Office of Inspector General
Pension Benefit Guaranty Corporation

May 13, 2016

TO: W. Thomas Reeder, Jr.
Director

Patricia Kelly
Chief Financial Officer

FROM: Robert A. Westbrooks
Inspector General

SUBJECT: Audit of PBGC's Fiscal Year 2015 Compliance with Improper Payments Information Act Requirements, Report No. AUD-2016-09/PA-16-109

We audited PBGC's FY 2015 compliance with the Improper Payments Information Act (IPIA) of 2002, as amended.[1] Our objective was to assess PBGC's compliance with the requirements of IPIA. We determined that PBGC complied with all mandated IPIA requirements (Table 1). During the course of our audit, we identified an opportunity for improvement within PBGC's payment recapture audit process. The details are discussed below.

Background

To provide agencies with more unified, comprehensive, and less burdensome requirements, OMB issued Memorandum M-15-02 which is effective for FY 2014 and beyond.[2] OMB Circular A-123 requires federal agencies to institute a systematic method of reviewing all programs or

[1] IPIA was amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010. Subsequent to IPERA, on January 10, 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) was enacted. Unless otherwise indicated, from this point forward in this report, the term "IPIA" will imply "IPIA, as amended by IPERA and IPERIA."

[2] OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Measurement and Remediation of Improper Payments* (October 20, 2014).

activities and identify those susceptible to significant improper payments[3]. PBGC has identified the following payment streams (recognized as programs or activities):

1. Benefit Payments to participants in "final pay" status for plans trusteed by PBGC under Title IV of ERISA (Benefit Payments);
2. Payments to contractors for goods and services, including government credit card transactions (Payments to Contractors);
3. Financial assistance loans to insolvent multiemployer plans that are unable to pay pension benefits when due under the requirements of Title IV of ERISA for the payment of participants' benefits and reasonable administrative expenses of the plan (Multiemployer Plan Financial Assistance Payments);
4. Payments made to federal employees, including payroll and travel reimbursements (Payments to Federal Employees); and
5. Refunds of previously paid premiums (Premium Refunds).

In previous fiscal years, PBGC concluded that none of its payment streams were susceptible to significant improper payment risk. Therefore, as permitted by OMB, PBGC performs risk assessments of its payment streams on a three-year cycle.[4]

For FY 2015, PBGC contracted with a consulting firm, KPMG, to perform a risk assessment for two payment streams, Benefit Payments and Premium Refunds, that included an analysis based on the nine risk factors required by OMB Circular A -123. In addition, PBGC opted to perform statistical sampling of Benefit Payments to determine whether the projected improper payment percentage and dollar value exceeded OMB thresholds for significant improper payments. With OMB notification, the statistical sampling of Benefit Payments was performed on FY 2014 Benefits Payments; PBGC's analysis focused on payment accuracy and excluded testing of underlying documentation. Based on the results of the risk assessment, PBGC determined that neither program was susceptible to significant improper payments. [5] These

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[3] An improper payment is defined by statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. OMB guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

[4] OMB Circular A-123 specifies that for low-risk programs, agencies must perform risk assessments for improper payments at least every three years.

[5] Based on OMB Circular A-123, a program is susceptible to significant improper payments if the total amount of overpayments plus underpayments in the program exceeds both 1.5 percent of program outlays and $100 million of all program activity or activity payments made during the fiscal year reported or $100 million regardless of the improper payment percentage of total program outlays.

results, including the statistically obtained estimate of the improper payment rate for Benefit Payments, were published in the FY 2015 Agency Financial Report.

Under OMB Circular A-123 guidance, we reviewed PBGC's most recent AFR and any accompanying materials to determine whether the agency complied with six specific IPIA requirements. In addition, the guidance permits us to evaluate PBGC's performance in recapturing improper payments required by IPIA.

Results

Based on the results of the audit performed, PBGC's compliance with the six IPIA requirements is summarized in the table below:

Table 1

	OMB Criteria for Compliance	Complied
1	Published an AFR or Performance and Accountability Report for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency's website;	Yes
2	Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);	Yes
3	Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);	N/A [ab]
4	Published programmatic corrective action plans in the AFR or PAR (if required);	N/A [a]
5	Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and	N/A [a]
6	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 AFR or PAR.	N/A [a]

[a] The criteria is not applicable, based on the results of PBGC's program specific risk assessment, PBGC determined that none of these programs were susceptible to the significant risk of improper payments. Therefore, numbers 3, 4, 5 and 6 were not required.

[ab] PBGC elected to disclose and publish in the AFR a statistically obtained estimate of the improper payment rate for Benefit Payments.

Other Matters

During the course of our audit we included an assessment of PBGC's payment recapture audit program. We evaluated whether the agency conducted payment recapture audits for each program and activity that expended $1 million or more annually. PBGC only performed payment recapture audits on two payment streams: Benefit Payments and Payments to Contractors, but we believe all five qualify for payment recapture audits. The Premium Refund actual amount for FY 2014 was $13.5 million and the FY 2015 Congressional Budget Justification for the other two were well in excess of $1 million (specifically Payments to Federal Employees requested $149.5 million and Multiemployer Plan Financial Assistance Payments requested $152 million0.[6] IPERA requires agencies to conduct payment recapture audits for each program or activity that expends $1 million or more annually if conducting such audits is cost effective. In accordance with OMB Circular A-123, if an agency is unable to perform a cost effective payment recapture audit, it must notify OMB and the agency's Inspector General and include any analysis used to reach its decision. We determined PBGC did not conduct a cost-benefit analysis for the FY 2015 reporting period.

We suggest PBGC perform payment recapture audits on the remaining three payment streams above $1 million or complete a cost-benefit analysis in accordance with OMB guidance. If PBGC determines that performing the additional payment recapture audits costs outweigh the benefits, the agency must report its findings and analysis to OMB and OIG. We will issue a memorandum to the agency further describing our observation.

[6] The Premium Refund value for FY 2015 was not included in the Congressional Budget Justification.

Appendix

Scope

To accomplish our objective, we reviewed the PBGC improper payments reporting included as part of FY 2015 AFR. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 2015 and April 2016 in Washington, DC.

Methodology

The audit objective was accomplished through interviewing appropriate PBGC officials including Benefit Payments and Premium Refunds personnel, and examining pertinent documentation and applicable policies and procedures.

To accomplish our objective, we:

- Reviewed applicable laws, regulations, OMB Circular A-123, Appendix C, as well as PBGC policies and directives;
- Confirmed that PBGC published on the agency's website, the FY 2015 AFR (the most recent fiscal year) and included all required by OMB materials;
- Interviewed PBGC and KPMG staff;
- Reviewed PBGC's risk assessment of Benefit Payments and Premium Refunds;
- Reconciled PBGC improper payments reporting to KPMG documentation for accuracy;
- Statistically determined a sample size of 34 Benefits Payments out of 256 tested by KPMG and confirmed KPMG risk assessment results; and
- Reviewed KPMG documentation to support the statistical projections of improper payment rate of Benefit Payments.

Use of Computer-Processed Data

To re-perform KPMG's test, we obtained excel spreadsheets of their Benefit Payment testing and traced each testing procedure to plan and participant files obtained from PBGC's Image Viewer system. We concluded that the data was valid and reliable for the purposes of this audit.

Review of Internal Controls

We reviewed and evaluated internal controls, specifically controls over PBGC's improper payments reporting, risk assessment, and recapture audit determination processes. We also assessed applicable federal laws and PBGC policies and procedures. We consider the reviewed internal controls to be adequate within the context of the audit objective.

Prior Coverage

During the last five years, the PBGC OIG has issued three reports of significant relevance to the subject of this report. Reports can be accessed at http://oig.pbgc.gov/evaluations.html#:

FY 2012 Audit of PBGC's Compliance with the Implementation of the Improper Payments Act (AUD 2013-5/PA-12-92, March 14, 2013);

FY 2013 Audit of PBGC's Compliance with the Implementation of the Improper Payments Information Act (AUD 2014-11/PA-14-99, April 10, 2014);

FY 2014 Audit of PBGC's Compliance with the Implementation of the Improper Payments Information Act (AUD 2015-10/PA-15-106, May 14, 2015).

Management Response

PBGC
Protecting America's Pensions
Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

May 5, 2016

TO: Robert A. Westbrooks
Inspector General

FROM: W. Thomas Reeder, Jr.
Director

SUBJECT: Management's Response to the Draft Audit of PBGC's Fiscal Year 2015 Compliance with Improper Payments Information Act Requirements, Report No. AUD-2016-XX/PA-16-109

Thank you for the opportunity to comment on the subject report and for your office's diligent work in reviewing this important subject. We were pleased to note that our processes were deemed compliant.

We look forward to receiving your memorandum further describing your observations on the opportunity for improvement within PBGC's payment recapture audit process. PBGC is committed to documenting that process further to provide you with more detail and our cost-benefit rationale.

Again, your work in this vital area is much appreciated.

cc: Patricia Kelly
Marty Boehm