



February 21, 2024

RISK ADVISORY

TO: Gordon Hartogensis
Director, PBGC

Executive Management Committee
PBGC

FROM: Brooke Holmes
Deputy Inspector General

SUBJECT: Risk Advisory on Procurement Challenges
SR-2024-05

This Risk Advisory is to report our concerns regarding the ability of the Procurement Department at the Pension Benefit Guaranty Corporation (PBGC or the Corporation) to fulfill its role in a timely and effective manner. The suggestions contained in this Risk Advisory do not constitute formal audit recommendations. We provided a draft copy of this Risk Advisory to management and their comments have been incorporated in Appendix III. We will post this Risk Advisory on our public website in accordance with our responsibilities under the Inspector General Act to keep the Board, Congress, and the public fully and currently informed about problems and deficiencies related to the Corporation's programs and operations.

As you know, management is responsible for identifying internal and external risks that may prevent the Corporation from meeting its strategic goals and objectives, assessing risks to determine their potential impact, and applying the appropriate risk responses. One source of risk information is the OIG.

Summary

We have identified the following risk that warrants management's attention: A lack of continuity in senior acquisition leadership, effective strategic human capital planning for acquisition personnel, and effective policies and procedures over routine contract activities leave PBGC vulnerable to low staff morale, contract award delays, and fraud, waste and abuse in its acquisition function.

To mitigate the risk to an acceptable level, we suggest the Corporation assess its acquisition function following the guidelines in the Government Accountability Office's Framework for Assessing the Acquisition Function at Federal Agencies (GAO's Framework) and facilitate discussions with procurement and program stakeholders to identify areas to improve the acquisition process and communication across program offices. Furthermore, we suggest the Corporation update its procurement policies and procedures, benchmark PBGC's acquisition function with other similarly sized agencies to identify best practices, and develop a strategic human capital recruiting, hiring, and retention plan to ensure the department is adequately staffed with the right number of contract specialists with the right skills.¹

Background

PBGC protects the retirement security of over 31 million workers, retirees, and beneficiaries in both single-employer and multiemployer private-sector pension plans. In fiscal year (FY) 2023, PBGC paid over \$6.0 billion in benefits to one million participants. 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" including "improving procurement activities." In recent years, PBGC's Procurement Department has incurred a fraud conviction of a previous procurement director, a high rate of staff turnover, and hotline complaints about insufficient control activities. Control activities help reduce the incidence of fraud, waste and abuse in the acquisition function.

The current PBGC workforce consists of just under 1,000 federal employees, who are supported by approximately 1,500 contractor employees. In FY 2023, PBGC awarded approximately \$340 million in contracts for goods and services — an increase of about 30 percent since 2008.

Risk

A lack of continuity in senior acquisition leadership, effective strategic human capital planning for acquisition personnel, and effective policies and procedures over routine contract activities leaves PBGC vulnerable to low staff morale, contract award delays, and fraud, waste and abuse in its acquisition function.

¹ The Contract Specialist classification includes contract officers.

Details

GAO's Framework (GAO-05-218G, September 2005) enables high-level, qualitative assessments of the strengths and weaknesses of the acquisition function at federal agencies. Such assessments can help senior agency executives identify areas needing greater management attention. The framework, summarized in Appendix I below, has four cornerstones. We are focusing on three of the four in this Risk Advisory: (1) Organizational Alignment and Leadership, (2) Human Capital, and (3) Policies and Processes.

Organizational Alignment and Leadership

GAO's Framework stresses:

Organizational alignment is the appropriate placement of the acquisition function in the agency, with stakeholders having clearly defined roles and responsibilities. There is no single, optimal way to organize an agency's acquisition function. Each agency must assess whether the current placement of its acquisition function is meeting its organizational needs. Committed leadership enables officials to make strategic decisions that achieve agencywide acquisition outcomes more effectively and efficiently.

Since 2017, the Procurement Department has been managed by three Directors and three Acting Directors. In May 2020, the previous Procurement Department Director pled guilty to conspiracy to bribe a public official. Currently, the Director and Deputy Director positions are vacant. While each Director has worked to improve contracting practices, challenges remain. In recent interviews with OIG, Executive Management Committee members and program office staff expressed concerns with the Procurement Department environment, including the department's communications and working relationships with procuring officials in program offices, high workloads for contract specialists, and a lack of flexibility in acquisition strategies.

GAO illustrates the principles in its Framework with conditions that hinder good acquisition outcomes (cautions), and conditions that enhance the likelihood of consistently achieving desired acquisition outcomes (success factors). From our observations of the current state of the Procurement Department, we have identified the following cautions and success factors for management to consider when evaluating the organizational alignment and leadership aspect of its acquisition function:

- *Caution* - Conflicts among stakeholders are left unresolved, thereby resulting in inefficient operations.

- *Success Factor* - Key stakeholders are empowered to coordinate, integrate, and implement decisions about acquisitions.

Turnover in Procurement Department leadership and struggles with stakeholder relationships result in frustration among staff and delays in critical acquisition awards. Assessing the role of procurement leadership, as highlighted in GAO's Framework, can establish stability and clear lines of responsibility to maintain a positive and productive work environment and to ensure its contracting requirements are met in a timely and efficient manner.

Human Capital

GAO's Framework establishes that:

Human capital permeates virtually every effort within an agency, including successfully acquiring goods and services and executing and monitoring contracts. Effective human capital management ensures that an agency has the right staff in the right numbers applying skills where needed to accomplish the mission effectively. Creating an acquisition workforce with the right skills and capabilities can be a challenge, given changes to acquisition processes, the introduction or expansion of alternative contracting approaches, and increased reliance on services provided by the private sector. In addition, agencies are facing a growing number of employees who are eligible for retirement, which could create an imbalance with regard to acquisition experience and skill sets.

The Procurement Department's current organization chart, printed in Appendix II, reflects a total of 27 full-time equivalent positions; however, the Corporation has incurred significant personnel challenges within the Procurement Department over the last 10 years. In total, 49 personnel have left the department since 2013. Of those departures, 26 were contract specialists. Presently, the Procurement Department has 13 contract specialists, with an average length of PBGC service of 2 years. Six contract specialist and procurement analyst positions are vacant.

The Procurement Department's recent challenges have resulted in a drop in employee satisfaction according to results from the Federal Viewpoint Surveys. For example, in 2017, 80 percent of staff expressed a feeling of personal accomplishment with their job; however, in 2022, only 68 percent expressed a feeling of personal accomplishment. Similarly, in 2017, 87 percent of department staff said they had enough information to

do their job well; in 2022, it fell to 61 percent. The 2022 survey contains the most recent viewpoint results for the Procurement Department.

As it relates to Human Capital, we offer the following *caution* and *success factors* for management to consider:

- *Caution* - Rapid turnover and high vacancies in a key job description (contract specialist) result in a lack of institutional knowledge and subject matter expertise.

- *Success Factors*
 - Comprehensive strategic workforce planning efforts.
 - A strategic workforce plan that reflects the needs of the acquisition function, including consideration of which functions to maintain in-house.
 - Strategies for recruiting, retaining, and developing acquisition staff, including performance measures to evaluate the contribution these strategies make in supporting the agency's acquisition function and achieving its mission and goals.
 - A knowledge and skills inventory is used to identify current and future weaknesses and needs in acquisition skills.

Securing qualified candidates for key acquisition positions will establish a foundation for a successful acquisition function. Building a department with the right number of people with the right skills will require human capital strategic planning from senior PBGC executives. Further, the Corporation's ability to retain acquisition personnel will supply the institutional knowledge necessary to work effectively with stakeholders.

Policies and Procedures

According to GAO's Framework:

Implementing strategic decisions to achieve desired agencywide outcomes requires clear and transparent policies and processes that are implemented consistently. Policies establish expectations about the management of the acquisition function. Processes are the means by which management functions will be performed and implemented in support of agency missions. Effective policies and processes govern the

planning, award, administration, and oversight of acquisition efforts, with a focus on assuring that these efforts achieve intended results.

In interviews, Procurement Department officials stated that PBGC's acquisition policies and procedures are insufficient and not well implemented. For example, program office staff expressed concerns that contract specialists follow institutional knowledge they bring into PBGC from other agencies resulting in inconsistent and inefficient procurement requests for proposals. Additionally, recent changes in policies have hindered efficiency, according to one program office. Likewise, templates intended to help communication between the Procurement Department and program offices change frequently and without notification, slowing down the procurement request and review process. With the high level of procurement personnel turnover within the Procurement Department, PBGC needs robust policies regarding how procurements at PBGC should be processed. This should assist with making the acquisition planning process more efficient for Procurement Department personnel and program personnel, especially new hires.

Additionally, in our report, *PBGC Needs to Strengthen Acquisition Planning for Actuarial Support Services* (EVAL-2021-09, June 4, 2021), we found PBGC's acquisition planning for actuarial support services did not meet its needs timely and effectively. We made five recommendations to the Office of Management and Administration to improve policies and procedures for acquisition planning, including developing and implementing a tracking process for existing contracts and guidance for reviewing and revising proposals by offerors. PBGC addressed our recommendations.

In light of these issues related to Policies and Processes, we offer the following *cautions* and *success factors* for management to consider:

- *Cautions*
 - Stakeholders do not clearly communicate their needs or work together to identify solutions.
 - Personnel responsible for contract management have skills and knowledge gaps that inhibit their ability to properly oversee the types of contracts used by the agency.
 - The agency does not assign clear roles and responsibilities for overseeing contracts.

- *Success Factors*
 - Policies and processes are designed and implemented, clearly communicated, and revisited periodically to ensure effectiveness.
 - The agency regularly reviews contract oversight processes, identifies areas needing improvement, and establishes and implements corrective action plans.

Robust policies and processes can reduce delays in the acquisition process, eliminate redundancy and last-minute decision making, and empower Procurement Department personnel and stakeholders to work together timely and effectively to procure the desired goods and services to meet PBGC's mission. Further, consistent and transparent policies and processes help to reduce fraud, waste and abuse.

Conclusion

Performing assessments in the areas identified in GAO's Framework will provide senior management with the information it needs to improve PBGC's procurement activities such that contracted goods and services are provided timely and efficiently across program divisions and in a fiscally responsible manner. Immediate attention to these areas is needed to reduce the possibility of contract award delays and instances of fraud, waste and abuse, as well as the risk of low staff morale and disunity.

Suggestions

To mitigate the above risk, we offer the following suggestions:

1. Consider the cornerstones of an efficient, effective, and accountable acquisition process that are highlighted in GAO's *Framework for Assessing the Acquisition Function* and perform assessments where needed.
2. Facilitate discussions with Procurement Department staff and key PBGC stakeholders to identify areas to improve the acquisition process and communication.
3. Benchmark PBGC's acquisition function with other similarly sized agencies to identify best practices.
4. Develop a strategic human capital recruiting, hiring, and retention plan to ensure the Procurement Department is adequately staffed with the right number of contract specialists with the right skills.

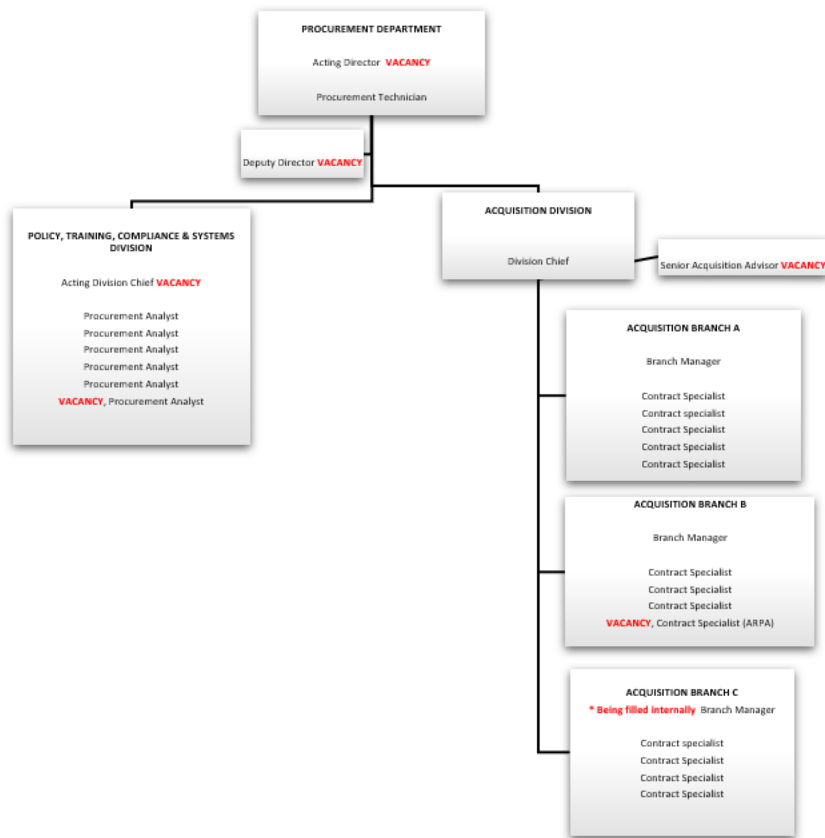
cc: Latreece Wade, Risk Management Officer
Department of Labor Board staff
Department of Treasury Board staff
Department of Commerce Board staff
House committee staff (Education and Workforce, Ways and Means, HOCR)
Senate committee staff (HELP, Finance, HSGAC)

Appendix I: Framework for Assessing the Acquisition Function

Cornerstones	Elements	Critical Success Factors
Organizational Alignment and Leadership	Aligning Acquisition with Agency's Missions and Needs	<ul style="list-style-type: none"> • Assuring Appropriate Placement of the Acquisition Function • Organizing the Acquisition Function to Operate Strategically • Clearly Defining and Integrating Roles and Responsibilities
	Commitment from Leadership	<ul style="list-style-type: none"> • Clear, Strong, and Ethical Executive Leadership • Effective Communications and Continuous Improvement
Policies and Processes	Planning Strategically	<ul style="list-style-type: none"> • Partnering with Internal Organizations • Assessing Internal Requirements and the Impact of External Events
	Effectively Managing the Acquisition Process	<ul style="list-style-type: none"> • Empowering Cross-Functional Teams • Managing and Engaging Suppliers • Monitoring and Providing Oversight to Achieve Desired Outcomes • Enabling Financial Accountability
	Promoting Successful Outcomes of Major Projects	<ul style="list-style-type: none"> • Using Sound Capital Investment Strategies • Employing Knowledge-Based Acquisition Approaches
Human Capital	Valuing and Investing in the Acquisition Workforce	<ul style="list-style-type: none"> • Commitment to Human Capital Management • Role of the Human Capital Function
	Strategic Human Capital Planning	<ul style="list-style-type: none"> • Integration and Alignment • Data-Driven Human Capital Decisions
	Acquiring, Developing, and Retaining Talent	<ul style="list-style-type: none"> • Targeted Investments in People • Human Capital Approaches Tailored to Meet Organizational Needs
	Creating Results-Oriented Organizational Cultures	<ul style="list-style-type: none"> • Empowerment and Inclusiveness • Unit and Individual Performance Linked to Organizational Goals
Knowledge and Information Management	Identifying Data and Technology that Support Acquisition Management Decisions	<ul style="list-style-type: none"> • Tracking Acquisition Data • Translating Financial Data into Meaningful Formats • Analyzing Goods and Services Spending
	Safeguarding the Integrity of Operations and Data	<ul style="list-style-type: none"> • Ensuring Effective General and Application Controls • Data Stewardship

Source: GAO-05-218G, September 2005

Appendix II: Procurement Department Organization Chart



Source: PBGC Office of Management and Administration, November 2023

Appendix III: Management Response



Pension Benefit Guaranty Corporation
445 12th Street SW, Washington, DC 20024-2101

February 16, 2024

To: Nicholas J. Novak
Inspector General

From: Gordon Hartogensis Gordon
Director Hartogensis

Digitally signed by Gordon
Hartogensis
Date: 2024.02.16 18:15:04
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Subject: Response to Risk Advisory on Procurement Challenges

PBGC management appreciates the opportunity to comment on the Risk Advisory on Procurement Challenges.

PBGC values the Office of Inspector General's role in improving PBGC's ability to carry out its critical mission, and we are committed to ensuring the agency and its employees operate responsibly, transparently, and in accordance with all legal and ethical requirements. As always, PBGC management is prepared to work with the OIG to fully address the issues that you raise in a timely manner. We will continue to inform your office as we mitigate the risks identified. For your convenience, we are separately providing additional information regarding the suggestions identified in the risk advisory.

Please contact Lisa Carter should you have any questions.

cc:

Kristin Chapman, Chief of Staff
Alice Maroni, Chief Management Officer
Patricia Kelly, Chief Financial Officer
Ann Orr, Chief Policy Officer
Karen Morris, General Counsel
David Foley, Chief of Benefits Administration
John Hanley, Chief of Negotiations and Restructuring
Robert Scherer, Chief Information Officer
Arrie Etheridge, Acting Director, Procurement Department
Lisa Carter, Director, Corporate Controls and Reviews Department

Our comments on the specific suggestions in the Risk Advisory are as follows:

1. Consider the cornerstones of an efficient, effective, and accountable acquisition process that are highlighted in GAO's Framework for Assessing the Acquisition Function and perform assessments where needed.

PBGC management is committed to considering the guidelines in the GAO Framework to assess and mitigate risk in the Procurement Department (PD), with an immediate focus on the following areas: a lack of continuity in senior acquisition leadership; effective strategic human capital planning for acquisition personnel; and effective policies and procedures over routine contract activities.

Recruiting and retaining qualified senior acquisition candidates for the Procurement Director, Deputy Procurement Director, and four management positions is a top priority for the Office of Management and Administration (OMA). OMA began recruiting for the PD Director position in October 2023 and is currently interviewing qualified candidates.

To ensure PBGC was targeting the most qualified candidates, the required competencies included the following:

- Provides leadership for the PBGC acquisition community that results in Federal Acquisition Regulations (FAR) compliant contract administration, quality procurement, and support services that are timely and efficient.
- Experience reviewing and updating procurement policies and procedures ensuring they are in compliance with applicable law, rules, and regulations, including the FAR.
- Ability to work effectively across the organization with management and operating officials and employees of diverse academic and professional disciplines.
- Experience in engaging with external organizations, including the Office of Inspector General, the Government Accountability Office, the Office of Management and Budget including the Office of Federal Procurement Policy. Ensures reports are completed within the established deadlines and contain accurate, technically sound information (containing factual information which align with practice, policy and regulations).

The Chief Management Officer (CMO)/Chief Acquisition Officer (CAO) is committed to reevaluating the metrics related to acquisition efficiency, effectiveness, and results in the performance plan of the Procurement Director and across PD management to identify areas to incorporate Human Capital strategies.

To address GAO's policies and processes cornerstone, PD has made significant changes to management oversight of procurement activities. On February 27, 2020, the PBGC Director requested the PBGC's Office of the Inspector General (OIG) review the agency's procurement practices and procedures to identify weaknesses, vulnerabilities, or systemic issues. On December 8, 2020, OIG issued its findings (*Internal Controls Must Be Strengthened to Promote Procurement Integrity*) and made three recommendations to OMA to strengthen internal controls to promote procurement integrity. In addition, on June 4, 2021, OIG issued five recommendations to OMA to improve policies and procedures for acquisition planning in its report *PBGC Needs to Strengthen Acquisition Planning for Actuarial Support Services*.

In March 2021, PBGC's Director signed an updated directive PBGC Financial Management (FM) 15-01, Requisition and Acquisition of Supplies and Services, which clarified and more demonstrably separated the official duties of PD management and contracting staff, set limits on contract length and government purchase holder limits, in accordance with the FAR, and provided guidelines for legal reviews of contracts.

PD has also increased management oversight with a new eFiles review process, which ensures complete official contract file documentation: (1) A new employee reporting directly to the PD Director is accountable for eFiles oversight and reporting. (2) The Acquisition Division Chief is responsible for certifying compliance. (3) The new process is sampled for compliance by the Policy, Systems, Training and Compliance Division Chief on an annual basis.

In addition, PD has established a process to partner with key stakeholders in the acquisition process from planning through closeout of the contract. For example, in fiscal year 2023 PD's Acquisition Division initiated an annual process of early engagement with program offices to review program office requirements and discuss priorities for the upcoming year, including the complexity and timing of the requirements, resources needed and extent of market research. PD also held meetings with stakeholders at the beginning of fiscal year 2024 and will continue to monitor the success of these internal requirements meetings. This process will be more effective year-over-year as procurement staffing stabilizes and contract specialists become more familiar with program office needs.

In accordance with FAR 1.602-2(c), effective decisions are made by the contract specialist and they are required to request and to consider the advice of key stakeholders. In addition to holding stakeholder meetings at the beginning of the fiscal year, PD contract specialists will continue to request and consider advice from key stakeholders and ensure compliance with the FAR. PD will continue to reinforce the contract specialist's responsibility to ensure performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, safeguarding the interests of the United States in its contractual relationships, and preventing fraud, waste, and abuse.

Finally, PD's planned implementation of the new Acquisition Management System (AMS) to improve and modernize PBGC's acquisition process, is one of many ways we are addressing GAO's knowledge and information management cornerstone (more detail on AMS is provided below).

As an interim measure, PD has also outsourced several OIT contracts to the Department of Interior and the General Services Administration.

2. Facilitate discussions with Procurement Department staff and key PBGC stakeholders to identify areas to improve the acquisition process and communication.

PD is cultivating a culture that mitigates fraud, waste, and abuse by awarding contracts that conform with federal law and ensure that procurement best practices across the government are implemented when applicable.

Enhanced technology and aligning more resources to acquisition planning will increase transparency and produce better procurement outcomes. Since 2021, PD has led an effort to implement a new Acquisition Management System (AMS). During this process, procurement professionals and program office key stakeholders have been invited to join discussions to provide feedback on procurement processes for the new system. The system includes features such as a document library that standardizes templates,

performs acquisition planning functions, and provides milestones of acquisition lead times for stakeholder transparency.

PD is currently revising templates and policies to help facilitate the procurement process for program offices. System and process training will begin mid-2024 with go live at the end of 2024 with full deployment in fiscal year 2025.

In the short-term, the Chief Management Officer (CMO) worked in concert with Office of Information Technology (OIT) and Office of the General Counsel (OGC) to complete a SharePoint solution that increased oversight over all procurement actions and ensures OGC review of all contracts regardless of dollar-value. This interim solution has been in place since April 2021.

In addition, to help the program offices understand the procurement processes and manage expectations, in fiscal year 2023 PD developed, introduced, and communicated the pre- and post-award acquisition journey maps at the annual portfolio reviews conducted across the corporation. PD conducts portfolio reviews with all PBGC program offices to determine all planned acquisitions for the upcoming year and the following fiscal year. These reviews provide an opportunity for program offices to plan two years ahead and communicate future requirements to PD. This allows PD to manage expected actions, conduct workload planning, and set actionable acquisition package submission due dates with stakeholder buy-in. In these sessions, PD explains and reviews the acquisition journey maps with the program offices as a planning aid designed to provide a realistic understanding of the procurement process with an opportunity to ask clarifying questions. At the end of these sessions, PD summarizes key take aways from the meeting and distributes to the program office for their future reference. This process was repeated in the first quarter of fiscal year 2024 and will continue using the AMS platform.

PD distributes a monthly "Acquisition Advisor" newsletter to all PBGC supervisors, CORs, and Purchase Card holders to provide procurement information and guidance.

PD will continue to hold discussions with key stakeholders, providing all C levels and departments the opportunity to participate, and identify areas to improve the acquisition process and communication.

3. Benchmark PBGC's acquisition function with other similarly sized agencies to identify best practices.

PD will continue to identify best practices, including those of similarly situated agencies. PD has been updating PBGC's procurement process for modifications and awards to streamline processes and align with other acquisition offices. In 2021, PBGC benchmarked our acquisition process against the Department of Labor (DOL). We analyzed DOL's internal controls, culture, acquisition planning and technology used and concluded that many of PBGC's processes aligned. While procurement practices across the federal government are standard and in accordance with the FAR, PD is taking the following steps to increase efficiencies at PBGC: (1) standardizing common templates, (2) improving future processes through technology implementation, and (3) implementing weekly training for PD staff that reinforces best practices and establishes a shared message across the department.

Further, the implementation of the Acquisition Management System (AMS) will allow PD to identify where inefficiencies occur, determine root causes, provide opportunities to take corrective actions and to ensure PBGC is moving toward standardizing legal reviews of procurement actions to fit similarly sized government agency best practices.

4. Develop a strategic human capital recruiting, hiring, and retention plan to ensure the Procurement Department is adequately staffed with the right number of contract specialists with the right skills.

Recruiting and retaining qualified senior acquisition candidates for the Procurement Director, Deputy Procurement Director, and four management positions is a top priority for the Office of Management and Administration (OMA). OMA is currently interviewing qualified candidates for the PD Director position.

The current PD staff is fully trained and possesses the knowledge and experience to oversee the contracts used by PBGC. Currently, there are 15 contract specialists, including supervisors, with an average length of government service of 11.57 years.

PD agrees that due to staff turnover institutional knowledge has been depleted. PD agrees there is a cultural learning curve, not technical, for new contract specialists to understand and navigate the unique nature of PBGC's processes and contracting needs.

PD has not experienced challenges hiring highly skilled contract specialists; however, PD agrees that staff retention is a challenge. For example, employees who have received retention incentives have still separated from the agency. PD will continue to analyze exit interviews and identify methods to streamline processes, remove barriers that inhibit the retention of top talent, and strengthen collaboration and communication with stakeholders.

As an interim measure, PD has also outsourced several OIT contracts to the Department of Interior and the General Services Administration.

Appendix IV: Staff Acknowledgements

PBGC OIG Contact

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seger.john@pbgc.gov

Staff Acknowledgements

In addition to the contact above, Ruth Walk, Auditor, made key contributions to this report.

Appendix V: Feedback

Please send your comments, suggestions, and feedback to 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
445 12th Street SW
Washington, DC 20024

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.