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PENSION BENEFIT
GUARANTY
CORPORATION

Some Steps Have
Been Taken to
Improve Contracting,
but a More Strategic
Approach Is Needed





Highlights of [GAO-08-871](#), a report to congressional requesters

Why GAO Did This Study

The Pension Benefit Guaranty Corporation (PBGC) insures the pensions of more than 44 million workers in over 30,000 employer-sponsored defined benefit pension plans. In response to growing workloads, PBGC has come to rely heavily on contractors to conduct its work. GAO was asked to report on (1) the role that contracting plays in PBGC's efforts to accomplish its mission, (2) the steps PBGC has taken to improve its acquisition infrastructure and develop a strategic approach to guide its contracting activities, and (3) the steps PBGC has taken to improve its contract oversight processes to ensure accountability.

To address these issues, we interviewed PBGC officials and selected contractors, reviewed data on PBGC's contracting activities; identified changes PBGC is making to contracting procedures; and identified strategies PBGC uses to monitor contracts.

What GAO Recommends

GAO recommends that PBGC revise its strategic plan to reflect the importance of contracting and to project its vision of future contractor use; and include the Procurement Department in agency-wide strategic planning. In response, PBGC agreed with most of our recommendations, but disagreed with incorporating more detail in its strategic planning documents, as it believes its recently issued strategic plan is sufficiently comprehensive. However, PBGC's plan mentions contracting only briefly and does not reflect the important role contracting plays in achieving its mission.

To view the full product, including the scope and methodology, click on [GAO-08-871](#). For more information, contact Barbara Bovbjerg at 202-512-7215 or bovbjerg@gao.gov.

PENSION BENEFIT GUARANTY CORPORATION

Some Steps Have Been Taken to Improve Contracting, but a More Strategic Approach Is Needed

What GAO Found

Contracting plays a central role in helping PBGC achieve its mission and address unpredictable workloads. Since the mid-1980s, PBGC has had contracts covering a wide range of services, including the administration of terminated plans, payment of benefits, customer communication, legal assistance, document management, and information technology. PBGC's workforce currently consists of about 800 federal employees and utilizes the services of about 1,500 contract employees. From fiscal year 2000 through 2007, PBGC's contract spending increased steadily along with its overall budget and workload, and its use of contract employees has outpaced its hiring of federal employees. As its workloads have grown due to a significant number of large pension plan terminations, PBGC has relied on contractors to supplement its workforce, acknowledging that it has difficulty anticipating its workloads due to unpredictable economic conditions.

PBGC is taking steps to improve its acquisition infrastructure, but the Procurement Department is not yet part of PBGC's strategic decision-making process. In 2007, PBGC began to take steps to realign its Procurement Department, update contracting policies and processes, upgrade the skills of Procurement Department staff, and better track contracting data. PBGC's efforts begin to provide an improved foundation for the contracting function; however, these efforts are early steps and more remains to be done. PBGC has not fully integrated its contracting function at the corporate level; the Procurement Department is not included in corporate-level strategic planning and does not have a presence on PBGC's relevant strategic teams.

PBGC has made improvements to contractor oversight and has begun to implement performance-based contracting that offers the potential for better contract outcomes, but also creates new challenges for contract oversight and monitoring efforts. PBGC has implemented new contract monitoring activities, improved oversight activities for some of its major contracts, and developed comprehensive procedures to direct contracting activities. For its field benefit administration office contracts, PBGC developed performance measures and scorecards, providing feedback about contractor performance in terms of timeliness and accuracy of benefit payments. Despite these improvements, most of PBGC's current contracts still lack performance incentives and methods to hold contractors accountable. PBGC recently began awarding more performance-based contracts, as a means to achieve better outcomes. Although performance-based contracting is recognized as a viable way toward getting better results from contractors, GAO and others have identified common challenges agencies face when implementing this approach—from deciding which contracts are appropriate for a performance-based approach to deciding which outcomes to measure and emphasize. PBGC procurement officials recognize the benefits and challenges of performance-based contracting, and that they must provide additional oversight of contracts and a different approach to contract monitoring that focuses on outcomes rather than processes.

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Abbreviations

BAPD	Benefits Administration and Payment Department
COTR	contracting officers' technical representative
ERISA	Employee Retirement Income Security Act of 1974
FTE	full-time equivalent
MCU	Management Coordination Unit
NAPA	National Academy of Public Administration
OIG	Office of the Inspector General
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PPA	Pension Protection Act of 2006

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United States Government Accountability Office
Washington, DC 20548

August 18, 2008

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Edward M. Kennedy
Chairman
The Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Pension Benefit Guaranty Corporation (PBGC) insures pensions for more than 44 million workers in over 30,000 employer-sponsored defined benefit plans—private sector pension plans where an employer guarantees a benefit. PBGC’s primary responsibility is to collect premiums from the sponsors of the pension plans and provide timely and uninterrupted benefit payments when terminations or bankruptcies occur. In the event of a distressed plan termination, PBGC assumes control of plan assets, calculates benefit amounts, and pays recipients a guaranteed benefit. In fiscal year 2007, roughly 611,000 beneficiaries received over \$4.1 billion in benefit payments. In response to growing workloads, PBGC has come to rely heavily on contractors to conduct its work. PBGC’s current workforce is made up of roughly two-thirds contractor employees and one-third federal employees.

In July 2003, GAO designated PBGC’s single-employer pension insurance program—its largest insurance program—as “high risk,” including it on GAO’s list of major programs that need urgent attention and

transformation; the program remains on the list today.¹ To strengthen pension plan funding, Congress passed the Pension Protection Act of 2006 (PPA). However, PBGC still showed an accumulated deficit of \$14 billion for its single-employer program as of September 2007.

Because of PBGC's reliance on contracts to carry out its mission, its acquisition infrastructure—the framework an agency must have in place to manage its contracting activities—will in part determine whether the agency succeeds in its mission. Previous GAO work identified challenges facing PBGC's contracting activities, which included PBGC's limited efforts to link contracting and staffing decisions to longer-term strategic planning, placing PBGC at risk for being unprepared for future workload changes.² GAO also identified weaknesses in PBGC's contract oversight activities and in its contracting processes, resulting in limited competition and an over-reliance on contracts that carry more cost and quality assurance risks. These findings have been echoed in recent studies by PBGC's Inspector General. To ensure that PBGC is well positioned to manage its workload, we were asked to review PBGC's contracting function to follow-up on our earlier contracting work. Specifically, this report assesses (1) the role that contracting plays in PBGC's efforts to accomplish its mission, (2) the steps PBGC has taken to improve its acquisition infrastructure and develop a strategic approach to guide its contracting activities, and (3) the steps PBGC has taken to improve its contract oversight processes to ensure accountability.

To assess the role contracting plays in PBGC's efforts to accomplish its mission, we collected and analyzed data on PBGC contracting activities, as well as on participants, plans, employees, and budget trends. To assess the

¹GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007). In 1992, we placed PBGC on our list of federal programs at high risk because a large and growing imbalance between its assets and liabilities threatened its long-term financial viability. GAO, *High-Risk Series: Pension Benefit Guaranty Corporation*, [GAO/HR-93-5](#) (Washington, D.C.: December 1992). To address PBGC's financial problems, Congress passed the Retirement Protection Act in 1994, which strengthened minimum funding requirements for plans and increased premiums paid to PBGC by underfunded plans (Pub. L. No. 103-465, 108 Stat. 4809). In addition, PBGC improved administration of its insurance programs. Consequently, we removed PBGC from our high-risk list in 1995. GAO, *High-Risk Series: An Overview*, [GAO/HR-95-1](#) (Washington, D.C.: February 1995). GAO again added PBGC's single employer insurance program to its high-risk series in July 2003. GAO, *Private Pensions: The Pension Benefit Guaranty Corporation and Long-Term Budgetary Challenges*, [GAO-05-772T](#) (Washington, D.C.: June 9, 2005).

²GAO, *Pension Benefit Guaranty Corporation: Contracting Management Needs Improvement*, [GAO/HEHS-00-130](#) (Washington, D.C.: Sept. 18, 2000).

steps PBGC has taken to improve its acquisition infrastructure and develop a strategic approach to guide its contracting activities, we evaluated PBGC's acquisition infrastructure in four key areas—organizational alignment and leadership, policies and procedures, human capital, and information management. We identified changes PBGC is making to its contracting procedures and to specific contracts, and reviewed progress made on these initiatives. To assess the steps PBGC has taken to improve its contract oversight processes, we identified the strategies PBGC uses to monitor its contracts. We reviewed documentation and spoke to officials responsible for monitoring customer satisfaction and the accuracy of benefit payments, and actions taken in response to the results of these monitoring efforts. We also reviewed a small, random sample of contract oversight files. In addition, we interviewed PBGC senior executives, managers, and programming and contracting staff at headquarters, as well as selected contractors. We also interviewed officials from PBGC's Office of Inspector General and reviewed relevant Inspector General reports.

We conducted our work between May 2007 and August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I discusses our scope and methodology in further detail.

Results in Brief

Contracting plays a central role in helping PBGC achieve its mission and address unpredictable workloads. Since the mid-1980s, PBGC has had contracts covering a wide range of services, including the administration of terminated plans, payment of benefits, customer communication, legal assistance, document management, and information technology. PBGC's workforce currently consists of about 800 federal employees and utilizes the services of about 1,500 contract employees. From fiscal year 2000 through 2007, PBGC's contract spending increased steadily along with its overall budget and workload, and its use of contract employees has outpaced its hiring of federal employees. As its workloads have grown due to a significant number of large pension plan terminations, PBGC has relied on contractors to supplement its workforce, acknowledging that it has difficulty anticipating workloads due to unpredictable economic conditions.

PBGC is taking steps to improve its acquisition infrastructure, but its Procurement Department is not yet part of PBGC's strategic decision-making process. In 2007, PBGC began to take steps to realign its Procurement Department, update contracting policies and processes, upgrade the skills of Procurement Department staff, and better track contracting data. In 2000, we recommended that PBGC develop a strategic approach to contracting by conducting a comprehensive review of PBGC's future human capital needs and using this review to better link contracting decisions to PBGC's long-term strategic planning process. PBGC took some initial steps to implement our recommendation, and has recently renewed its efforts and drafted a strategic human capital plan which calls for hiring a human resource specialist to coordinate and complete the planning process initiated in 2001. PBGC's efforts begin to provide an improved foundation for the contracting function; however, these efforts are early steps and more remains to be done. PBGC has not fully integrated its contracting function at the corporate level. For example, the Procurement Department is not included in corporate-level strategic planning and does not have a presence on PBGC's relevant strategic teams—the Operations Integration Board, the Budget and Planning Integration Team, and the Capital Planning for Information Technology Team.

PBGC has made improvements to contractor oversight since our last report and has begun to implement performance-based contracting, which offers the potential for better contract outcomes but also creates new challenges for contract oversight and monitoring efforts. In response to concerns about contract oversight raised by us and PBGC's Inspector General, PBGC has implemented new contract monitoring activities, improved oversight activities for some of its major contracts, and developed comprehensive procedures to direct contracting activities. For its field benefit administration office contracts, PBGC developed performance measures and scorecards, providing feedback about contractor performance in terms of timeliness and accuracy of benefit payments. The Procurement Department also implemented refresher training requirements for contracting officers' technical representatives

(COTR),³ who are responsible for much of the direct contract oversight. Despite these improvements, most of PBGC's current contracts still lack performance incentives and methods to hold contractors accountable. PBGC recently began awarding more performance-based contracts, which can achieve better contract outcomes. Although performance-based contracting is recognized as a viable way to get better results from contractors, GAO and others have identified common challenges agencies face when implementing this approach—from deciding which contracts are appropriate for a performance-based approach to deciding which outcomes to measure and emphasize. PBGC procurement officials recognize the benefits and challenges of performance-based contracting and that they must provide additional oversight of contracts and a different approach to contract monitoring that focuses on outcomes rather than processes.

To improve performance in an environment of heavy contract use, we are making several recommendations to PBGC. These include revising its strategic planning documents to reflect the importance of contracting and PBGC's use of contractors, projecting its vision of future contractor use, better linking staffing and contracting decisions at the corporate level, and including the Procurement Department in agency-wide strategic planning. We also are making several recommendations to PBGC that are intended to improve its contract management as it implements a performance-based approach to contracting.

In response to our draft report, PBGC's Director stated PBGC's commitment to managing its contracting activities to obtain the best value for the 44 million beneficiaries of its insurance program. PBGC agreed with most of our recommendations and mentioned various ways it planned to address them. For example, PBGC stated that it understood that other government agencies have faced challenges in implementing performance-based contracting and plans to take steps to avoid common pitfalls. While PBGC agreed that contracting should be part of its strategic planning process, it disagreed with our recommendation to reflect the

³A COTR is an individual assigned to a contract to evaluate contractor performance based on their technical background and experience. The COTR uses meetings, physical observations, and reports to ensure that work is performed in compliance with contract requirements. The COTR makes many decisions or recommendations about the daily administration of the contract, and the contracting officer relies on the COTR's judgment in the areas of inspection, payment approval, and providing recommendations on problems that arise.

importance of contracting and incorporate its vision for future contractor use in its strategic planning documents, as it believes its recently issued strategic plan is sufficiently comprehensive. However, PBGC's strategic plan only briefly mentions performance-based contracting, flexible staffing and metrics for specific contracts, and therefore we believe that it does not reflect the important role contracting is playing in achieving PBGC's mission. In addition, PBGC disagreed with our recommendation that its Director of Procurement should sit on certain specific corporate committees. Because PBGC relies to such a great extent on contracting, we believe that it is essential that an individual well-versed in procurement operations be more integrated into PBGC's planning for the future. PBGC's comments are reproduced in appendix II.

Background

Overview of PBGC

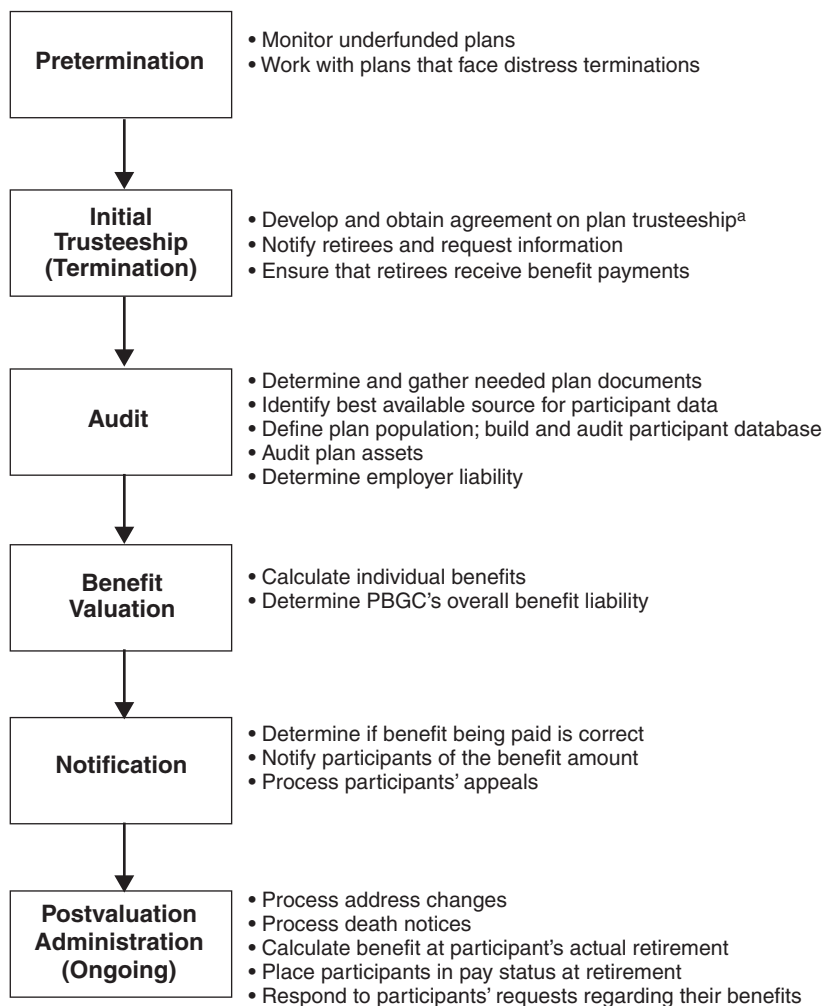
The Employee Retirement Income Security Act of 1974 (ERISA) created PBGC as a self-financing, nonprofit, wholly owned government corporation.⁴ PBGC protects participants in private pension plans from losing guaranteed benefits due to the termination of underfunded plans. PBGC's primary responsibilities are to collect premiums from the sponsors of defined benefit plans to insure against default and to assume administration of underfunded plans that terminate. In the event of a plan default, PBGC assumes control of plan assets (including amounts due and payable from the plan sponsor); calculates benefit amounts due to plan participants, commonly communicated in "benefit determination letters;" and pays recipients as benefits are due.

Generally, pension plans under PBGC's administration, in which final benefit determination letters have not yet been issued, are considered estimated plans. PBGC pays benefits in estimated amounts until final determinations are made, routinely taking several years to complete all benefit determinations for plans that terminate. When all letters are issued and participant appeal periods have expired, plans are then closed and moved to ongoing administration where they generally require limited maintenance to reflect participants' marital changes, address changes,

⁴Pub. L. No. 93-406, 88 Stat. 829.

deaths, and other events.⁵ Figure 1 provides an overview of the steps involved in processing a terminated pension plan.

Figure 1: Overview of Plan Processing at PBGC



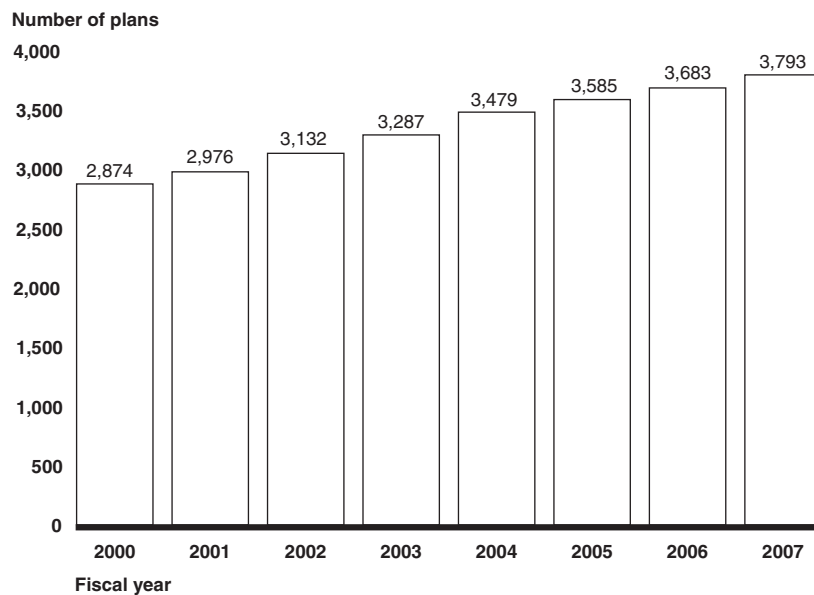
Source: PBGC.

^aTrusteeship is the process by which PBGC assumes continuing responsibility for a pension plan that terminates.

⁵Both PBGC employees and contractor employees are involved in performing aspects of ongoing administration for closed plans.

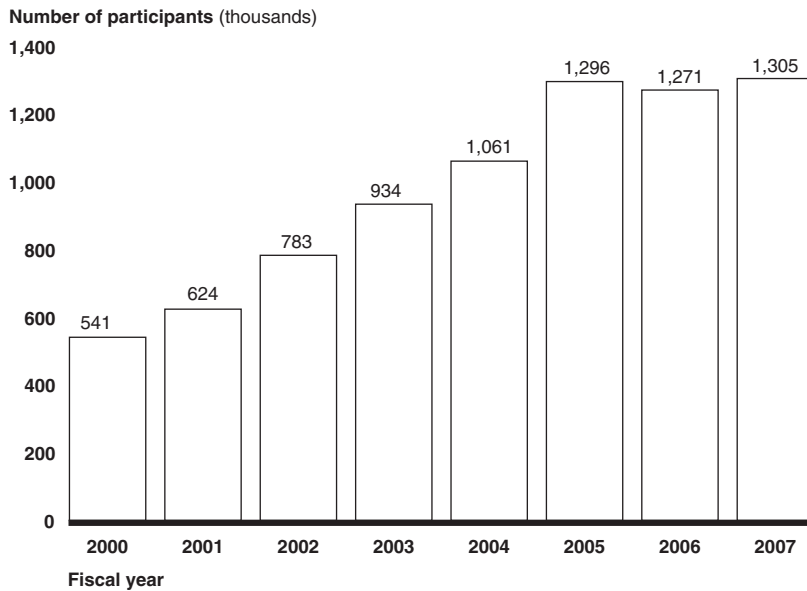
Over the years, PBGC's workloads have grown significantly. In fiscal year 1975, the first year after the passage of ERISA, PBGC administered three pension plans with a total of 400 participants. By fiscal year 2007, PBGC administered almost 3,800 pension plans with over 1.3 million participants. Figures 2 and 3 show the number of pension plans and participants administered by PBGC since fiscal year 2000—the last time GAO issued a report on this subject. Between fiscal years 2002 and 2005, PBGC experienced a large number of claims that contributed to its workload growth.

Figure 2: Cumulative Number of Pension Plans Administered by PBGC, Fiscal Years 2000–2007



Source: PBGC.

Figure 3: Cumulative Number of Participants in Pension Plans Administered by PBGC, Fiscal Years 2000–2007



Source: PBGC.

Previous Assessments of PBGC Contracting

In September 2000, we identified a variety of challenges facing PBGC’s contracting activities.⁶ Faced with a significant influx of large pension plan failures beginning in the mid-1980s, PBGC chose to contract for services rather than seek additional federal employees during a period of government downsizing. Over time, PBGC continued contracting for services to address backlogs, but was focused on obtaining necessary services quickly. As a result, we found that PBGC did not adequately link decisions to contract for services to longer-term strategic planning considerations. We recommended that PBGC develop a strategic approach to contracting by conducting a comprehensive review of PBGC’s future human capital needs and using this review to better link contracting decisions to PBGC’s long-term strategic planning process. In response to our recommendation, PBGC commissioned a study by the National Academy of Public Administration (NAPA). NAPA provided a six-step model for PBGC to follow for its strategic human capital planning. Upon completion of this study, PBGC convened a workforce planning team that initiated some of the steps NAPA suggested.

⁶[GAO/HEHS-00-130](#).

Our work also identified weaknesses in PBGC's contract planning and execution processes, which may have led to overuse of labor-hour contracts rather than fixed-price contracts and also to limited competition. PBGC's contractor oversight activities also exhibited weaknesses, including a lack of data essential for monitoring performance, quality assurance review processes and policies, and procedural guidance. Finally, we identified a potential lack of independence on the part of the office that was responsible for auditing and reviewing PBGC contracting activities. Many of these findings have been echoed more recently by PBGC's Inspector General.

PBGC's Inspector General issued a report on contracting trends in July 2007.⁷ The Inspector General noted that the three major areas cited most often as needing improvements were questioned costs (unsupported and or unauthorized costs that contractors billed to PBGC); lack of documented contracting policies, procedures, and directives; and inadequate contractor oversight. The leading causes for questioned costs were that contractors: (1) did not maintain adequate documentation to justify the costs they billed PBGC and (2) subcontracted with employees who did not have the qualifications required under the contract. Inspector General reports also noted that PBGC has no comprehensive contracting directives or policy guidance available to aid contracting officials and contractors to carry out their respective duties. The reports also identified significant contracting problems and control vulnerabilities, often stemming from a lack of adequate monitoring of contractor performance. Appendix II includes a list of related GAO and PBGC Inspector General Reports.

Acquisition Framework

In response to federal agencies' increasing reliance on contractors to perform their missions and the systemic weaknesses identified in key areas of contracting by GAO, inspectors general, and other accountability organizations, in 2005, we published a *Framework for Assessing the Acquisition Function at Federal Agencies*.⁸ The framework enables high-level, qualitative assessments of the strengths and weaknesses of the contracting function.

⁷PBGC-Office of the Inspector General (OIG), *Trend Analysis Report: PBGC Procurement Issues From 2000-2007*, 2007-6/CA-0036 (Washington, D.C., July 26, 2007).

⁸GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, [GAO-05-218G](#) (Washington, D.C.: Sept. 2005).

The framework consists of four interrelated cornerstones that our work has shown are essential to an efficient, effective, and accountable contracting process.

- **Organizational alignment and leadership.** Organizational alignment assures the appropriate placement of the contracting function in the agency, with stakeholders having clearly defined roles and responsibilities. Key elements and critical success factors include aligning contracting with the agency's mission and needs and organizing the contracting function to operate strategically. Committed leadership enables officials to make strategic decisions that achieve agency-wide contracting outcomes more effectively and efficiently. In fact, the Services Acquisition Reform Act of 2003 requires that certain civilian executive agencies designate a Chief Acquisition Officer that has management of acquisition as their primary duty.⁹ An executive in this position would address acquisition workforce needs and strategies as part of strategic planning and performance results processes.
- **Policies and processes.** Implementing strategic decisions to achieve desired agency-wide outcomes requires clear and transparent policies and processes that are implemented consistently. Policies establish expectations about the management of the contracting function. Processes are the means by which management functions will be performed and implemented. Effective policies and processes govern the planning, award, administration, and oversight of contracting efforts.
- **Human capital.** Successfully acquiring goods and services, and executing and monitoring contracts requires valuing and investing in the contracting workforce. Agencies must think strategically about attracting, developing, and retaining talent, and creating a results-oriented culture within the contracting workforce.
- **Knowledge and information management.** Effective knowledge and information management provides credible, reliable, and timely data to make contracting decisions. Stakeholders in the contracting process—Procurement Department and program staff who decide which goods or services to buy; project managers who receive the goods and services; managers who maintain supplier relationships; contract administrators who oversee compliance with the contract; and the finance department

⁹41 U.S.C. § 414.

that pays for the goods and services—need meaningful data to perform their respective roles and responsibilities.

PBGC Relies on Contractors to Address Unpredictable Workloads

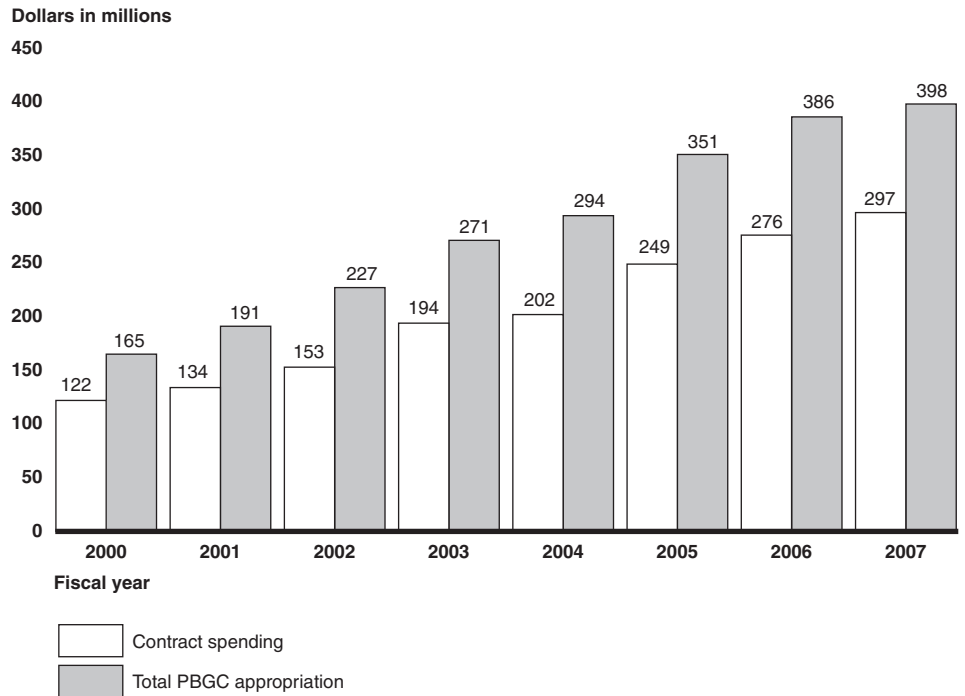
Contracting plays a central role in helping PBGC achieve its mission and address unpredictable workloads. PBGC's contracts cover a wide range of services, including the administration of terminated plans, payment of benefits, customer communication, legal assistance, document management, and information technology. Its contract spending has increased steadily along with overall budget and workload, and use of contracted staff has outpaced its hiring of federal employees. PBGC has relied on contractors to supplement its workforce since the mid-1980s as its workloads have grown due to a significant number of pension plan terminations. PBGC acknowledges that it has difficulty anticipating its workloads due to unpredictable economic conditions and relies on contractors to expand or reduce its workforce as necessary.

PBGC's Contract Spending Has Increased along with Overall Budget, and Growth in Contract Employees Has Outpaced PBGC Employees

To address the increase in the overall number of pension plans and participants, PBGC's budget increased steadily over the last 8 years, from \$165 million in fiscal year 2000 to \$398 million in fiscal year 2007. Similarly, PBGC's contract spending increased from \$122 million in fiscal year 2000 to \$297 million in fiscal year 2007, as shown in figure 4. Contracting represented 71 percent of PBGC's appropriated budget during this period. Across the federal government, contract spending has more than doubled since fiscal year 2000, going from about \$208.8 billion to \$430 billion. The Departments of Defense and Homeland Security account for the majority of the increase, while other agencies vary in their budget changes. In previous work on contract spending at various agencies, we found that overall, about a quarter of agencies' discretionary spending was through contracts.¹⁰ Therefore, PBGC's contract spending as a percentage of its discretionary budget is relatively high, although most federal agencies have increased their contract spending in recent years.

¹⁰GAO, *Federal Procurement: Spending and Workforce Trends*, [GAO-03-443](#) (Washington, D.C.: Apr. 30, 2003).

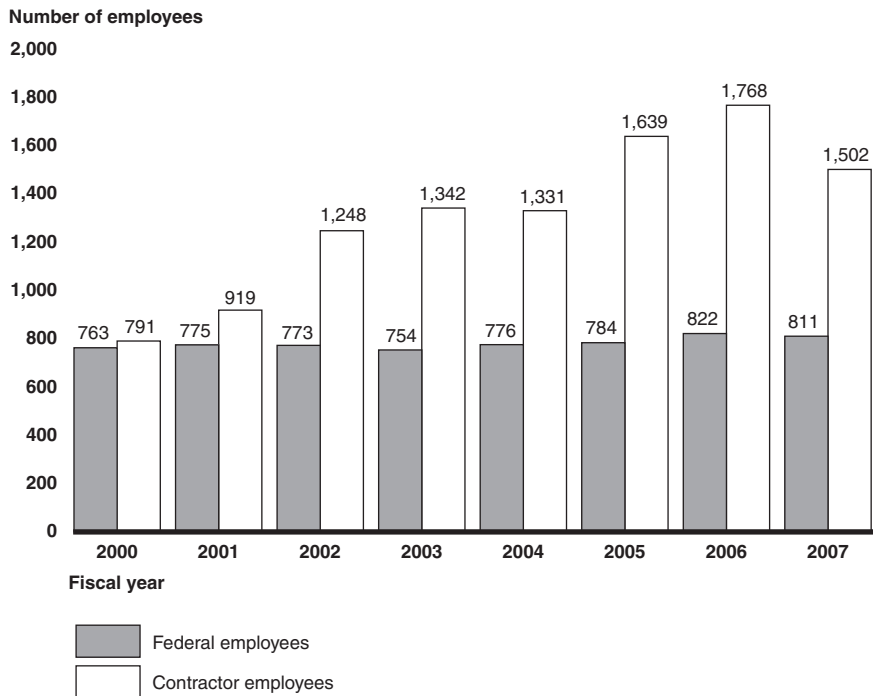
Figure 4: Total PBGC Contract Spending and Budget, Fiscal Years 2000–2007



Source: PBGC.

The number of PBGC’s contract employees has grown significantly more than PBGC employees. As figure 5 shows, PBGC had 791 contract employees in fiscal year 2000. By fiscal year 2007, there were over 1,500 contract employees. Conversely, PBGC’s federal employees increased modestly from 763 in fiscal year 2000 to 811 in fiscal year 2007. The largest increases in contractor employees correspond to the failure of several large plans, resulting in workload increases that occurred from fiscal year 2002 through fiscal year 2005. The number of contract employees peaked in fiscal year 2006 at 1,768, and has since fallen to 1,502 in fiscal year 2007, as PBGC is completing the work associated with terminating these large plans.

Figure 5: Number of Federal Employees and Contractor Employees at PBGC, Fiscal Years 2000–2007



Source: PBGC.

Note: PBGC data show the number of federal employees as of September 30 of each fiscal year. Historical PBGC data on contractor employees show the number reported on different dates in each fiscal year.

PBGC Contracts for a Wide Range of Services

PBGC contracts for a wide range of services including

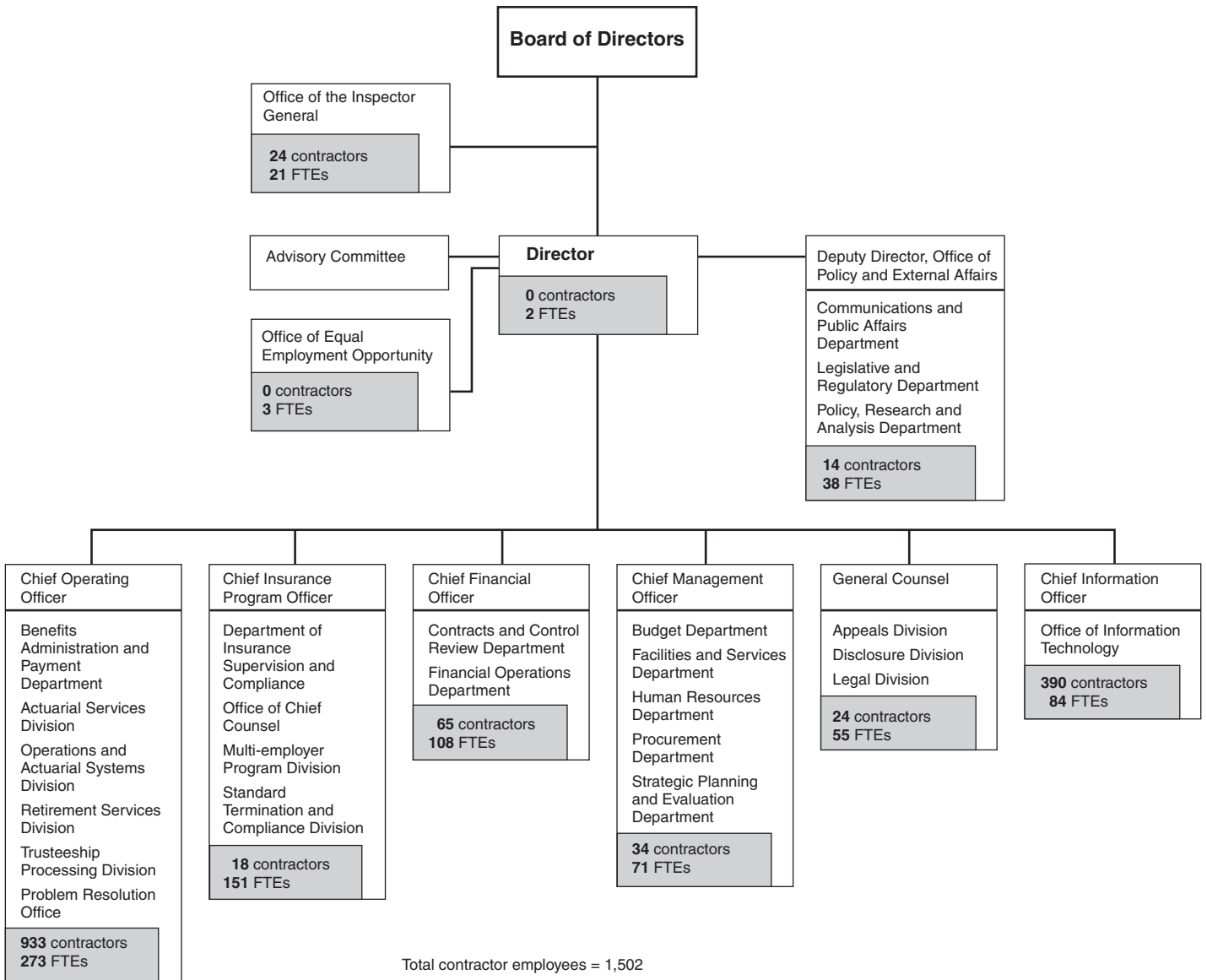
- operating its 10 field benefit administration offices throughout the country—field benefit administration office contract employees perform the majority of benefits estimation and plan administration processing;
- managing PBGC’s \$68 billion of assets;
- paying benefits to participants;
- developing, overseeing, and managing new systems and information technology projects in support of program operations; and
- handling of customer inquiries through its customer call center.

PBGC also has certain functions, such as audit and actuarial functions, where contract employees work side by side with federal employees and supplement their efforts. PBGC also contracts for specialized services that may not be needed on a routine basis. For example, while PBGC has in-house attorneys who handle the majority of PBGC's litigation and negotiations, occasionally there are cases where it is necessary for PBGC to retain outside counsel. According to PBGC officials, hiring lawyers with special expertise on a full-time basis, rather than as needed, would be cost prohibitive. When PBGC needs outside legal services, it solicits proposals from these firms for the needed services. According to PBGC officials, this arrangement makes it possible for PBGC to secure necessary legal services quickly and efficiently.

PBGC Relies on Contractors to Address Unpredictable Workloads

To carry out its operations, PBGC has relied on contractors to address its unpredictable workload, which is driven largely by pension plan terminations. In 2001, PBGC convened a workforce planning team to analyze its future service demands. The team recognized that fluctuations in the economy, or business cycle, could result in significant fluctuations in PBGC workloads. For example, PBGC typically sees an increase in terminations 1 to 2 years after a decline in the economy. The team noted that PBGC must remain flexible to rapidly expand or reduce its processing capacity to meet changing workloads, but cautioned that it was important to keep the highest level of expertise in-house. Figure 6 shows the number of contract employees and federal employees at PBGC, by office.

Figure 6: PBGC Organization Chart with the Number of Contract Employees and PBGC Federal Employees



Total contractor employees = 1,502

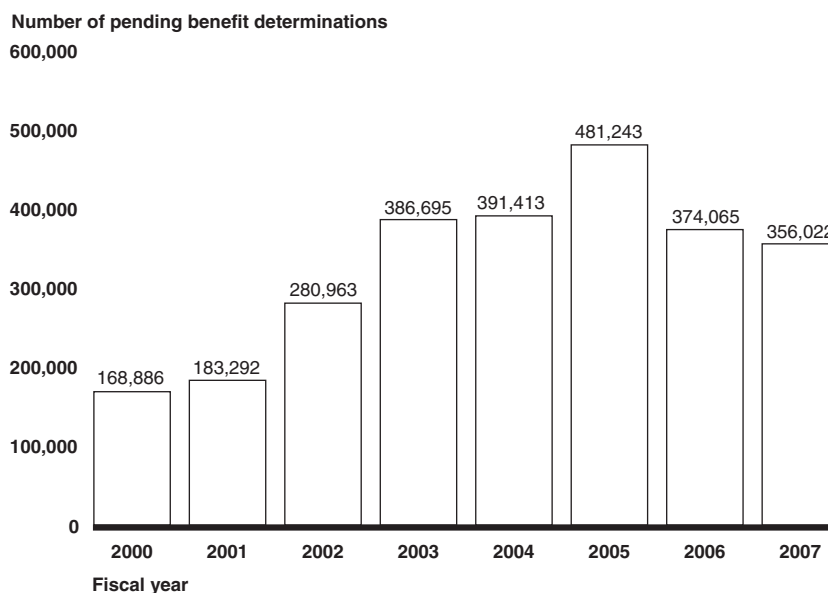
Total full-time equivalent (FTE) federal employees = 806

Source: PBGC.

Note: PBGC data on the number of full-time equivalent (FTE) PBGC federal employees and contract employees are broken out by component as of June 2007. These numbers vary somewhat throughout the year and differ slightly from the number at the end of the fiscal year because of timeframes reported.

Although PBGC is currently experiencing a decline in new terminated plan workloads, the case processing cycle takes an average of 3 years or more. In determining the need for contract employees, PBGC considers both the incoming workload and the workload currently in process. A PBGC official noted that in order to balance the current benefit determination workload and the anticipated decline in the incoming workload, PBGC is allowing field benefit administration office staff increases only when there is a clear demonstration of need. See figure 7 for recent trends in pending benefit determinations.

Figure 7: Number of PBGC Pending Benefit Determinations, Fiscal Years 2000–2007



Source: PBGC.

Note: Pending benefit determinations are shown as of the end of the fiscal year.

According to a PBGC official, PBGC doesn't foresee large plan terminations and bankruptcies coming in 2008 or 2009, but there are a few plans it is monitoring that could have significant impact on PBGC. Thus, PBGC is in the delicate position of beginning to decrease contract resources while still remaining prepared for possible workload increases in a time of uncertain financial conditions.

PBGC Is Taking Steps to Improve Its Acquisition Infrastructure but Has Not Yet Developed a Strategic Approach to Contracting

In 2007, PBGC began to realign its Procurement Department, update contracting policies and processes, upgrade the skills of Procurement Department staff, and better track contracting data. While these efforts provide an improved foundation for the contracting function, they are early steps and a strategic approach to contracting has not yet been developed.

PBGC Is Taking Steps to Improve Its Acquisition Infrastructure

PBGC's heavy reliance on contract support requires an adequate acquisition infrastructure to ensure an efficient, effective, and accountable contracting function. An agency's acquisition function stands on four interrelated cornerstones—organizational alignment and leadership, policies and processes, human capital, and knowledge and information management.¹¹ In 2007, PBGC hired a new procurement director who has taken steps to improve the acquisition infrastructure in the four cornerstone areas; however, the acquisition function's infrastructure is still inadequate in some areas.

Organizational Alignment and Leadership

The appropriate placement of the acquisition function within an agency can facilitate efficient and effective management of acquisition activities. In our work on best practices, we learned that leading companies elevated or expanded the role of the company's acquisition organization—typically assigning it greater responsibility and authority for strategic planning, management, and oversight of the company's services spending. These changes transformed the role of the purchasing unit from one focused on mission support to one that was strategically important to the company's bottomline.¹² Further, recent legislation recognized the importance of placing the acquisition function at an appropriate level and mandates that most executive departments appoint a chief acquisition officer.¹³

¹¹GAO-05-218G.

¹²GAO, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, GAO-02-230 (Washington, D.C.: Jan. 18, 2002).

¹³Services Acquisition Reform Act of 2003, tit. XIV, Pub.L. No. 108-136, § 1421, 117 Stat. 1663, 1666-67 (2003). PBGC is not required to appoint a chief acquisition officer.

PBGC's Procurement Department does not play a strategic role within the corporation and does not have an active role in the strategic decision-making process, becoming involved only once a requisition is submitted to the department. For example, the procurement director is not part of the following three teams that focus on initiatives that support the corporation's strategic plan.

- **The Operations Integration Board**, whose members include the entire Executive Management Committee, provides a forum for the senior leadership to commission and review corporate-wide programs, projects, and internal policies. Significant projects that cross organizational lines and require multiorganizational resources are presented to the board for approval.
- **The Budget and Planning Integration Team** is responsible for approving corporate-wide resource allocations and aligning resources to PBGC's strategic objectives. This team also makes recommendations on large funding requests that are subject to approval by the Operations Integration Board.
- **The Capital Planning for Information Technology Team** reviews information technology investments to assure the alignment of information technology capital investments with the corporate strategic plan and to monitor and control the execution of those investments. The team provides recommendations to the Operations Integration Board and the Budget and Planning Integration Team as the recommendations affect operations or budget.

As a result, the Procurement Department has no input into the decision to acquire goods or services through contracting; it is responsible for implementing the policy decisions made by the executive management team but has no voice in making these decisions. The Procurement Department's involvement on such boards could improve strategic planning by enabling PBGC to identify and manage relationships among the parties involved in the acquisition process; analyze aggregate agency needs and devise strategic acquisition plans; and take into consideration the effects of external factors, such as the appropriations process, on the timing and execution of major contracts. Further, while PBGC has recently published its strategic plan and begun developing a strategic human capital plan, the agency has not actively involved the Procurement Department in the process. The Procurement Department's lack of involvement in strategic decision making is an indicator that it may be

unable to identify, analyze, prioritize, and coordinate agency-wide acquisition needs.

Policies and Processes

Policies and processes govern the way an agency performs the acquisition function. The acquisition function does not end with the award of contracts, but continues through contract implementation and closeout. Acquisition policies and processes should clearly define the roles and responsibilities of all involved in the acquisition process and need to be communicated clearly to all involved. In addition, implementing strategic acquisition decisions to achieve agency-wide outcomes requires clear, transparent, and consistent policies and processes that govern the planning, award, administration, and oversight of acquisitions.

PBGC updated its contracting policies and procedures in 2008. In the past year, with the support of executive management, the Procurement Department updated and issued two procurement directives that spell out roles and responsibilities of all individuals involved in the acquisition process and outline procurement and obligation procedures. The Procurement Department issued policies requiring high-level approval for certain types of transactions, such as issuing labor-hour-type contracts and making modifications to contracts. The Procurement Department has recently completed a comprehensive procurement manual that outlines standard operating procedures and provides examples to illustrate guidance. The General Counsel's Office has provided guidance on when the legal review of acquisitions is required, and works closely with the Procurement Department in performing legal reviews and providing legal advice. However, it is still too early to tell what the effect of the new policies will be. The success of any set of policies will depend on adequate communication across the agency; internal controls to ensure they are implemented; and clear, strong, guidance from leadership on the importance of adhering to the new policies.

Human Capital

A strategic human capital management approach enables an agency to recruit, develop, and retain the right number of personnel with the right skills to accomplish its mission effectively. Senior managers should devote adequate resources to recruiting, hiring, developing, rewarding, and retaining talented personnel. This is true for all functions within an agency and is crucial for specialized functions, such as acquisition. Succession planning also is needed to ensure that the workforce is composed of the right number of personnel with the necessary skills and qualifications to perform the acquisition function into the future.

PBGC has begun to focus on developing the knowledge and skills of its Procurement Department staff. Having the right people with the right skills is key to making a successful transformation toward an effective acquisition environment. Over the last decade, the emergence of several procurement trends, including a government-wide rise in services contracting, has created a need for an acquisition workforce with a much greater knowledge of market conditions, industry trends, and the technical details of the commodities and services they procure. The Procurement Department has developed new training and certification requirements and invested in upgrading the skills of the acquisition workforce, by providing training to help contract specialists obtain certification. According to PBGC, while only 2 of 12 staff in the contract specialist series were certified in contracting as of February 2007, by January 2008, 9 of the 12 staff had been certified. The Procurement Department also is working to enhance training and certification requirements for COTRs working throughout PBGC.

While PBGC's contract spending has more than doubled since 2001, the number of staff in the Procurement Department has risen only by two FTE employees from 2001 to 2007. PBGC Procurement Department officials are concerned that their staff of nine certified contract specialists is not adequate to support the mission. In May 2007, the Procurement Department studied four comparable agencies to determine appropriate staffing levels for PBGC's Procurement Department. This study compared PBGC's contracting staff size, number of annual transactions, and value of annual transactions to those of the other four agencies. Although PBGC had 88 percent more transactions on average and 40 percent more contract dollars on average than the other four agencies, it had less than half the average number of contracting office staff. This study only focused on the Procurement Department and did not attempt to determine appropriate staffing levels for other acquisition professionals not assigned to the Procurement Department, such as program managers, financial managers, and individuals involved in contract monitoring. We did not conduct an independent assessment of this study to validate the study's results.

Information and Knowledge Management

To make strategic, mission-focused acquisition decisions, organizations need knowledge and information management processes and systems that produce credible, reliable, and timely data about the goods and services acquired and the methods used to acquire them. Such data can be used to identify opportunities to reduce costs, improve service levels, measure compliance and performance, and manage service providers.

PBGC's Procurement Department uses a variety of reports to oversee contract spending. Some reports come from the contract writing system while others are maintained manually. According to a PBGC official, the reports track how goods and services are acquired but do not provide detailed data on goods and services, as well as suppliers, and spending patterns. As a result, PBGC may not have the strategic information needed to support effective acquisition management decisions. In addition, PBGC's procurement software is not integrated into its financial system, which would allow contracting professionals to obtain real-time information on availability of funds, status of obligations and expenditures, and payments for the receipts of goods and services. PBGC's Procurement Department recently invested in new procurement software to better track acquisition data. In addition to generating reports on workload and procurement lead times, the new software links to the Federal Procurement Data System to report on PBGC's contract actions as required by the Office of Management and Budget (OMB). This system is able to produce some aggregate data, like dollars expended, but lacks detailed information on goods and services purchased.

PBGC Has Not Yet Taken Steps to Develop Strategic Approach to Acquisition

PBGC has not yet taken all the steps needed to develop a strategic approach to acquisition. In 2000, we recommended that PBGC do so by conducting a comprehensive review of PBGC's future human capital needs and using this review to better link contracting decisions to PBGC's long-term strategic planning process. However, PBGC's strategic plans do not provide sufficient detail to determine what role acquisition plays in achieving its goals. In our work on best practices,¹⁴ we learned that a strategic plan should incorporate an understanding of how acquisition will be used to help an agency achieve its mission and goals. This would enable PBGC to better coordinate current acquisition initiatives or serve as a road map for identifying or prioritizing future efforts. PBGC recently issued its strategic plan, but it is not comprehensive. Although the plan states that one of PBGC's strategic priorities is to align resources to meet changing workload demands and mentions flexible staffing as an indicator of efficient operations, it does not specify how this will be accomplished or what role contract staff will play. PBGC recently has hired a human resources specialist to coordinate and complete the planning process initiated in 2002 and update its human capital succession plan. PBGC also has drafted a strategic human capital plan that acknowledges the need for

¹⁴[GAO-02-230](#).

contract support, but does not provide detailed plans for how the contract support will be obtained.

As stated earlier, NAPA provided a six-step model for PBGC to follow for its strategic human capital planning. In response, PBGC convened a workforce planning team that implemented some of NAPA's suggested steps. Although the workforce planning team acknowledged the importance of contract staff for meeting PBGC's unpredictable workloads, the team's analysis of PBGC's future workforce focused almost entirely on PBGC's federal employees and not its contractor workforce. The team recognized PBGC's need for improvement in the area of contracting, such as better defining where to use contractors versus federal employees, structuring the work to ensure that federal staff retain core competencies, and developing stronger COTR and contract monitoring competencies. While the team's 2002 report included an analysis of the current competencies of PBGC's federal workforce and PBGC's future needs, it did not similarly analyze the contractor workforce, which, at the time, made up almost half of PBGC's total workforce and now makes up almost two-thirds. The report did not address how the contractor workforce should change to meet future needs or how contractors should be utilized. Although the report included a discussion of recruitment and hiring strategies, it did not include an analysis of strategies for adding to or subtracting from the contractor workforce in case of increased or decreased workloads.

Further, PBGC does not use its strategic annual performance plans to document how the acquisition function supports the agency's missions and goals. It is not clear how acquisition serves PBGC's mission, because metrics are not linked to PBGC's overall performance plan. While the procurement director has developed some metrics to measure the Procurement Department's workload, PBGC's strategic plan only has one broad metric related to measuring call center customer or participant satisfaction, but there is no specific metric that enumerates the level of customer service to be reached. Additionally, the strategic plan only has one broad metric related to performance-based contracting, but there are no specific metrics that relate to acquisition efficiency, effectiveness, and results, such as measures to track the number of contracts awarded that include incentives for performance. Performance measurements can be used to gain insight into the Procurement Department's current performance level and performance over time and set realistic goals for improvements to the acquisition process.

Finally, PBGC has taken some limited steps toward making more strategic contracting decisions in certain specific areas. These steps generally were taken in reaction to concerns raised about existing contracts in an internal report and reports by us and the Office of the Inspector General. For example, the Inspector General and PBGC each studied the contracts for the field benefit administration offices and concluded that there were opportunities to increase efficiency and decrease costs. As a result, PBGC is recompeting the contracts in an effort to consolidate the number of field benefit administration offices.

PBGC Has Made Improvements to Contractor Oversight, but Implementation of Performance-Based Contracting May Present Challenges

PBGC has made improvements to contractor oversight by implementing new contract monitoring activities, improving oversight activities for some of its major contracts, and developing comprehensive procedures to direct contracting activities. However, most of PBGC's current contracts lack performance incentives and methods to hold contractors accountable. PBGC recently began awarding more performance-based contracts, as a means to achieve better contract outcomes, but there are common challenges that arise—from deciding which contracts are appropriate for a performance-based approach to deciding which outcomes to measure and emphasize. PBGC procurement officials acknowledge the benefits and challenges of performance-based contracting, and must provide additional oversight of contracts and a different approach to contract monitoring that focuses on outcomes rather than processes.

PBGC Has Made Some Improvements to Contractor Oversight

PBGC has improved upon existing contract monitoring activities and implemented new activities to strengthen contract oversight. In our 2000 report,¹⁵ we recommended that PBGC develop the capacity to centrally monitor field benefit administration office contractor performance including product quality and timeliness. In response, PBGC shifted the responsibility for contract oversight of Benefits Administration and Payment Department (BAPD) contracts to its Management Coordination Unit (MCU),¹⁶ to consolidate its monitoring of field benefit administration

¹⁵ [GAO/HEHS-00-130](#).

¹⁶ BAPD is the office within PBGC with the highest number of contracts and contract spending. This division manages the termination process for defined benefit plans, provides participant services for terminated plans, and provides actuarial support for PBGC, whose contracts represent approximately 37 percent of contracting activities at PBGC.

office performance. The MCU uses several different methods to monitor contracts.

- The MCU reviews the 10 field benefit administration office contractors annually to assess the accuracy of benefit determination letters and the security procedures in place and trains analysts in contract oversight to conduct field benefit administration office reviews. Following each review, the office receives a report that highlights findings and requires a corrective action plan to address deficiencies.
- The MCU conducts quarterly COTR visits to the field benefit administration offices. During these visits, COTRs conduct interviews with key office staff and review the office's workplans and records. The MCU developed the COTR site visit program and a corresponding standard protocol to be used in conducting site visits. PBGC officials told us that, due to COTR work activities, not all site visits are being conducted as anticipated; only one to two are being conducted per office each year.
- The MCU conducts monthly compliance and data integrity reviews of field benefit administration case processing activities. Results of these reviews are compiled into a scorecard that is reported quarterly to the office and the COTR. The scorecard measures BAPD processing goals for timeliness and quality. Noncompliant items are communicated to the offices monthly for resolution. Field benefit administration office contractors receive feedback on the timeliness and accuracy of benefit payments based on the MCU's monitoring efforts.

To improve contract oversight, the Procurement Department also has implemented refresher training requirements for COTRs. PBGC provides guidance and training to COTRs regarding their duties and to ensure their compliance with Procurement Department policy, federal law, regulations and guidance, including the Federal Acquisition Regulation. PBGC is planning to comply with a November 2007, OMB Office of Federal Procurement Policy (OFPP) memorandum for training directed mainly at COTRs. The memorandum establishes a structured training program for COTRs and calls for standardization of competencies and training across civilian agencies. The mandate requires a minimum of 40 hours of training to be certified as a COTR. According to the requirements, new COTRs must be certified within 6 months of appointment and existing COTRs within a year. The Procurement Department will ensure that all COTRs have evidence of their certification, as required by the memorandum.

PBGC recently improved its procedural guidance. In 2000, we found that PBGC lacked such guidance on contract oversight and a central location for guidance and procurement policies on contract oversight. Our report noted that due to the absence of specific procedures, staff spent significant time seeking guidance on issues, may have received conflicting directions, and contributed to inconsistent administration practices. Procurement Department officials recently completed a comprehensive procedural guidance manual for staff responsible for awarding contracts and monitoring contractor performance. According to Procurement Department officials, the new manual should eliminate the ad-hoc directives, e-mail, and stand-alone memorandums previously used to address concerns. The Procurement Department's new procedures manual provides uniform procedures for the internal operation of acquiring supplies and services within PBGC. The document represents a central repository for guidance and policies. The manual has been prepared in an electronic format, and includes relevant Internet links wherever external references are made, such as to OMB Circulars.

PBGC's Move toward Performance-Based Contracting Can Add Accountability but May Present Challenges During Implementation

Performance-based contracting offers the government the potential for achieving better contract outcomes by requiring that all aspects of an acquisition be structured around the purpose of the work as opposed to the manner in which the work is to be performed. Contracts should include descriptions of the outcomes the agency is looking for rather than descriptions of how services should be performed, measurable performance standards, quality assurance plans that describe how the contractor's performance will be evaluated, and positive and negative incentives, when appropriate. However, our work has shown that the transition to and use of performance-based contracts has proven a challenge for government agencies deeply rooted in traditional methods of contracting.

PBGC agreed with our 2000 recommendation that it utilize contracts and payment arrangements consistent with best practices in performance-based contracting. In 2001, OFPP directed government agencies to award contracts using performance-based techniques for at least 20 percent of service contracting dollars greater than \$25,000 by fiscal year 2002. In 2003, OFPP recommended that executive agencies apply performance-based techniques to at least 40 percent of service contracting dollars greater than \$25,000 by 2005. PBGC began altering its acquisition strategy to be in line with the government-wide move toward performance-based contracting in 2003. However, PBGC to date has awarded less than \$150 million in service contract dollars in fiscal year 2008 and remains short of

OFPP's performance-based contracting goals.¹⁷ According to PBGC officials, only six of its contracts currently are performance based, representing a yearly cost of approximately \$30 million for communication, administrative, and critical function services. PBGC is in the process of awarding an additional \$20 million in performance-based contracts for the administration of the field benefit administration offices. Prior to the solicitation, these offices were contracted using individual labor-hour contracts.¹⁸

According to PBGC officials, most of PBGC's current contracts lack the methods to hold contractors accountable for their performance. One PBGC official said existing contracts neither include the incentives needed to encourage contractors to achieve desired results, nor do they include performance measures and targets. Instead, PBGC staff work directly with the contractor to communicate necessary targets. In the event that deliverables do not match contract descriptions or there is a problem with contractor performance, PBGC will work with the contractor to correct that problem. By not incorporating performance targets and other measures, PBGC depends on contractors who have limited incentive to provide optimal service. PBGC has the option not to renew a contract with a poorly performing contractor, but officials acknowledge the disadvantage it faces by not providing performance incentives to help hold contractors accountable. PBGC also has attempted to motivate contractors by considering assessments of the contractor's customer service as a part of future contract renewal and is planning to incorporate customer service measures into its contracts through the use of the American Customer Service Index.¹⁹ However, the index is not completely

¹⁷An OFPP official told us that PBGC may follow these guidelines, but it is not required to do so. A PBGC official responded that the corporation is required to adhere to guidance when it applies to small agencies. According to the PBGC official, in response to this guidance and OFPP goals, only about 13 percent of PBGC's eligible contracts are performance based, although it anticipates additional performance-based awards during the remainder of the fiscal year.

¹⁸Labor-hour contracts provide for payment of contractors at hourly rates for the number of hours worked. In general, labor-hour contracts require detailed reviews of the hours charged by contract staff and close monitoring by the contracting entity to ensure that quality and timeliness requirements are met.

¹⁹The American Customer Service Index is used to measure customer satisfaction in the public and private sector. PBGC's first year of participation was 2001, which is considered the benchmark year. In that first year, the index measured the satisfaction of plan participants. Since that time, PBGC has used the index to measure customer service performance of contractors that provide services to Web users and retirees on behalf of PBGC.

effective as an incentive mechanism because it does not report results for individual contractors and instead reports on contracts collectively.

While it is important that PBGC incorporate strong performance incentives into its contracts, the transition to and use of performance-based contracts has proven a challenge for agencies deeply-rooted in traditional methods of contracting. In a 2002 report, we highlighted challenges faced by agencies during their transition to performance-based contracting.²⁰ These challenges included the lack of understanding of performance-based contracting, lack of specific agency guidance, and inadequate oversight of contracts with performance-based methods. In addition, while PBGC has increased the amount of training provided to COTRs and others, the transition to performance-based contracting will require additional training, specific to the new contracting method. In 1998 guidance,²¹ OFPP called attention to the problems agencies face in converting from a traditional contract's statement of work to a performance-based work statement. Agencies reported to OFPP that performance work statements required an increased initial investment of time and resources. However, according to the OFPP guidance, the savings expected by performance-based contracting will offset such costs and correct problems commonly associated with service contracts—cost overruns, schedule delays, and technical challenges.

Our prior work, and the work of others, also explains that both agencies and contractors typically find it difficult to move away from traditional contracting methods to a method of linking payments to performance, based on specific requirements that describe results and measurable standards of performance. Our prior work concluded that additional government guidance on performance-based contracting was needed to ensure its proper and effective use.²² PBGC officials recognize that PBGC may face challenges similar to those faced by other government agencies during implementation of performance-based contracting.

²⁰GAO, *Contract Management: Guidance Needed for Using Performance-Based Service Contracting*, [GAO-02-1049](#) (Washington, D.C.: Sept. 23, 2002). The agencies we reviewed included the Departments of Defense, Treasury, Energy, the National Aeronautics and Space Administration, and the General Services Administration.

²¹*A Guide to Best Practices for Performance Based Contracting*, Office of Federal Procurement Policy, Office of Management and Budget, FINAL EDITION 1998.

²²[GAO-02-1049](#).

Conclusions

With three-quarters of its operational budget currently being spent on contracting, it is clear that acquisition plays a central role in achieving PBGC's strategic goals. While PBGC has made efforts to improve its acquisition infrastructure, it has not developed a strategic approach to its contracting process as envisioned in our 2000 report. In its role as a support function, rather than a business partner, PBGC's Procurement Department is not involved in helping PBGC make strategic decisions about contracting early in the process or in developing long-term strategic approaches. PBGC developed its most recent strategic plan and strategic human capital plan, the latter still in draft, without a thorough examination of the role contracting plays at PBGC. By assessing the existing organizational alignment of the Procurement Department against a framework of best practices, PBGC may find that its Procurement Department is unable to effectively identify, analyze, prioritize, and coordinate agency-wide acquisition needs. Further, PBGC's workload depends on future economic conditions that are difficult to predict. Without a strategic acquisition approach, PBGC risks being unprepared for future workload changes and cannot be assured that it has the optimal mix of contractor staff and federal employees.

Since our last report, PBGC also has made meaningful improvements to its contract oversight. To continue contracting improvements, PBGC's focus on performance-based contracting is growing—providing additional tools to hold contractors accountable for performance and to encourage the achievement of desired outcomes. However, this contracting method requires a new approach to contract oversight and has demonstrated the need for comprehensive training and organizational culture changes. PBGC will likely face challenges similar to those we have seen faced by other agencies that have moved toward performance-based contracting. PBGC needs to be aware of the common pitfalls other agencies have faced and take steps now to avoid the same challenges.

Recommendations for Executive Action

To improve PBGC's performance in an environment of heavy contractor use, we recommend that the Director of PBGC revise its strategic plan and, in drafting the corporation's human capital strategic plan, reflect the importance of contracting and PBGC's use of contractors, project its vision of future contractor use, and better link staffing and contracting decisions at the corporate level. In drafting the plan, the Director of PBGC should do the following:

- Include the Procurement Department in agency-wide strategic planning.

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- Ensure that the Procurement Director sits on PBGC's three strategic teams—the Operations Integration Board, the Budget and Planning Integration Team, and the Capital Planning for Information Technology Team.
 - Broaden the Procurement Department's May 2007 staffing study to include as part of PBGC's agency-wide acquisition workforce those positions outside of the Procurement Department that have a significant impact on procurement outcomes (i.e., requirements staff, program managers, financial managers, and individuals involved in contract monitoring). The study should determine appropriate staffing levels for these positions as the May 2007 study did for Procurement Department staff.
 - Include in PBGC's human capital plan detailed plans for how contract support will be obtained.
 - Assess PBGC's contract information to determine if additional information is needed to support strategic acquisition management decisions. This could include more complete information on goods and services purchased, as well as suppliers and spending patterns. In addition, contract spending information should be integrated into PBGC's financial system, to allow acquisition staff to obtain real-time information on the availability of funds, status of obligations and expenditures, and payments for the receipt of goods and services.
 - Develop metrics for PBGC's annual performance plan that document how the acquisition function supports PBGC's missions and goals. These could include metrics related to acquisition efficiency and customer satisfaction.

To improve PBGC's contract management as it implements a performance-based approach to contracting, we recommend that the Director of PBGC

- provide comprehensive training on performance-based contracting for PBGC's Procurement Department staff, managers, and acquisition-related workforce;
- develop practices to help ensure accountability for the Procurement Department staff carrying out contract monitoring responsibilities; and
- ensure that future contracts measure performance in terms of outcomes, provide incentives for the accomplishment of desired outcomes, and ensure payment of award fees only for excellent performance.

Agency Comments and Our Evaluation

We obtained written comments on a draft of this report from PBGC, which are reproduced in appendix II. In addition, we provided a copy of the draft report to the Department of Labor for its comments, but Labor did not provide comments.

In response to our draft report, PBGC's Director stated PBGC's commitment to managing its contracting activities to obtain the best value for the 44 million beneficiaries of its insurance program. PBGC agreed with most of our recommendations and mentioned various ways it planned to address them. For example, PBGC stated it understood that other government agencies have faced challenges in implementing performance-based contracting and plans to take steps to avoid common pitfalls. PBGC also stated that it will be conducting a comprehensive review of necessary staffing levels across the agency related to procurement functions and future contracting needs, consistent with our recommendation.

While PBGC agreed that contracting should be part of its strategic planning process, it disagreed with our recommendation to reflect the importance of contracting and incorporate its vision for future contractor use into its strategic planning documents. In its comments, PBGC maintained that its recently issued strategic plan reflects the importance of contracting and its vision for future use.

However, we continue to believe that PBGC's recently issued strategic plan is not sufficiently comprehensive. PBGC's strategic plan only briefly mentions performance-based contracting, flexible staffing and metrics for specific contracts, and therefore does not fully reflect the importance of contracting in achieving its mission. For example, among eight "strategic priorities," contracting is not mentioned. While the plan does state that PBGC will implement performance-based contracting for vendors in an effort to provide good customer service to stakeholders, it does not provide measurable goals for converting certain contracts or any time frames for implementation. Where the plan mentions using the American Customer Service Index as an indicator, it does not provide any detail on how it will use the index, what its performance goals are, and how it will measure success. In addition, the plan lacks certain key attributes of successful performance measures, such as measurable targets with numerical goals, and it does not include the activities that its acquisition function is expected to perform to support the intent of PBGC's acquisition program.

PBGC also disagreed with our recommendation that its Director of Procurement should sit on certain specific corporate committees. We believe that PBGC's Procurement Director should be included on each of the corporation's three strategic teams. In its comments, PBGC stated that its Chief Management Officer represents contracting on these teams, and that there are greater gains to be realized by emphasizing executive-level awareness of procurement issues in decision making than by requiring the Procurement Director to sit on the three committees. While we appreciate PBGC's position that executives should be aware of procurement issues in their strategic decision making, because PBGC relies to such a great extent on contracting, it is critical that its Procurement Director be more involved in the corporation's strategic planning efforts. In addition to the Procurement Department, the Chief Management Officer currently oversees several additional functions, such as the Budget Department and the Human Resources Department, each vitally important to PBGC, and each with its own challenges. It is essential that an individual well-versed in procurement operations be more integrated into PBGC's planning for the future.

As agreed with your staff, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Secretary of Labor and to the Director of PBGC and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions concerning this report, please contact me at (202) 512-7215 or bovbjerg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Barbara D. Bovbjerg
Director, Education, Workforce, and
Income Security Issues

Appendix I: Scope and Methodology

To assess the role contracting plays in the Pension Benefit Guaranty Corporation's (PBGC) efforts to accomplish its mission, we collected and analyzed data on PBGC contracting activities, as well as on participants, plans, employees, and budget trends. We also collected data to identify trends regarding how PBGC has relied on contractors to conduct its work. To do this, we reviewed contracting data from fiscal years 2000 through 2007. We determined that PBGC's data were sufficiently reliable for the purposes of this report.

To assess the steps PBGC has taken to improve its acquisition infrastructure and develop a strategic approach, we compared PBGC's acquisition infrastructure to standards outlined in GAO's acquisition framework.¹ Use of the framework enabled us to conduct a high-level, qualitative assessments of the strengths and weaknesses of PBGC's contracting function. Specifically, we evaluated PBGC's acquisition infrastructure in four key areas—organizational alignment and leadership, policies and procedures, human capital, and information management. We also reviewed prior GAO work on best practices in strategic approaches to the contracting and compared PBGC's current operations to best practices.

To identify the strategies that PBGC uses to monitor contracts, we reviewed applicable laws, regulations, policies and guidance regarding contract management at PBGC. Specifically, we reviewed OFPP guidance related to performance-based contracting to understand PBGC's adherence with federal policy on the subject. We also conducted a contract file review of six contract files to assess file fitness and completeness along with monitoring and oversight improvements. To assess the steps PBGC has taken to improve its contract oversight processes to ensure accountability, we reviewed our findings from our 2000 report and followed up on improvements PBGC has made since then to its contract monitoring procedures. For each objective, we interviewed PBGC senior executives, managers, and programming and contracting staff at headquarters, as well as selected contractors. We also interviewed officials from PBGC's Office of Inspector General and reviewed relevant Inspector General reports.

¹GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, [GAO-05-218G](#) (Washington, D.C.: Sept. 2005). PBGC-OIG, *Trend Analysis Report: PBGC Procurement Issues From 2000-2007*, 2007-6/CA-0036 (Washington, D.C., July 26, 2007).

We conducted this performance audit from May 2007 to August 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Pension Benefit Guaranty Corporation



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

July 24, 2008

Ms. Barbara Bovbjerg, Director
Education, Workforce, and Income Security Issues
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Bovbjerg:

Thank you for the opportunity to comment on the Government Accountability Office (GAO) draft report, "Some Steps Have Been Taken to Improve Contracting, but a More Strategic Approach is Needed." Contracting plays an important role in enabling PBGC to carry out its mission and address unpredictable workloads due to changing economic conditions. PBGC is committed to managing its contracting activities to obtain the best value for the 44 million beneficiaries of its insurance program. We appreciate GAO's recognition that, since its last report, PBGC has made meaningful improvements to its contract oversight. As the draft report notes, PBGC has implemented new contract monitoring activities, improved oversight for some of its major contracts, developed comprehensive procedures to direct contracting activities, and has begun to implement performance-based contracting.

PBGC appreciates that the focus of the report is not only on the role of contracting in accomplishing our mission, but also on the improvements here at PBGC in our acquisition infrastructure, our strategic approach, and our oversight processes to ensure accountability. The report nicely catalogs the progress made on several fronts in PBGC contracting in recent years. In improving our infrastructure, it notes our steps to realign the Procurement Department (PD), our updating of policies and processes, our upgrading of PD staff skills, and our better tracking of contracting data. The report also underscores advances in our contractor oversight, pointing to the centralized monitoring of field offices, PD's new procedures manual, and our new training for the certification of Contracting Officer's Technical Representatives (COTRs).

We agree with GAO that the role of contracting should be part of PBGC's strategic planning process, and we are comfortable that it is meaningfully integrated into the process. We disagree with GAO's statement that our strategic plan is not sufficiently comprehensive. PBGC's recently-issued Strategic Plan for 2008-2013 includes goals and objectives for performance-based contracting, flexible staffing and a strategic human capital plan, as well as metrics for major contracting activities such as the customer call center. Our strategic plan thus reflects the importance of contracting and PBGC's vision for its use in the future; further detail on specific implementing activities is properly reflected in our executives' performance plans, all of which link to the strategic plan. Each member of PBGC's senior leadership, including the Director of

the Procurement Department, is closely involved in the strategic planning process. This includes participation in the annual senior-level strategic planning meeting, opportunities to provide input to agency goals and objectives, and reviewing draft versions of the strategic plan.

Contracting is an important element in the planning activities of all major offices of PBGC, supported by the office of the Chief Management Officer (CMO), where the Corporation's contracting authority resides. Representatives of all executive offices, including the CMO, sit on the major budget and planning committees of the Corporation -- the Capital Planning for Investment Technology committee (CPIT), the Budget Planning and Integration Team (BPIT) and the Operations Integration Board (OIB). For example, the CMO chairs the OIB; the Director of the Budget Department chairs the BPIT, and the Director of Strategic Planning is a member of the CPIT. Contracting issues arising from these groups are coordinated as part of regular CMO staff meetings. Further, the Director of the Procurement Department joins these groups on an as-needed basis, providing valuable input into corporate decisions which will impact PBGC's short-term and long-term contracting plans. We believe there are greater gains to be realized by continuing to emphasize executive-level awareness of procurement issues in decision-making than by requiring the Director of Procurement Department to sit on specific corporate committees as the draft report recommends.

As part of the human capital strategic planning process currently under way at PBGC, we will be conducting a comprehensive review of necessary staffing levels across the agency relating to procurement functions and future contracting needs, consistent with the recommendation contained in GAO's recent report on PBGC's human capital management. With regard to Procurement Department staffing, we note that, in June 2008, the Procurement Department was authorized three additional staff beginning in FY 2009.

We will assess existing contract information to determine whether additional information is needed to support strategic acquisition management decisions. However, we note that our existing financial systems provide extensive information on contract spending, including availability of funds, status of obligations and expenditures, and payments for the receipts of goods and services. Reports by contract are regularly made available to COTRs, and we will ensure that Procurement Department staff has ready access to this information as well.

With regard to the recommendation to develop additional procurement metrics, PBGC currently has metrics relating to contracting performance in individual performance plans of senior executives with major contracting projects, as well as in those of the Procurement Department employees. The Procurement Department also has an automated customer service questionnaire, which reflects a current customer satisfaction rate of 88 percent. PBGC will review whether these measures can be incorporated into the annual performance budget (which replaced the annual performance report pursuant to OMB Circular A-11) to document how the acquisition function supports PBGC's missions and goals, consistent with GAO's recommendation.

We agree with GAO's recommendations to enhance our implementation of performance-based contracting, specifically with respect to comprehensive training for PBGC staff, accountability for Procurement Department oversight, and incorporating performance-based measures into our future contracts. In fact, such efforts are already underway. For example, during this past year,

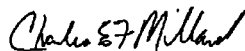
**Appendix II: Comments from the Pension
Benefit Guaranty Corporation**

46 employees completed training on developing performance-based statements of work at PBGC's Training Institute. Procurement Department staff work closely with departmental representatives to ensure that statements of work and resulting contracts are properly structured to achieve the desired outcomes. Further, the Procurement Department is currently performing reviews of COTR files to ensure that proper contract monitoring is occurring. Lastly, the use of labor-hour contracts has been restricted and requires formal approval by the Director of the Procurement Department.

We understand that other government agencies have faced challenges in the implementation of performance-based contracting, and agree with GAO that PBGC needs to be aware of these common pitfalls and take steps now to avoid them. In that vein, it is important to note that until training and oversight are fully implemented, measuring success solely by the number of dollars or contracts denominated "performance-based" can be misleading. As we have learned from the experience of other government agencies, the structure first must be in place to support the implementation of performance-based measures. We believe success will be shown when we have training and oversight in place that enables us to achieve the results set forth in our major performance-based contracts. This must be done in addition to measuring the percentage of contract dollars devoted to contracts containing performance measures.

PBGC is committed to continuing to improve the performance of its contracting function to deliver the excellent results its beneficiaries deserve. We appreciate your attention to this important topic and look forward to sharing the results of our progress with you in the future.

Sincerely,



Charles E.F. Millard

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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The following team members made key contributions to this report: Blake Ainsworth, Assistant Director; Lara Laufer and Monika Gomez, Analysts-in-Charge; Jeffrey Bernstein; Susannah Compton; Jena Sinkfield; Najeema Washington; and Craig Winslow.

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