERM programs at government agencies.

The evaluation team identified the agency's values, beliefs, and attitudes toward ERM through our entrance conference and follow-up discussions with PBGC officials. We also conducted a walkthrough of the agency's ERM program, where we gained an understanding of the ERM framework, the communications process, the criteria used to develop the framework, and relevant policies, processes, and procedures. We analyzed PBGC's documentation, including any prior internal or external audits, evaluations, or other reviews related to the agency's ERM program. We obtained other information related to the ERM program, including but not limited to, organization charts, risk profiles, policies and procedures, standard operating procedures, and statements from relevant personnel.

We interviewed the RMO and, based on risk exposure, selected and interviewed three office points of contact responsible for the agency's ERM program. Selected offices satisfied two conditions on the PBGC FY2020 risk register: (1) largest number of risks rated as "high" and (2) large number of total risks listed on their risk register. We

obtained and reviewed all pertinent ERM documentation as supporting evidence of statements made during those interviews.

We conducted this under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Quality Standards for Inspection and Evaluation issued by CIGIE.

# Appendix II: Agency Response

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February 11, 2021

**To:** John Seger  
Assistant Inspector General for Audits (OIG)

**From:** Alice C. Maroni   
Chief Management Officer

**Subject:** Response to OIG's Draft Report on PBGC's ERM Program

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft report, dated January 15, 2021, relating to PBGC's Enterprise Risk Management (ERM) Program (Project No. EV-20-151). Your office's work on this is sincerely appreciated.

On January 8, 2021, PBGC discussed the draft findings and recommendations with OIG staff. The dialogue was both informative and insightful and PBGC is grateful for the opportunity to respond to the recommendations suggested by the OIG.

Management is in agreement with the report's findings and recommendations. Attached please find our response to each recommendation included in the report, as well as our planned corrective actions and scheduled completion dates. Addressing these recommendations in a timely manner is an important priority for PBGC.

cc: Frank Pace, Director, Corporate Controls and Reviews Department  
Latrece Wade, Risk Management Officer

Our comments on the specific recommendations in the draft report are as follows:

**1.** Develop a succession plan that clearly outlines ERM program duties that the RMO provides. (OIG Control Number 2021-07-01)

**PBGC Response:** Management concurs with this recommendation. OMA will develop a succession plan that outlines the ERM program duties that the RMO provides.

**Scheduled Completion Date:** 08/15/2021

**2.** Identify contingency support for the RMO so that day-to-day operations are not impacted by short-term unavailability of the RMO. (OIG Control Number 2021-07-02)

**PBGC Response:** Management concurs with this recommendation. OMA will identify contingency support for the RMO, to ensure that daily operations are not impacted in the short-term due to RMO unavailability.

**Scheduled Completion Date:** 08/15/2021

**3.** Develop formal ERM training requirements for RMC, members and department leads to ensure those in management have a consistent knowledge base. (OIG Control Number 2021-07-03)

**PBGC Response:** Management concurs with this recommendation. OMA will develop formal ERM training requirements to ensure a consistent knowledge base among RMC members and department leads.

**Scheduled Completion Date:** 08/15/2021

**4.** Update Directive GA-15-01 in accordance with the current standards and requirements. (OIG Control Number 2021-07-04)

**PBGC Response:** Management concurs with this recommendation. The Corporate Controls and Reviews Department (CCRD) has begun the process of updating Directive GA-15-01 to include the current standards and requirements.

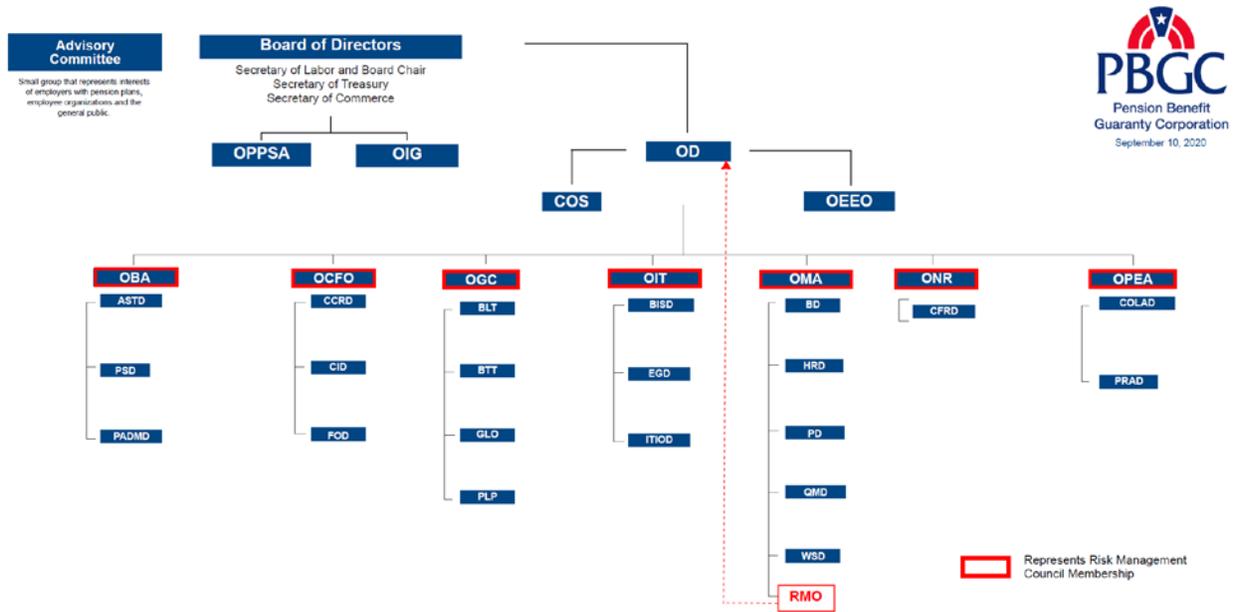
**Scheduled Completion Date:** 09/30/2021

## Appendix III: Acronyms

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<b>Acronym</b>	<b>Meaning</b>
CIGIE	Council of the Inspectors General on Integrity and Efficiency
COO	Chief Operating Officer
CRO	Chief Risk Officer
EMC	Executive Management Council
ERM	Enterprise Risk Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
RMC	Risk Management Council
RMO	Risk Management Officer

# Appendix IV: Risk Management Council Members within PBGC Organizational Chart



Source: Adapted from PBGC Internet

# Appendix V: Staff Acknowledgement

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Staff Acknowledgement

Parvina Shamsieva-Cohen, Audit Manager, and Christina Harris, Auditor-In-Charge, made key contributions to this report.

# Appendix VI: Feedback

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Please send your comments, suggestions, and feedback to [OIGFeedback@pbgc.gov](mailto:OIGFeedback@pbgc.gov) and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General  
Pension Benefit Guaranty Corporation  
1200 K Street, NW, Suite 480  
Washington, DC 20005

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.