Office of Inspector General

May 12, 2022

MEMORANDUM REPORT

TO: Patricia Kelly
Chief Financial Officer

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

SUBJECT: Evaluation of PBGC's Fiscal Year 2021 Compliance with the Payment Integrity Information Act of 2019 (Report No. EVAL-2022-11)

This memorandum report presents the results of our evaluation of PBGC's Fiscal Year (FY) 2021 Compliance with the Payment Integrity Information Act of 2019 (PIIA). The objective of this evaluation was to determine PBGC's FY 2021 compliance with PIIA, as amended by its predecessors; the Improper Payments Information Act of 2002 (IPIA); the Improper Payments Elimination and Recovery Act of 2010 (IPERA); and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). In addition, we reviewed the payment integrity section in PBGC's Annual Report and the accompanying materials to the financial statements for FY 2021. We conducted our work in accordance with the CIGIE Quality Standards for Inspection and Evaluation. (Appendix I.)

We provided a draft copy of this memorandum report to management and their comments have been incorporated in this final report. 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.

Summary

We determined that PBGC complied with the applicable PIIA requirements outlined in M-21-19, Transmittal of Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, the Office of Management and Budget's (OMB) guidance dated March 5, 2021 (Table 1). We also identified a recommendation that would improve payment integrity risk assessments of the agency.

Table 1. PBGC's FY 2021 PIIA Compliance Reporting Table

OMB Criteria	Benefit Payments Program	Premium Refunds Program
1a. Published payment integrity information with the annual financial statements.	Compliant	Compliant
1b. Posted the annual financial statements and accompanying materials on the agency website.	Compliant	Compliant
2a. Conducted Improper Payment (IP) risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years.	Compliant	Compliant
2b. Adequately concluded whether the program is likely to make IPs and Unknown Payments (UPs) above or below the statutory threshold.	Compliant[1]	Compliant[1]
3. Published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statements.	NA	NA
4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statements.	NA	NA
5a. Published an IP and UP reduction target for each program for which an estimate above the statutory	NA	NA

[1] Further discussion of Criterion 2b in *Details*.

threshold was published in the accompanying materials to the annual financial statements.		
5b. Demonstrated improvements to payment integrity or reached a tolerable IP and UP rate.	NA	NA
5c. Developed a plan to meet the IP and UP reduction target.	NA	NA
6. Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statements.	NA	NA

Source: PBGC OIG's assessment of PBGC's compliance.

Background

Established by the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Benefit Guaranty Corporation (PBGC or Corporation) insures the pension benefits of workers and retirees in private sector defined-benefit pension plans. PBGC's mission is to enhance retirement security by preserving plans and protecting pensioners' benefits. The Corporation guarantees payment, up to the legal limits, of the pension benefits earned by over 33 million American workers, retirees, and beneficiaries in single-employer and multiemployer plans. PBGC pays guaranteed benefits directly to retirees and beneficiaries in failed single-employer plans and pays financial assistance to insolvent multiemployer plans to allow them to pay guaranteed benefits to retirees and beneficiaries.

PIIA Requirements

The Payment Integrity Information Act of 2019 (PIIA) requires agencies to identify and review, based on guidance provided by the Office of Management and Budget (OMB), all programs and activities they administer that may be susceptible to significant improper payments. Program payments are categorized in one of three possible payment types:

1. *Proper Payment* - a payment made to the right recipient for the right amount,

2. *Improper Payment (IP)* - a payment made in an incorrect amount or to the wrong recipient, or
3. *Unknown Payment (UP)* - for instances where an agency is unable to determine whether the payment falls into the proper or improper category, that payment should be considered an “unknown” payment.

Compliance

On March 5, 2021, OMB issued a revised OMB Circular A-123’s Appendix C (M-21-19). The stated goal of this guidance is to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments. The Office of Inspector General (OIG) is responsible for evaluating the agency to determine whether the agency is compliant with PIIA and the OIG is responsible for submitting a report on that determination.

For an agency to be deemed *Compliant* with the PIIA, it must have complied with all 10 OMB criteria listed in Table 1.

PBGC Programs and Activities

PBGC performs risk assessments of its payment streams using a rotational strategy based on a three-year cycle. PBGC’s payment streams include the following:

1) Benefit Payments: benefit payments to participants in “final pay” status for plans trusteed by PBGC under Title IV of ERISA;
2) Payments to Contractors: payments to contractors for goods and services, including government credit card transactions;
3) Payments to Federal Employees: payments made to federal employees, including payroll and travel reimbursements;
4) Financial Assistance Payments: financial assistance payments to insolvent multiemployer plans that are unable to pay benefits when due under the requirements of Title IV of ERISA; and
5) Premium Refunds: refunds of previously paid premiums.

In addition, with the enactment of the American Rescue Plan (ARP) Act of 2021, in FY 2022, PBGC will add a payment stream dedicated to the review of the ARP’s Special Financial Assistance (SFA) program. The SFA program is expected to provide funding to over 250 severely underfunded pension plans and will ensure that over three million of America's workers, retirees, and their families receive the pension benefits earned through many years of work.

In previous years, PBGC concluded that none of its payment streams were susceptible to significant improper payments as defined by statute or OMB guidance. According to OMB, for programs that are deemed not to be susceptible to significant improper payments, agencies must perform risk assessments at least once every three years. In FY 2021, in accordance with its three-year rotation schedule, PBGC performed risk assessments on their Benefit Payments and Premium Refunds payment streams, which were the subjects of our review.

Details

Based on our review, we determined that, for FY 2021, PBGC was compliant with PIIA requirements. (*See* Table 1.)

- **Requirement 1a**: PBGC published Payment Integrity information with the annual financial statements in its FY 2021 Annual Report, dated November 15, 2021.
- **Requirement 1b**: PBGC posted the annual financial statements and accompanying materials on the agency website at https://www.pbgc.gov/about/annual-reports.
- **Requirement 2a**: PBGC's Corporate Controls and Reviews Department (CCRD) conducted IP risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years based on our prior and ongoing work. In FY 2021, based on its rotational schedule, PBGC performed risk assessments on the Benefit Payments and Premium Refunds programs. The outlays for each program for FYs 2018-2020 are shown in Table 2.

Table 2. Benefit Payments and Premium Refund Amounts for FYs 2018-2020

Program	FY 2018	FY 2019	FY 2020
Benefit Payments	$5,716 million	$5,838 million	$5,837 million
Premium Refunds Issued	$17,654,717	$6,825,337	$87,871,448[2]

Source: CCRD risk assessments for Benefit Payments and Premium Refunds.

[2] The increase in premium refunds issued over the previous two years was due to the *Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act)*. This legislation adjusted flat rate premiums and the unfunded vested benefits.

- **Requirement 2b**: PBGC adequately concluded that the two programs are not susceptible to significant improper payments (not likely to make IPs and UPs above the statutory threshold) based on the risk assessments performed by a contractor, under the direction and oversight of CCRD personnel and management.

However, we found PBGC's conclusion on the overall susceptibility of the Benefit Payment program did not adequately reflect their assessment; this happened because the agency did not have adequate scoring methodology and/or risk factor weighting methodology as required by the updated OMB guidance related to the IP risk assessment methodology. The most current OMB M-21-19, Section II.1., states:

> IP risk assessments may be qualitative or quantitative in nature. The agency should develop an IP risk assessment methodology that is appropriate to ensure that the result of the IP risk assessment reasonably supports whether the program is or is not susceptible to significant IPs[.] [A]gencies should be mindful that, when evaluating compliance, the Inspector General (IG) will evaluate and take into account the adequacy of the IP risk assessment and the IP risk assessment methodology used.

Further, it states: "It is the agency's responsibility to determine the risk factors and the associated scoring or risk factor weighting methodology that should be considered for each individual program and risk."

PBGC chose to take a qualitative approach to complete their risk assessments. OMB M-21-19 defines a *qualitative improper payment risk assessment* as:

> A technique used to quantify risk associated with IPs and UPs. For example, a qualitative IP risk assessment methodology prioritizes the identified IP and UP related risks using a pre-defined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on IPs and UPs in the program should they occur.

The agency identified and assessed 14 risk factors for each program to determine if it presented a *low*, *moderate*, or *high* risk of contributing to the program being susceptible to significant IPs. CCRD used the following definitions to define their risk factor ratings:

- *Low-risk rating* – a low likelihood of contributing to the program being susceptible to significant IPs;

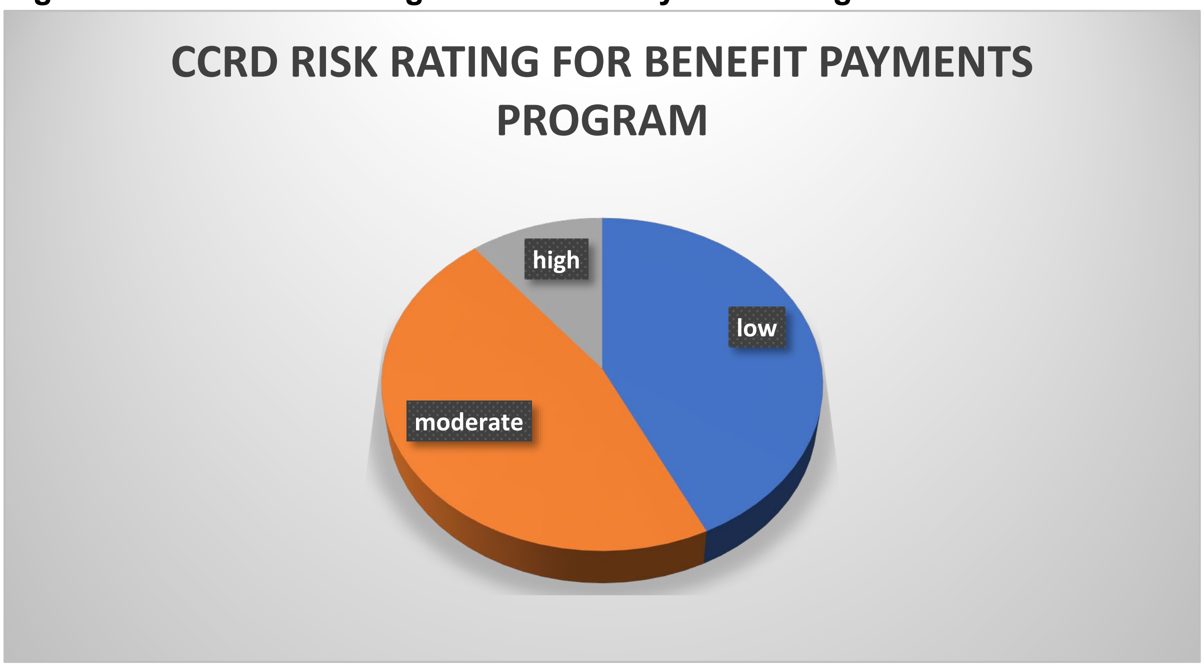
- *Moderate-risk rating* – a possible or probable likelihood of contributing to the program being susceptible to significant IPs; and

- *High-risk rating* – a high likelihood of contributing to the program being susceptible to significant IPs.

For the Premium Refunds program, CCRD determined that 12 out of 14 risk factors were *low* and the remaining two were *low* to *moderate*, concluding that overall the program is not susceptible to significant improper payments. Although a detailed methodology was not provided, given the limited variance in risk factor ratings, the OIG could derive the same conclusion as CCRD related to the susceptibility of the stream to improper payments.

For the Benefit Payments program, CCRD determined that six risk factors were *low*, six risk factors were *moderate*, one was *high*, and the last was *moderate-to-high*.[3] (*See* Figure 1.)

Figure 1. CCRD Risk Ratings for Benefit Payments Program



Source: OIG analysis of CCRD risk rating for benefit payments.

As a result, CCRD identified more than 50 percent of the risk factors as *moderate to high* in the Benefit Payments risk assessment. However, CCRD concluded that overall, the program is not susceptible to significant improper payments. CCRD's conclusion is not supported by the individual risk factor ratings, and further explanation on the conclusion of *low* susceptibility was not sufficient. Based on the materials presented, the OIG could not derive the same conclusion as CCRD related to the susceptibility of the

[3] We allocated half of the risk factor rated *moderate to high* between the *moderate* and *high* ratings in our chart.

stream to improper payments. However, based on our historical knowledge, prior testing, ongoing work, external reporting, and no critical changes made in the program since the determination that the program was not susceptible to significant improper payments, we will not question CCRD's conclusion for this payment stream for FY 2021.

We considered whether the above issue is significant to the improper payment information in the FY 2021 Annual Report. Leveraging our prior improper payment work, and history of the two payment streams, including other examinations, we concluded that these factors do not indicate a higher risk of IPs or actual IPs. The agency met this PIIA criterion, and our conclusion constitutes a compliance determination with one recommendation for improvement. (*See Recommendation* below.)

Without disclosing the methodology behind the risk assessment's cumulative risk rating, the cumulative rating could come into question. In addition, a program might not have an accurate basis for developing appropriate risk responses and properly designing and documenting control activities; this could further result in the agency failing to develop and report improper payment estimates for programs and activities that should have been identified as susceptible to significant improper payments.

- **Requirements 3 through 6**: These requirements do not apply based on PBGC's determination for each risk assessment (Benefit Payments and Premium Refunds). As PBGC determined that the two payment streams were not susceptible to significant improper payments, an improper payment estimate, corrective action plans, annual reduction targets, and rates less than ten percent are not required for the payment streams.

Recommendation

We recommend the Office of the Chief Financial Officer:

1. Update, using the most recent OMB guidance, the risk assessment's methodology to ensure it supports a cumulative rating, considering detailed weighting of risk factors, pre-defined rating scale, or a quantitative approach.

PBGC's Response and OIG's Evaluation

Resolved. PBGC concurred with the recommendation. The Office of the Chief Financial Officer stated that CCRD would update its risk assessment methodology, using the most recent OMB guidance, and apply its updated risk assessment methodology starting with the FY 2022 assessment of PBGC's payment streams. The scheduled completion date for this action is February 28, 2023.

Closure of this recommendation will occur when CCRD submits to OIG evidence of the updated risk assessment methodology and its application to the FY 2022 assessment of PBGC's payment streams.

Conclusion

We appreciate the cooperation you and your staff extended to us during this project. We thank you for your receptiveness to our recommendation and your commitment to reducing risk and improving the effectiveness and efficiency of PBGC programs and operations. If you have questions or comments, please contact me at (202) 229-3315 or Audit Manager Parvina Shamsieva-Cohen at (202) 229-3478.

cc: Gordon Hartogensis, PBGC Director
Frank Pace, CCRD Director
Russ Dempsey, General Counsel
Latreece Wade, Risk Management Officer
Kristin Chapman, Chief of Staff
Department of Labor Board staff
Department of Treasury Board staff
Department of Commerce Board staff
House committee staff (Education and Workforce, Ways and Means, HOGR, and Appropriations)
Senate committee staff (HELP, Finance, HSGAC, and Appropriations)

APPENDIX I: Objective, Scope, Methodology, and Standards

Objective

To determine whether PBGC complied with the *Payment Integrity Information Act of 2019* for FY 2021.

Scope

We reviewed the improper payment reporting in PBGC's FY 2021 Annual Report. We conducted this evaluation from December 2021 to May 2022 via full-time telework because of the COVID-19 pandemic.

Methodology

To achieve our objective, we reviewed applicable federal laws, OMB guidance, and agency policy and procedures. We retrieved the Corporation's FY 2021 Annual Report from its website and reviewed the Improper Payment Reporting section included in the report. We interviewed PBGC's CCRD staff to gain an understanding of the procedures, oversight, and internal controls in place for the FY 2021 Annual Report Payment Integrity section and any accompanying materials related to preparing the required risk assessments, preventing and detecting improper payments, and recapturing improper payments.

To evaluate the agency's efforts to prevent and reduce improper payments, we gained an understanding of applicable policies and procedures. We also reviewed the agency's business cycle memos, which include key and non-key controls. We obtained source data from the agency to support applicable payment integrity information in the Annual Report and analyzed the source data to evaluate the accuracy and completeness of payment integrity information in the report.

We obtained and reviewed PBGC's Risk Assessments for FY 2021 Payment Integrity Review of Benefit Payments and Premium Refunds programs and supporting documentation, such as prior annual reports, cycle memos, internal control reports, and *USASpending* to PBGC Outlay Reconciliation reports.

Applicable Professional Standards

We conducted the review 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 the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the engagement to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective.

During the review, we obtained an understanding of internal controls that are significant to the engagement objective and did not find them unsatisfactory. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our inspection. Accordingly, the evaluation included review of controls and compliance with laws and regulations to the extent necessary to satisfy the evaluation objective. Finally, we partially relied on computer-processed data to satisfy our evaluation objective. We conducted a limited scope assessment of the data's reliability and determined that the data was sufficiently reliable. Thus, the evidence we obtained gives a reasonable basis for our conclusions and observations based on our objective.

APPENDIX II: Management Response

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

May 10, 2022

To: John Seger
Assistant Inspector General for Audits, Evaluations, and Inspections

From: Patricia Kelly
Chief Financial Officer

PATRICIA KELLY Digitally signed by PATRICIA KELLY Date: 2022.05.10 14:25:23 -04'00'

Subject: Response to OIG's Draft Report on PBGC's Fiscal Year 2021 Compliance with the Payment Integrity Information Act of 2019

Thank you for the opportunity to comment on the Office of the Inspector General's (OIG) draft report, dated May 6, 2022, relating to the Pension Benefit Guaranty Corporation's (PBGC) Compliance with the Payment Integrity Information Act of 2019 (PIIA). Your office's work on this is appreciated and we are pleased that your office determined that PBGC is compliant with the applicable PIIA requirements.

PBGC management concurs with the report's findings and recommendation. In the attachment to this memorandum, you will find our specific response for the recommendation. Addressing this recommendation in a timely manner is an important priority for PBGC.

cc: Kristin Chapman, Chief of Staff
Russ Dempsey, General Counsel
Frank Pace, CCRD Director

Our comment on the specific recommendation in the draft report is as follows:

1. Update, using the most recent Office of Management and Budget (OMB) guidance, the risk assessment's methodology to ensure it supports a cumulative rating, considering detailed weighting of risk factors, pre-defined rating scale, or a quantitative approach (OIG Control Number 2022-11-01).

PBGC Response:

Management concurs with this recommendation. The Corporate Controls and Reviews Department (CCRD) will update its risk assessment methodology, using the most recent OMB guidance. CCRD will apply its updated risk assessment methodology starting with the FY 2022 assessment of PBGC's payment streams.

Scheduled Completion Date: February 28, 2023

APPENDIX III: Acronyms

Acronym	**Meaning**
CCRD	Corporate Controls and Reviews Department
ERISA	Employee Retirement Income Security Act
FY	Fiscal Year
IP	Improper Payment
IPERA	Improper Payment Elimination Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payment Information Act
PBGC	Pension Benefit Guaranty Corporation
PIIA	Payment Integrity Information Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
UP	Unknown Payment

APPENDIX IV: Staff Acknowledgements

PBGC OIG Contact	John Seger at (202) 229-3315 or seger.john@pbgc.gov
Staff Acknowledgements	In addition to the contact above, Parvina Shamsieva-Cohen, Audit Manager; Tiara Grotte, Auditor-In-Charge; and Jessica Kim, Auditor, made key contributions to this report.

APPENDIX IV: 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
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.