

**GAO**

**Testimony**

Before the Special Committee on Aging and the  
Committee on Small Business, United States Senate

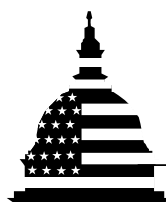
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For Release on Delivery  
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Thursday, September 21, 2000

**PENSION BENEFIT  
GUARANTY  
CORPORATION**

**Contract Management  
Needs Improvement**

Statement of Barbara D. Bovbjerg, Associate Director  
Education, Workforce, and Income Security Issues  
Health, Education, and Human Services Division



**G A O**

Accountability \* Integrity \* Reliability

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# Pension Benefit Guaranty Corporation: Contract Management Needs Improvement

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Mr. Chairman and Members of the Committees:

I am pleased to be here today to discuss the Pension Benefit Guaranty Corporation's (PBGC) management of its contracting responsibilities. PBGC is a self-financing government corporation that insures defined benefit pension plans and assumes administration of those plans that either terminate or become insolvent. In fiscal year 1999, about 215,000 retirees received over \$902 million in benefit payments from PBGC. To service its workloads, PBGC relies heavily on the services of contractors whose employees account for almost half of its workforce. In fiscal year 1999, about \$100 million of PBGC's \$160 million budget was used to pay for contracting and related expenses.<sup>1</sup>

Due to the number of contractors involved in supporting PBGC's mission, you asked us to (1) determine the basis for PBGC's decisions regarding the use of contractors versus government personnel to address its workloads, (2) assess PBGC's processes and procedures for selecting contractors, and (3) determine how effective PBGC has been in monitoring the performance of its contractors. Today I will discuss the findings of our report, which was released today, and the broader management issues that could affect PBGC's ability to efficiently and cost effectively serve the needs of pension plan participants. Additional operational issues pertaining to PBGC's day-to-day management of specific contracts are discussed in more detail in our full report.<sup>2</sup>

In summary, our work shows that PBGC's contracting decisions and its organizational field structure have been heavily influenced by the need to service rapidly increasing workloads within existing federal staffing limitations. Because PBGC's focus was on obtaining needed staff quickly, it has not linked its contracting decisions to workload trends or strategic planning considerations and could be unprepared for future work environment changes. We also identified weaknesses in PBGC's procurement planning and execution processes. In particular, PBGC's consolidation of three formerly separate field office services procurements was not supported by a sound business rationale and may have limited competition. For several other field office procurements, PBGC should have done more to stimulate competition by conducting market research to identify additional potential offerors. In reviewing several other

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<sup>1</sup> This figure includes about \$80 million in personnel costs, \$15 million in office rents, and \$5 million in travel.

<sup>2</sup> *Pension Benefit Guaranty Corporation: Contracting Management Needs Improvement* (GAO/HEHS-00-130, Sept. 18, 2000).

contracts we identified additional weaknesses, including the need for PBGC to better document its basis for contractor awards and use more fixed-price rather than labor-hour contracts, which carry more cost and quality assurance risks. We also identified contractor oversight problems, including a lack of centralized data essential to monitoring contractor performance and deficiencies in PBGC's quality assurance review process.

In response to our review and report recommendations, PBGC plans to act in several areas to better manage its contracting activities and ensure that competition and oversight are strengthened. It is important that PBGC sustain its efforts and fully implement those actions to address the problems we identified. I will also note that during our review, we obtained other information and documents regarding PBGC's procurements that appeared to involve possible improprieties. Accordingly, we referred this information to our Office of Special Investigations (OSI); the results of OSI's investigation are being reported separately.<sup>3</sup>

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## Background

The Employee Retirement Income Security Act of 1974 created PBGC as a self-financing, nonprofit, wholly owned government corporation.<sup>4</sup> PBGC protects participants in private pension plans from losing promised benefits due to the termination of underfunded plans. PBGC's work is performed at its Washington, D.C., headquarters, and at 11 contract office locations throughout the country. PBGC's primary responsibilities are to collect premiums from sponsors of defined benefit pension plans to insure against default and to assume administration of plans that terminate or become insolvent. In the event of plan default, PBGC assumes control of plan assets, calculates benefit amounts, and pays pension plan beneficiaries.

Over the years, PBGC's workloads have grown significantly. In fiscal year 1975, PBGC administered three pension plans with a total of 400 participants. By last year, PBGC had assumed responsibility for more than

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<sup>3</sup> *Pension Benefit Guaranty Corporation: Certain Contract Awards Suggest Improper Influence* (GAO/T-OSI-00-17, Sept. 21, 2000).

<sup>4</sup> A wholly owned government corporation is generally defined as a corporation pursuing a government mission assigned in its enabling statute, typically financed in part by appropriations, with assets owned by the government and controlled by board members or an administrator appointed by the President or department secretary. The Congress sometimes exempts these corporations from key management laws to provide greater flexibility than federal agencies typically have in hiring employees, paying salaries/benefits, disclosing information publicly, and procuring goods and services.

2,700 pension plans with a total of more than 500,000 participants. To address its workloads in fiscal year 1999, PBGC relied on 754 federal employees<sup>5</sup> and 680 staff employed by contractors. A total of 240 contractor employees are located at PBGC's 11 field benefit administration (FBA) offices. PBGC's procurement activities pertaining to benefit processing and administration services are not bound by the Federal Acquisition Regulation (FAR). However, as a matter of policy, PBGC voluntarily abides by FAR in procuring all goods and services.

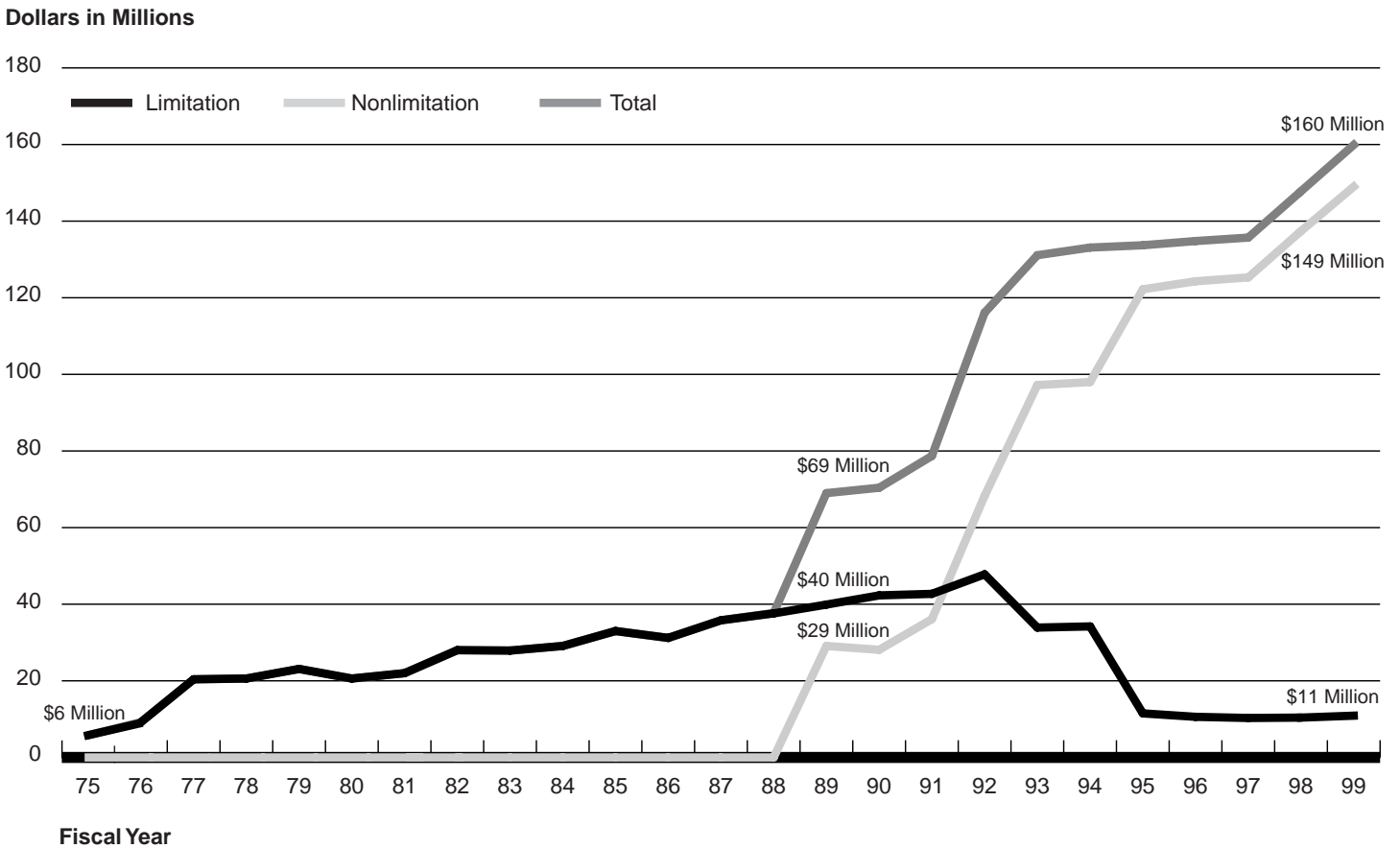
PBGC is self-financing in that it receives no general revenues. Its operating budget is financed by insurance premiums paid by plan sponsors and trust assets.<sup>6</sup> Although it does not receive general revenues, the portion of its budget allocated to administrative expenses has been subject to a statutory limitation since 1985. The Congress revised this limitation in 1989 and in 1992 to provide PBGC more flexibility to address the rapid and often unexpected workload increases that followed several large pension plan failures. The revisions exempted from limitation all expenses incurred by PBGC in connection with the termination and management of pension plans, and provided PBGC with the discretion to determine which functions and activities qualified as nonlimitation expenses. Over time, PBGC has expanded the range of activities and functions classified as nonlimitation expenses, and currently uses these resources to fund nearly all contractor positions and related costs. This has resulted in a steep increase in PBGC's nonlimitation budget—which is primarily subject to review and approval by the Office of Management and Budget (OMB) rather than the Congress—from \$29 million in fiscal year 1989 to \$149 million in fiscal year 1999. During the same period, PBGC's limitation budget, which receives both OMB and congressional review and approval, decreased from \$40 million to \$11 million. By fiscal year 1999, only 75 federal employees were funded out of the limitation budget while the remaining 1,359 federal and contractor employees were funded out of the non-limitation budget (see fig.1).

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<sup>5</sup> Full time equivalent federal staff ceiling for fiscal year 1999.

<sup>6</sup> Trust assets include assets acquired from terminated plans, investment returns on the assets, and recoveries from employers responsible for underfunded terminated plans.

Figure 1: PBGC Limitation/Nonlimitation Budget, Fiscal Years 1975-1999



## PBGC Contracting Decisions Reflect Past Short-Term Needs

PBGC's contracting decisions and its organizational structure have been heavily influenced by the need to service dramatic and often unexpected workload increases while adhering to staffing limitations. Beginning in the mid-1980s, several large unexpected bankruptcies—including those of LTV Steel, Wheeling Pittsburgh Steel, Eastern Airlines, and Pan American Airlines—contributed to more than doubling the number of PBGC pension plan participants from 170,000 to nearly 400,000. Rather than repeatedly seeking significant increases in federal staff during a period of government downsizing, PBGC turned increasingly to contractors to provide services. More specifically, PBGC often entered into sole-source contracts with existing pension office administrators from the insolvent companies to take advantage of their familiarity with plan provisions as well as their

office's physical proximity to plan records and participants.<sup>7</sup> Over the years, 11 field office contractors have remained with PBGC to perform benefit administration services for other insolvent plans as they were terminated and trustee. Staffing at these offices has also nearly doubled in the last 5 years. Thus, with no apparent linkage to agency strategic planning or an assessment of how PBGC should be organized for maximum efficiency, these offices have become PBGC's field structure.

Because PBGC's focus was on obtaining needed staff quickly, it has not performed a comprehensive analysis of the costs and benefits of using contractors versus federal employees to service its workloads. Nor has PBGC taken actions to reassess its contracting and organizational structure needs against projected future workload changes. In the absence of such activities, PBGC has operated for many years without reasonable assurance that it has a cost beneficial mix of federal and contractor employees.

Potential changes in PBGC's workloads attributable in part to increased productivity, economic trends, changes in pension laws, and enhanced plan funding suggest that PBGC should reexamine its approach to the acquisition of contract services and better link its activities to long-term strategic planning. For example, PBGC has reduced its inventory of pending benefit determinations from a high of 300,000 in fiscal year 1994 to about 190,000 in fiscal year 1999. PBGC expects to eliminate this backlog and reach a working inventory of 120,000 cases in less than 5 years (see fig. 2).

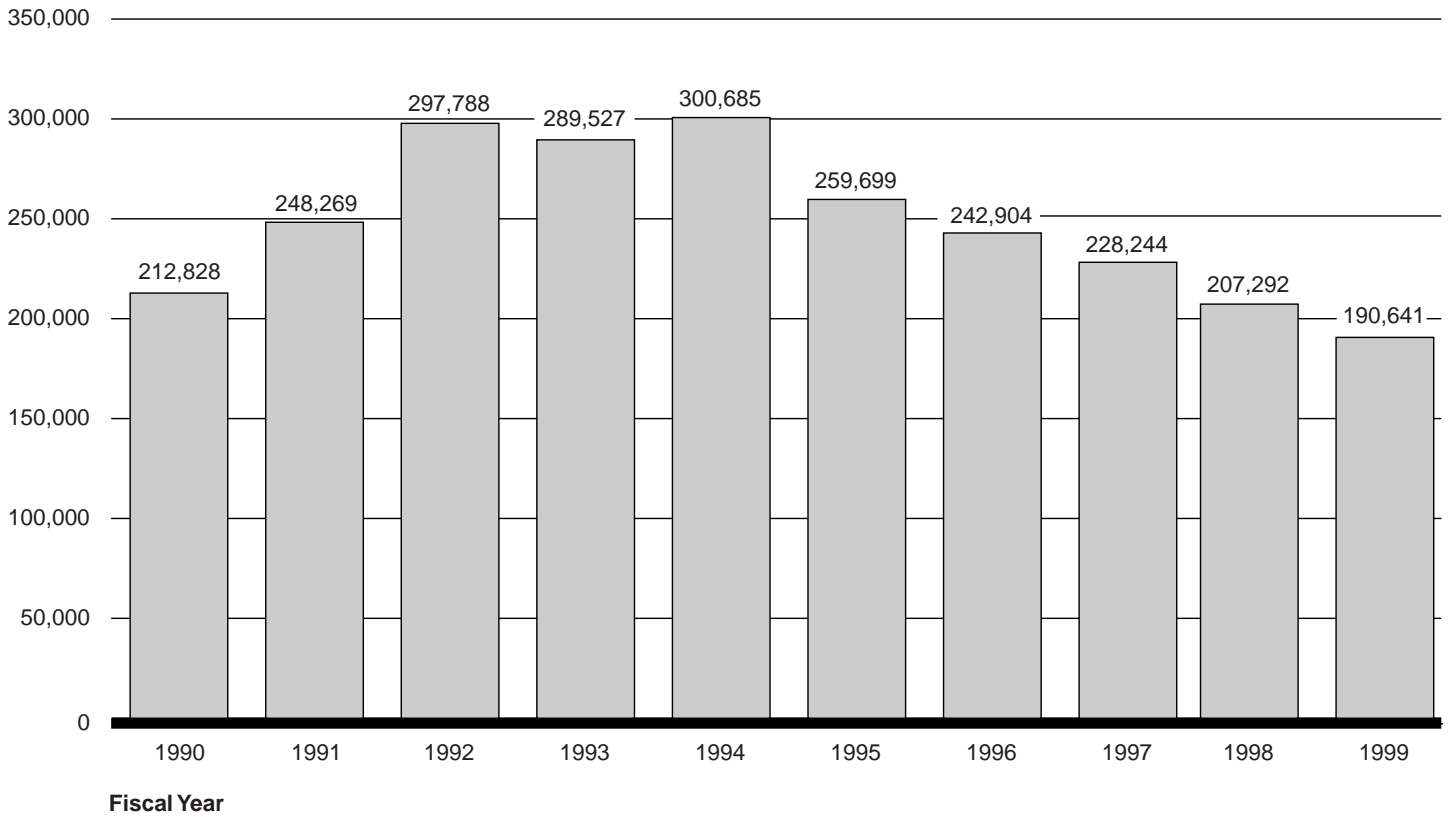
As PBGC moves into an era of more real-time processing of benefits, changes in staffing levels and its organizational structure may be necessary. Several other factors may also affect PBGC's future workloads, including the corporation's improved ability to target underfunded plans and get them to improve their financial positions, thereby averting plan failures. The universe of defined pension plans insured by PBGC has also decreased dramatically in recent years. This has been accompanied by a decrease in the number of active plan participants—those currently earning pension accruals, and considered by PBGC to be a better measure of future workloads. Finally, the number of new plans taken over by PBGC each year has also steadily decreased (see fig. 3). If the above trends continue, PBGC's exposure to future pension plan failures and accompanying workloads should be reduced.

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<sup>7</sup> A sole-source contract is entered into or proposed to be entered into after soliciting and negotiating with only one source.

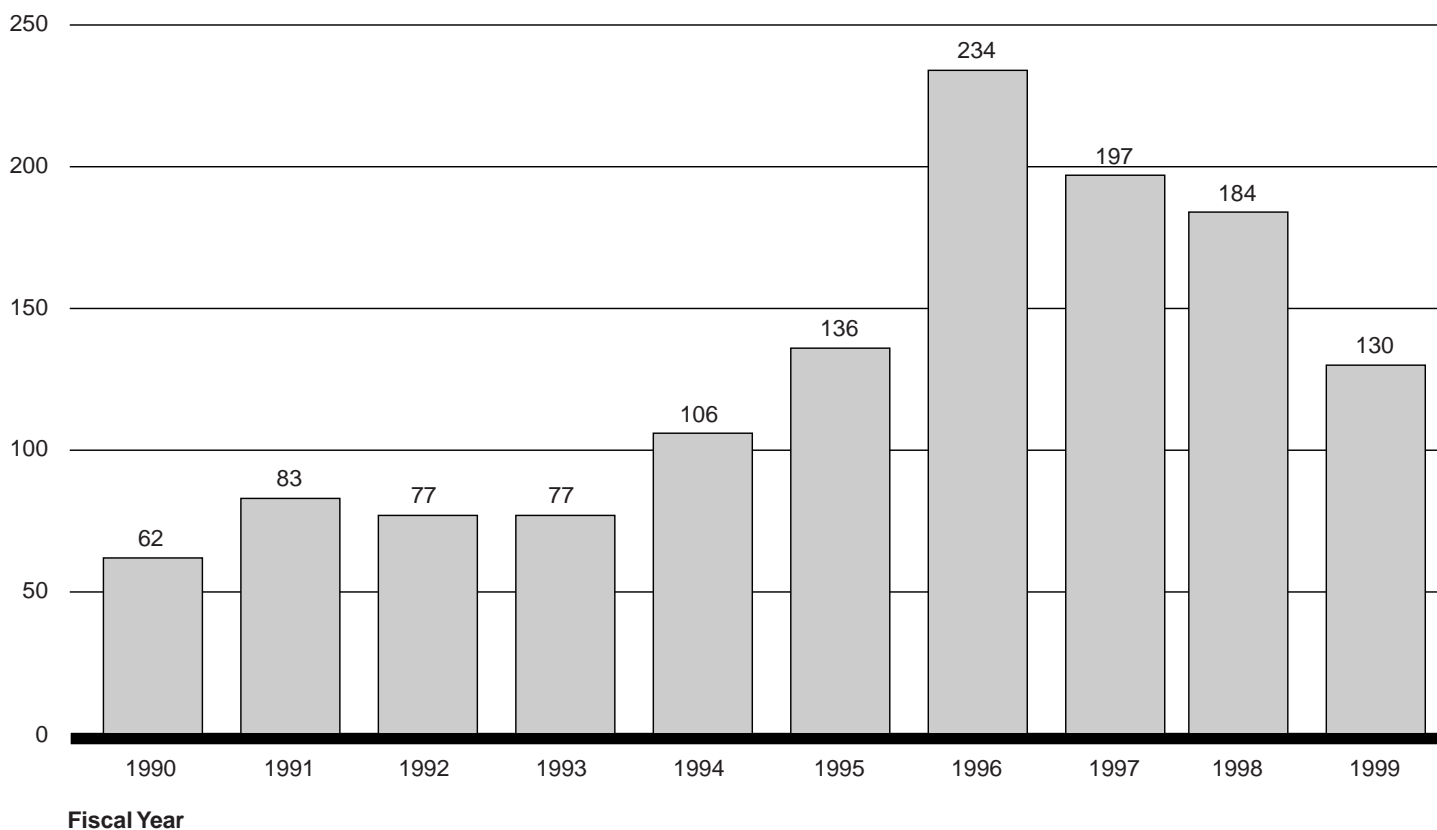
**Pension Benefit Guaranty Corporation:  
Contract Management Needs Improvement**

**Figure 2: Pending Benefit Determinations, Fiscal Years 1990-1999**



**Pension Benefit Guaranty Corporation:  
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**Figure 3: New Pension Plans Trusteed by PBGC, Fiscal Years 1990-1999**



Our prior work on human capital planning suggests that planning strategies should be linked to current and future human capital needs, including the size of the workforce and its deployment across the organization. Staff deployment should also be linked to mission accomplishment and provide for efficient, effective, and economical operations.<sup>8</sup> In the absence of such analyses, PBGC lacks a blueprint as to how it should organize its contractors and federal staff to cost effectively meet the needs of current and future pension plan participants. PBGC is

<sup>8</sup> *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/GGD-99-179, Sept. 1999).



also giving inadequate consideration to the longer-term effects of its contracting decisions. For example, last year, PBGC initiated a policy change to allow all contract field offices to perform ongoing administration for their closed plans.<sup>9</sup> Prior to this change, ongoing administration—which generally involves routine maintenance for plans in which all final benefit determinations have been issued—for hundreds of closed plans was consolidated primarily at two designated field offices. An official at one of the largest field offices told us that, without the new ongoing administration workloads or a significant influx of new plans, the office would likely have insufficient work in the future to continue operations.

During our review, PBGC management acknowledged that it had not focused on the long-term effects of allowing more contractor offices to perform routine maintenance services. However, they assured us that PBGC would continue to transfer closed plans to the two designated ongoing administration offices in all but very limited circumstances. Despite these assurances, we are concerned that this policy change was made without sufficient analysis of future workload trends and has the potential to unnecessarily perpetuate the existence of some field office contracts if the influx of new plans trusted by PBGC levels off in the future.

In responding to our recommendation, PBGC also agreed that a strategic workforce planning study is necessary and said it intends to engage an independent outside organization to conduct such a review within the next year. We believe this type of analysis and the contingency planning that should flow from it is a positive first step toward positioning PBGC to make systematic and orderly changes to its future workforce and organization while still meeting the needs of recipients.

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## **PBGC's Procurement Practices Have Weaknesses**

Our review of PBGC's most recent FBA services procurements identified weaknesses in its procurement planning and execution processes that could affect competition and result in PBGC's paying too much for procured services. Specifically, PBGC lacked a sound business rationale to support its approach for consolidating procurements for services at three field office locations and may have limited competition. PBGC also should have done more to stimulate competition for its other field office services procurements. In reviewing several other contracts, we identified additional weaknesses, which are discussed below.

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<sup>9</sup> Prior to the revision, ongoing administration was allowed only for plans with 10,000 or more participants or plans requiring special expertise.

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## **Procurements for Benefit Administration Services Were Not Consistently Structured**

As noted previously, PBGC currently has 11 contracts for FBA services requirements. The first competitive procurement for these services occurred in 1997, when PBGC competed the requirements for services at four field offices—Miami, Atlanta, Wheeling, and Wilmington. Together, these contracts totaled about \$71 million. At that time, a single large contractor—Office Specialists, Inc.—was incumbent at the Miami, Atlanta, and Wheeling offices. A second contractor—Benefit Services Unlimited—was incumbent at the Wilmington office. Rather than compete the services for each of these offices separately, PBGC consolidated the Miami, Atlanta, and Wheeling service requirements into a single procurement. The services for the Wilmington location were excluded from the consolidated procurement and competed separately. These procurement actions resulted in PBGC awarding the \$47 million, three-site contract to Office Specialists, Inc., and the \$24 million Wilmington contract to Benefit Services Unlimited, leaving the incumbent contractors in place for all four locations.<sup>10</sup>

PBGC's Procurement Director indicated that a factor in PBGC's decision to consolidate the Miami, Atlanta, and Wheeling field office services requirements was the existence of qualified staff already working at the three locations. He also stated that requiring the successful offeror to perform at all three locations would not tend to restrict competition. However, he acknowledged that the services for the Wilmington site were excluded from the consolidated procurement so that the incumbent contractor would not be precluded from competing.

In general, federal procurements are to be conducted using full and open competition and solicitations are permitted to contain restrictive conditions only to the extent necessary to satisfy the needs of an agency. Because consolidated procurements combine separate requirements into one award, they have the potential to restrict competition by excluding potential competitors that can furnish only a portion of the requirement. Therefore, consolidated procurements must be based upon sound business reasons supporting the conclusion that the government's overall needs can be most effectively provided through such an approach. In sum, PBGC's reasons for combining requirements should have been balanced against the possible restriction of competition.

Based on our work, we believe PBGC's conduct of these procurements showed weaknesses in its procurement planning and execution practices.

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<sup>10</sup> These figures represent the total contract costs over a term of 4 years.

In particular, PBGC did not provide a sound business rationale for why the consolidation of the Miami, Atlanta, and Wheeling requirements was necessary to meet its needs. Nor did it establish that the combination supported any plans or goals of the corporation. In addition, PBGC's explanation for combining the three requirements and its explanation for excluding the fourth were inconsistent in contending that the consolidated procurement would not tend to affect competition, while acknowledging that a four-site procurement that included the Wilmington location would have affected the smaller contractor's ability to compete.

Although PBGC did receive several offers for these contracts, our work also showed that two additional companies were interested in competing to provide services at one of the three offices for which services were consolidated. PBGC rejected the first company's proposal because it offered to provide services for the Atlanta location only. Managers of the second company—a current field office contractor—told us that they would have competed for services at a single location had that option been available. However, this contractor decided not to submit an offer due to the size of the combined workload and potential management difficulties associated with a multisite contract. Thus, PBGC's conduct of these procurements may have limited competition. Consequently, PBGC risked paying too much for contracted services and receiving inferior performance.

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**Competition for Sole-  
Source Benefit  
Administration Services  
Contracts Could Be  
Improved**

PBGC also should have done more to stimulate competition for its remaining sole-source field office procurements. While PBGC competed four of its field office services requirements in 1997, it continued its practice of making sole-source awards for its seven other field office contracts. PBGC's rationale for continuing this practice was that the incumbent contractors, as former pension plan administrators of companies from which their primary plans emanated, were uniquely qualified to perform the work because of their knowledge of the primary plan.<sup>11</sup>

In reviewing the procurement files for the Pueblo, Sarasota, and Cleveland offices, we confirmed that the principals/owners were former benefit administrators for the primary plans under administration, and were still servicing these plans. However, over several years, these contractors had

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<sup>11</sup> The primary plan is defined by PBGC as the original plan for which the contract was initiated. For example, the initial contract for the Pueblo, Colorado, office was let in the early 1990s to service CF&I Steel. The principal/owner was a former pension benefit administrator at CF&I Steel.

made considerable progress toward completing work on their primary plans and had assumed benefit administration responsibility for numerous additional pension plans beyond their original area of expertise. In fact, one contract office had a total of 15 additional trustee plans from various companies and thousands of new participants under its administration.

When a contracting entity uses noncompetitive procedures, it must execute a written justification that includes sufficient facts and rationale to justify its use of those procedures. The justification must also include a description of any market survey conducted—or why one was not conducted—and a statement of actions the agency may take to remove barriers to competition in the future. For those contract files we reviewed, PBGC's written justification notes that no statements of interest were received from other potential offerors in response to its Commerce Business Daily (CBD) notice of its intent to award the sole-source contracts. It also notes that PBGC was unaware of any specific barriers to competition that could be overcome with respect to this requirement.

Although PBGC published a CBD notice of these awards, we found no indication that PBGC ever acted to enhance competition by conducting outreach or market research activities to identify other potential offerors capable of performing the required services. In prior work, we have reported that such activities have been effective in stimulating competition.<sup>12</sup> Even though, procedurally, the CBD notice may serve the purpose of a market survey, PBGC should have done more to monitor the marketplace and foster competition through outreach efforts. PBGC's actions in continuing to award these contracts noncompetitively for almost a decade could have affected its ability to obtain the best value for the services procured.

Consistent with our recommendations, PBGC now plans to separately compete 10 field office services requirements next year. It has also agreed that additional outreach and market research efforts could enhance its competitive processes.

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<sup>12</sup> *Contract Management: Few Competing Proposals for Large DOD Information Technology Orders* (GAO/NSIAD-00-56, Mar. 20, 2000).

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**Additional Observations on  
PBGC Contractor  
Selection Practices**

Our review of PBGC's contracting practices also identified other management and operational weaknesses associated with contracts let by the chief financial officer (CFO) component, which is the second-largest user of contractor services at PBGC. For example, PBGC should have more fully documented its basis for awarding an \$18 million information resources management contract for systems engineering and a \$1.5 million investment management contract. PBGC's internal guidance at the time of the procurements provided for the establishment of a technical evaluation panel to assess contractor proposals and make selection recommendations to the Procurement Director. Each panel member was required to identify and document the strengths and weaknesses of all proposals reviewed. To assist in their analysis, members could, but were not required to, prepare individual scoresheets to document how they rated each proposal.

The procurement files we reviewed included the technical scores for the offerors under consideration as well as a final selection recommendation from the panel chairperson. However, they did not include a complete set of individual panel members' scoresheets documenting their review and rationale for arriving at a particular score. For the investment management contract, only two of seven panel members submitted individual scoresheets and some analysis of the specific strengths and weaknesses of proposals. With only the final numeric scores, the record lacked information concerning the panel's basis for determining contractor qualifications and issuing its final selection recommendations. Thus, we could not determine whether final award decisions were based on a thorough assessment of each offeror's proposal by all members.

We also reviewed five contracts for premium compliance audit services. For these contracts, audit firms perform reviews of companies that pay insurance premiums to PBGC to ensure that premium amounts paid are correct. In fiscal year 1999, PBGC received \$925 million in premium collection income from pension plan sponsors.

Our analysis of these contracts showed that PBGC should give stronger consideration to using fixed-price contracts rather than labor-hour contracts for these services. Fixed-price contracts generally involve a firm price for performing a particular service, regardless of how long it takes. Labor-hour contracts provide for payment of contractors at hourly rates for performing agreed-upon tasks. Labor-hour contracts also generally require detailed reviews of the hours charged by contract staff and close monitoring to ensure that quality and timeliness requirements are met. Otherwise, an organization risks paying a higher price than it would under a fixed-price arrangement, as well as receiving poor performance. As of

June 2000, about 60 percent of PBGC's active contracts involve labor hour pricing.

When acquiring services that previously have been provided by contract, the Office of Federal Procurement Policy notes that agencies should rely on the experience gained to facilitate the use of fixed-price contracts for such services. Prior to entering into the current contracts in 1997, the incumbents performed similar work for PBGC under purchase order agreements. Thus, PBGC had actual experience in pricing these contracts. Based on this information, PBGC calculated a potential fixed price of between \$3,400 and \$8,000 for each audit completed. A fixed-price contract was originally solicited by PBGC and the five firms submitted offers. However, PBGC later made a determination that a labor-hour payment arrangement would be more effective to accommodate the variable level of effort needed to complete the audits.

Our review showed that, after the contracts were awarded, PBGC experienced performance problems with several of the contractors. PBGC subsequently opted, after 15 months, not to continue its relationship with two of the firms. Documents we obtained showed that PBGC paid one of these contractors \$210,000 to complete three audits—about \$70,000 per audit—which resulted in \$2,000 in additional collections. In contrast, PBGC's highest-producing contractor performing similar services completed 27 audits with \$1.3 million in additional collections at an average cost of \$6,600 per plan. Thus, PBGC could have paid much less than \$210,000 under the fixed-price arrangement originally proposed.<sup>13</sup> In addition, a second contractor has been referred to PBGC's OIG for investigation of potential contract billing irregularities. In light of the performance issues surrounding these contracts, and the fact that PBGC had a basis to award them as fixed-price contracts, PBGC should give stronger consideration to using fixed prices in similar situations.

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## **Contract Oversight Practices Need Improvement**

Contract oversight primarily involves monitoring performance. In recent years, PBGC has taken actions to better support its field office contractors. For example, in 1993, PBGC reorganized its benefit administration operations to implement team case processing so that auditors, actuaries, and benefit administrators in both headquarters and the field are deployed in teams to process benefits. This replaced sequential processing, in which cases were handed off between various components as discrete tasks were completed. PBGC has also made

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<sup>13</sup> Based on proposal of about \$4,000 per plan audit.

significant investments in automation and centralized several functions previously handled by the field offices to allow staff to focus primarily on processing benefit determinations. However, we identified several key management weaknesses that could affect PBGC's ability to monitor and hold contractors accountable for performance.

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**PBGC Does Not Centrally  
Compile and Monitor  
Automated Data on FBA  
Office Performance**

In order to undertake a comparative analysis of field office productivity, we requested data from PBGC to document the range of activities and volume of work processed by these offices. However, field office data essential to overseeing and managing performance are not centrally compiled and monitored by PBGC. Instead, PBGC generally compiles data on work processed by each office—such as final benefit determinations—on a plan-specific basis. This information is then included in the productivity data for PBGC's eight headquarters processing divisions. Thus, a field office with 30 pension plans could report to several processing divisions and its workload outputs would be included within the productivity totals of each of those divisions. As a result, PBGC lacks centralized field office performance data and reports necessary for quickly providing top management with a "snapshot" of office productivity as pension plans move through the various stages. The commingling of data, and the fact that field office productivity is reported on a plan-specific basis, make it difficult for PBGC to ensure that its contract field offices are performing efficiently and effectively.

Individual offices maintain internal productivity information to assist in managing their workloads, such as the number of benefit determinations processed, death notices recorded, address changes completed, plans closed out, and so forth. However, the extent and detail of data vary among the offices. We believe that—if uniformly compiled and monitored—additional automated data would provide PBGC with information needed to compare office productivity and performance over time, monitor a specific office's performance against prior months and years, more quickly determine work progress, and identify and track workload backlogs. Field-office-specific data would also allow PBGC to evaluate the effects of special management initiatives on other workloads, such as a recent PBGC mandate to complete all pre-1994 pending benefit determinations by the end of fiscal year 1999. PBGC's Office of Inspector General (OIG) has reported that PBGC's emphasis on processing benefit determinations may have caused final plan closings to receive less priority. The OIG also concluded that completing this step was important because it allowed PBGC to ensure that all final benefit determinations for a plan were issued. Because no field-office-specific data on plan closures are centrally compiled or monitored by PBGC, it lacks information that top

management could use to assess the effect of this directive on other workloads.

PBGC has agreed, as we recommended, to develop additional performance information for its field office contractors. These steps should provide PBGC with better management information to establish more meaningful future field office performance goals and measures.

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**Performance Review  
Process for Field Offices  
May Not Adequately  
Ensure Work Quality**

PBGC requires its field office contractors to undergo regular performance reviews to help ensure that proper internal controls are in place and that workloads are processed in a complete, accurate, and timely manner. However, our analysis identified continuing weaknesses in the review process that may affect PBGC's ability to manage contractor performance.

In 1995, its OIG reported that PBGC's performance reviews were not performed in accordance with government auditing standards and often resulted in flawed recommendations. This report also concluded that PBGC seemed to excuse poor field office performance. Our review identified continuing problems. PBGC's procedural manual states that the reviews are based on government auditing standards and that review team members are required to meet general standards for independence, qualifications, due professional care, and quality control. Despite these requirements, key headquarters staff and managers told us that the reviews had limited impact on improving field office performance because management often did not support efforts to identify weaknesses and hold the offices accountable for negative findings. Others noted that team leaders and members often lacked sufficient training and expertise to perform the reviews.

We also obtained an internal Management Report prepared by PBGC last year affirming that the reviews continued to show weaknesses in meeting auditing standards and could facilitate internal control weaknesses and poor product quality. The report specifically noted that some components rotated experienced personnel out of the review function each year, and assigned individuals with insufficient experience and training to lead roles. In fact, out of 22 field office reviews completed by PBGC, nearly one-third were led by individuals who had never before participated in a review. The report also cited frequent instances of poor quality control and of reports and work papers being returned for significant additional development, even though they had been reviewed and approved by team supervisors. It also concluded that resources devoted to reviews may be insufficient to ensure quality. Citing feedback from various review teams, the report also



pointed out that “corners would be cut” when PBGC’s work priorities dictated.

PBGC should act quickly to address the weaknesses in its performance reviews of field office contractors. An effective quality control system is particularly important, considering that PBGC recently completed its initiative to issue final benefit determinations for plans trustee prior to 1994. During our field visits, contractor management commonly referred to this initiative as a major undertaking with tight time frames. Individuals from several offices also noted that pressure to process this workload may have negatively affected the accuracy of benefit calculations and quality of notices sent to participants. Thus, it is important that PBGC have an adequate review process in place to detect errors resulting from this effort.

We have recommended that PBGC take action to strengthen its performance review process to better ensure that its contractors meet quality and accuracy requirements. PBGC has agreed to strengthen its quality assurance processes, by ensuring that trained and experienced staff are assigned to the reviews and taking other actions.

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### **Individuals Responsible for Contractor Oversight Lack Sufficient Guidance**

Primary responsibility for oversight of PBGC’s contracts lies with more than 69 contracting officer’s technical representatives located throughout PBGC and five contract specialists within the Procurement Department. Despite the importance of these individuals to monitoring and ensuring contractor performance, we found that PBGC has not developed a comprehensive set of policies and procedures to guide them in their day-to-day activities. The Procurement Department maintains a limited policy and procedure manual which serves as the primary guide to contractor selection and oversight. However, the Director often supplements this document with ad-hoc directives, e-mails, and standalone memorandums to address contracting issues and problems as they arise. Because PBGC has never compiled these informal policy clarifications and directives into its departmental manual, it lacks a comprehensive set of standard operating procedures to guide staff in addressing common contract oversight problems.

During our review, staff involved in contract oversight management expressed a need for additional policy and procedural guidance and training beyond what is currently provided by PBGC. In the absence of more specific procedures, some staff have chosen to rely on their own judgment or on advice from coworkers for policy and procedural interpretations and spend significant time seeking guidance for issues such as when contracts should receive legal review or what to do with

pension files after plans are closed. We also found that staff and managers sometimes received conflicting directions, which could ultimately lead to inconsistent administration practices and to contractor performance problems.

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### **Organizational Placement of Review Function Could Have Contract Management Implications**

Our work also shows that the independence and objectivity of PBGC's Contracts and Controls Review Department (CCRD) could be negatively affected by its position in PBGC's organizational structure.

The CCRD was established by PBGC's deputy executive director and CFO in 1994 to perform contract cost audits and internal control reviews of PBGC's departments and programs. Auditing standards require the audit organization and individual auditors to be organizationally independent. However, because the director of CCRD reports directly to the CFO, any internal reviews of departments and programs located under this component cannot be considered independent. CCRD management told us that any reports or reviews of departments under the CFO must disclose the fact that CCRD is not considered independent. While we agree that such a disclosure is necessary, we are concerned that the objectivity of this department's reviews could still be in question because of the current reporting relationship. More importantly, we are concerned that the potential exists for management to influence the scope of audits or affect CCRD's ability to make independent judgments as to which CFO departments and programs should be reviewed. As we recommended, PBGC said it would examine the issue of CCRD organizational placement as part of its larger workforce planning study to be completed next year.

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## **Conclusions**

Contractors have played a significant role in PBGC's ability to serve plan participants and reduce the backlog of pending benefit determinations from a high of about 300,000 in fiscal year 1994 to about 190,000 in fiscal year 1999. However, despite projected changes in future workloads, PBGC still has not taken steps to reassess its contracting and organizational structure needs. Current trends show that PBGC should act soon to respond to a potentially different future work environment. In response to our report, PBGC plans to undertake a strategic workforce planning study. Such an effort should include analyses of its staffing needs, skill levels, and organizational structure relative to current and future workloads. This type of contingency planning should allow PBGC to make systematic and orderly changes to its workforce as needed in the future while still meeting the needs of plan participants.

Our work also confirmed that PBGC should do more to encourage competition in the procurement of services. Without consistent efforts to monitor the marketplace and to stimulate competition, it is difficult for PBGC to ensure that it obtains the best value for services it procures. Moreover, without more effective contract oversight, PBGC cannot be sure that its contractors are held accountable for meeting performance requirements.

As noted earlier, PBGC's budget structure provides the corporation with substantial flexibility to address workload pressures by utilizing funds that are not directly subject to review and approval by the Congress. The absence of this means of oversight over PBGC's budget eliminates one of the Congress' ordinary methods of ensuring that PBGC sufficiently administers trust fund assets while meeting the needs of pension plan participants. Under the current budget arrangement, it is particularly important that PBGC implement the planned corrective actions we have noted in our testimony today.

Absent meaningful action, PBGC risks paying too much for required services, contractor performance problems, and ultimately, a deterioration of service to plan participants. Furthermore, inaction may also call for the Congress to strengthen its oversight role by reassessing and redefining the range of activities and functions treated as nonlimitation expenses.

This concludes my prepared statement. I will be happy to respond to any questions you or other Members of the Committees may have.

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## **GAO Contacts and Staff Acknowledgments**

For information regarding this testimony, please contact Barbara Bovbjerg at (202) 512-7215 or Dan Bertoni at (202) 512-5988. Individuals who made key contributions to this testimony include Jeff Bernstein and Elizabeth O'Toole.

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