

*PENSION BENEFIT GUARANTY CORPORATION*

**SEMIANNUAL REPORT  
TO THE CONGRESS**



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*OFFICE OF INSPECTOR GENERAL*

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**APRIL 1, 1998 - SEPTEMBER 30, 1998**

*Office of Inspector General*

October 31, 1998

Alexis Herman  
Chairman, PBGC Board of Directors

It is my pleasure to submit this nineteenth semiannual report to the Congress. This report summarizes the major activities and accomplishments of the Office of Inspector General (OIG) for the six-month period ending September 30, 1998. Our accomplishments were made possible by the dedicated efforts of a committed and professional staff.

Our work this reporting period has resulted in significant operational benefit to PBGC. Our efforts were directed to increased economy, efficiency, and quality of PBGC's operations and combating actual or potential occurrences of waste, fraud, and misuse of Government funds. My office issued five (5) reports in the audit area. The audits include an evaluation of PBGC's expenditure of appropriated funds for food, entertainment and mementos, an evaluation of the electronic document archival and retrieval system for pension plan and participant documents, and an audit of responses to certain questions relating to appeals of PBGC's initial determinations requested by a congressional committee.

In the investigative area, we opened eight (8) and closed twenty-four (24) investigations. We operate a post office box and "1-800" Hotline which continues to receive calls and mail primarily from pension plan participants. Seventy-nine percent (79%) of these were "first-time" contacts that were referred directly to the agency for customer assistance. As we have stated for the past five (5) years, the need for an additional federal employee investigator remains mission critical. The use of contract investigators fails to fully address our needs. We continue to raise these resource concerns to agency management. Finally, we note that PBGC has reversed its past practice of referring allegations of fraudulent waivers of spousal benefits it receives from participant's spouses to the OIG for investigation. Over OIG objections, PBGC has determined that program personnel will investigate these alleged criminal activities.

The results achieved by the OIG were enhanced by the support of PBGC's Executive Director, managers, employees, and the Congress. I look forward to continuing the productive professional working relationship as we strive to maintain the highest levels of integrity and quality in the Corporation's programs and operations, and helping PBGC meet its important challenges.

Sincerely,

Wayne Robert Poll  
Inspector General

Enclosure

# EXECUTIVE SUMMARY

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This is the nineteenth semiannual report to the Congress summarizing the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period April 1, 1998 through September 30, 1998. Our efforts were directed toward performing audits, inspections, and evaluations of the Corporation's programs and operations, conducting several large and complex investigations, and providing technical assistance and advice on Corporate programs. In the audit area, we issued five (5) reports, including an:

- *evaluation of PBGC's expenditures of appropriated funds for food, entertainment and mementos (see page 2);*
- *evaluation of the Image Processing System, an electronic document archival and retrieval system (see page 2);*
- *audit of responses to certain questions about appeals of PBGC's initial determinations asked by the Senate's Special Committee on Aging (see page 3).*

In the investigative area, we opened eight (8) new investigative cases during the reporting period, and closed twenty-four (24) cases. The cases closed this period included:

- *misrepresentation by contractors on employment applications that PBGC was their employer (see page 10); and*
- *misrepresentation of experience and qualifications on SF-171(see page 10).*

We are also reporting that PBGC has determined that it will now conduct investigations into allegations of fraudulent waivers of spousal benefits (see page 9). In the past, when PBGC received an allegation from a pension plan participant's spouse that he/she had not signed the waiver of benefits form, that allegation was referred to the OIG for investigation. Investigation into alleged criminal activity is vested in the OIG, not the agency, and we will vigorously pursue this encroachment into our statutory mission.

# TABLE OF CONTENTS

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<b>LETTER TO THE CHAIRMAN</b>	
<b>EXECUTIVE SUMMARY</b> .....	i
<b>TABLE OF CONTENTS</b> .....	ii
<b>LIST OF TABLES</b> .....	iii
<b>INTRODUCTION</b> .....	1
The Pension Benefit Guaranty Corporation The Office of Inspector General	
<b>AUDIT ACTIVITIES</b> .....	2
Overview	
Audits and Evaluations	
Audit Follow-up and Resolution	
Access to Information	
PBGC Management - Inspector General Disagreements	
<b>INVESTIGATORY ACTIVITIES</b> .....	8
Overview	
Activity This Period	
Significant Investigations	
<b>OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES</b> .....	12
Review of Proposed Statutory and Regulatory Changes	
OIG and Agency Consultation	
Liaison With the United States General Accounting Office	
Peer Review	
Strategic Planning	
<b>GLOSSARY</b> .....	19

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# *LIST OF TABLES*

---

<i>TABLE 1 - INSPECTOR GENERAL ISSUED REPORTS .....</i>	<i>5</i>
<i>TABLE 2 - REPORTS ISSUED WITH QUESTIONED COSTS .....</i>	<i>6</i>
<i>TABLE 3 - REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE .....</i>	<i>7</i>
<i>TABLE 4 - STATISTICAL TABLES OF INVESTIGATIONS .....</i>	<i>11</i>
<i>TABLE 5 - CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT .....</i>	<i>18</i>

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# **INTRODUCTION**

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## **THE PENSION BENEFIT GUARANTY CORPORATION**

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 5 U.S.C. §§ 1301-1461, as a self-financing, wholly-owned Federal Government Corporation to administer the pension insurance program. ERISA requires that PBGC (1) encourage the continuation and maintenance of voluntary private pension plans; (2) provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries; and (3) maintain premiums at the lowest level consistent with carrying out PBGC's obligations.

For about 42 million Americans, the PBGC provides assurance that their retirement benefits are safe now and for the future. The PBGC protects the pensions of participants in certain defined benefit pension plans, i.e., plans that promise to pay definitely determinable retirement benefits. Such defined benefit pension plans may be sponsored individually or jointly by employers and by unions. Currently, there are nearly 206,000 participants receiving benefit payments from PBGC. Additionally, in its fiscal year 1997 Financial Statement, the PBGC reported that it has assets of \$15.9 billion and liabilities of \$12.2 billion.

## **THE OFFICE OF INSPECTOR GENERAL**

One of the strategic goals of the OIG is to assist the PBGC in operating more efficiently and effectively by identifying ways to improve the PBGC's programs. To accomplish this goal, the OIG conducts agency audits, inspections, and investigations, and makes recommendations to PBGC management. In addition, the OIG is required statutorily to inform the agency head of fraud and other serious problems, abuses, and deficiencies relating to the programs and operations administered or financed by the PBGC, recommend corrective action concerning such problems, and report on the progress made in implementing corrective actions.

The OIG staff consists of eleven (11) employees, of which two are investigators. A third investigator remains a mission critical need. We continue to accomplish our investigative program through the use of contract investigators, being mindful that conducting criminal investigations is an inherently governmental function.

The Chief Financial Officers Act (CFO Act) requires that a government corporation's financial statements be audited by the Inspector General, unless preempted by GAO. The OIG contracted for an Independent Public Accountant (IPA) to perform the audit of the Corporation's FY 1998 financial statements.

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# **AUDIT ACTIVITIES**

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## **OVERVIEW**

The OIG provides independent analyses to management on a full range of PBGC's operations including programs, activities, functions, and funds. The OIG has full discretion in establishing audit objectives, plans, and priorities. During this reporting period, the OIG issued five (5) reports (see TABLE 1) to help PBGC reduce costs and strengthen management controls. Below is a summary of those reports. Our audits comply with the United States General Accounting Office's *Government Auditing Standards*, while the inspections comply with quality standards for inspections published by the President's Council on Integrity and Efficiency.

## **AUDITS AND EVALUATIONS**

### **EVALUATION OF PBGC APPROPRIATION EXPENDITURES FOR FOOD, ENTERTAINMENT AND MEMENTOS (98-5/23115)**

As a result of several OIG investigations which found PBGC employees had improperly spent appropriated funds for food, we initiated an audit to review agency expenditures for food, entertainment and mementos for the period October 1, 1994 through June 30, 1996. The expenditures were evaluated in relation to applicable laws, regulations, and Comptroller General guidance to determine if they were proper uses of appropriated funds. PBGC reported expenditures, totaling \$30,825, for food, entertainment and mementos in conjunction with 37 functions that PBGC employees and others attended during the period of our audit. We evaluated the propriety of these expenditures and questioned \$17,121 (56% of the total dollar amount audited).

### **EVALUATION OF THE IMAGE PROCESSING SYSTEM (98-7/23118)**

PBGC uses a graphic imaging system, known as the Image Processing System (IPS), to store, process, transmit, manage, and control pension plan and participant information. IPS is an electronic equivalent of the paper systems traditionally used at PBGC, and was implemented to provide an electronic alternative for document archival and retrieval. We evaluated the control environment implemented by PBGC for IPS. In addition, we obtained an understanding of IPS operations that prepared us for testing key controls related to data capture, scanning, indexing, verification, logical access, and contingency planning. Our evaluation identified processing control conditions that PBGC should strengthen.

**AUDIT OF PBGC's RESPONSE TO CERTAIN  
QUESTIONS CONCERNING APPEALS OF  
PBGC INITIAL DETERMINATIONS OF  
PENSION BENEFITS  
(98-10/23131)**

The Honorable Charles E. Grassley, Chairman of the Special Committee on Aging of the United States Senate, asked the OIG to review certain aspects of the PBGC appeals process: (1) the number of appeals docketed yearly; (2) the number of appeals pending at the end of each fiscal year; and (3) the number of appeals granted in favor of the participant or upholding the PBGC's initial decision. The OIG asked the Corporation to respond to these questions, which it did in a memorandum, "Review of Benefit Determination and Appeals Process -- Schedule of Appeals." The memorandum presented certain statistical assertions concerning appeals pending at Fiscal Year (FY)-end 1995, and docketed, closed and pending for FYs 1996 and 1997.

With respect to the third question, PBGC informed us that they had not kept statistical information to track whether appeal decisions were favorable or unfavorable to participants but were in the process of implementing a new system which would permit them to report this information. In order to respond to the question for appeals closed during FY 1997, PBGC advanced their timetable for system implementation.

The OIG performed an audit of the assertions contained in PBGC's memorandum. As a result of our testing, we concluded that PBGC's assertions, as summarized in its memorandum, were fairly presented.

**CONTINUING CONGRESSIONAL REVIEWS**

In August of 1997, the Honorable Charles Grassley, Chairman of the Special Committee on Aging of the United States Senate (Committee), asked the OIG to address certain questions regarding Initial Determination Letters (IDLs). Specifically, the Committee is concerned with the amount of time it takes PBGC to issue IDLs. The OIG was asked to conduct a multi-year review of PBGC's IDL process to include the following:

- An evaluation of the efficiency and effectiveness of PBGC's process to issue IDLs.
- The length of time it takes PBGC to issue an IDL.
- The effect of such delays upon individuals awaiting IDLs.
- The number of appeals filed yearly, the number of appeals pending at the end of each fiscal year and the number of appeals granted in favor of the participant or upholding the PBGC's initial determination.

## AUDIT FOLLOW-UP AND RESOLUTION

The audit follow-up system at PBGC is integral to effective management and is a shared responsibility of PBGC management and the OIG. PBGC has established an audit follow-up system to document management's actions and assure prompt resolution of audit recommendations. Moreover, this OIG system provides for a record of actions taken by PBGC management on OIG and GAO recommendations.

The Office of Management and Budget (OMB) Circular A-50 requires that audit recommendations be resolved within six (6) months of issuance. The OMB guidance provides that audit recommendations are resolved when Agency management and the OIG reach agreement on firm plans of action to correct reported weaknesses. Resolution, however, does not mean an audit recommendation is closed. The OIG closes audit recommendations only when corrective actions have been completed by the Agency.

The OIG issued the *Semiannual Listing of Audit Recommendations* (98-9/32089) which contained eighty-five (85) audit recommendations of which sixty-six (66) were outstanding audit recommendations from the prior reporting period. Of these open audit recommendations, the OIG's *Semiannual Report on Follow-up of Audit Recommendations* (98-11/32090) reported nine (9) audit recommendations that agency management represented as closed and in which the OIG concurred. Seventy-six (76) audit recommendations remained open on September 30, 1998.

## ACCESS TO INFORMATION

Under the Act, the Inspector General is to have unfettered access to all agency records, information, or assistance when engaged in an investigation or audit. Whenever access to requested records, information or assistance is unreasonably refused or not provided, the Inspector General must promptly report the denial to the Agency Head. During this six-month reporting period, the Inspector General's access to information was not restricted.

## PBGC MANAGEMENT - INSPECTOR GENERAL DISAGREEMENTS

Semiannually, the OIG must report the status of all unresolved audit reports that are more than six months old to the Agency Head. These reports include: (1) reason(s) for unresolved reports and a timetable for their resolution; (2) actions taken or proposed on all unresolved reports or recommendations; and (3) age of unresolved recommendations. For this reporting period, there were no unresolved audit reports in which PBGC management decisions are pending.

TABLE 1

**INSPECTOR GENERAL ISSUED REPORTS  
For The Six-month Period Ending  
SEPTEMBER 30, 1998**

REPORT NUMBER	REPORT TITLE	DATE ISSUED	DOLLAR VALUE OF QUESTIONED COSTS	DOLLAR VALUE OF BETTER USED FUNDS	DOLLAR VALUE OF UNSUPPORTED COSTS
<b>Audits</b>					
98-5/ 23115	Evaluation of PBGC Appropriation Expenditures for Food, Entertainment and Mementos	9/30/98	\$17,121	-0-	-0-
98-10/ 23131	Audit of PBGC's Response to Certain Questions Concerning Appeals of PBGC Initial Determinations of Pension Benefits	9/29/98	-0-	-0-	-0-
<b>Evaluations</b>					
98-7/ 23118	Evaluation of the Image Processing System	6/10/98	-0-	-0-	-0-
98-8/ 23130	Peer Review of the Office of Inspector General at the Legal Services Corporation	6/9/98	-0-	-0-	-0-
98-9/ 32089	Semiannual Listing of Audit Recommendations	7/31/98	-0-	-0-	-0-
98-11/ 32090	Semiannual Report on Follow-up of Audit Recommendations	9/30/98	-0-	-0-	-0-

**TABLE 2 \***  
**REPORTS ISSUED WITH QUESTIONED COSTS**  
**For The Six-month Period Ending**  
**SEPTEMBER 30, 1998**

	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the reporting period	0	-0-	-0-
B. Which were issued during the reporting period	1	\$17,121	-0-
Subtotal ( Add A & B)	1	\$17,121	-0-
C. For which a management decision was made during the reporting period	1	\$17,121	-0-
(i) dollar value of disallowed costs	1	\$17,121	-0-
(ii) dollar value of costs not disallowed	0	-0-	- 0-
D. For which no management decision has been made by the end of the reporting period	0	-0-	-0-
E. Reports for which no management decision was made within six months of issuance	0	-0-	-0-

\* This statistical information is required by the Inspector General Act of 1978, as amended.

TABLE 3 \*

**REPORTS ISSUED WITH RECOMMENDATIONS  
THAT FUNDS BE PUT TO BETTER USE  
For The Six-month Period Ending  
SEPTEMBER 30, 1998**

	NUMBER OF REPORTS	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period	0	-0-
B. Which were issued during the reporting period	0	-0-
Subtotal ( Add A & B)	0	-0-
C. For which a management decision was made during the reporting period	0	-0-
(i) dollar value of recommendations that were agreed to by management	0	-0-
-- based on proposed management action	0	-0-
-- based on proposed legislative action	0	-0-
(ii) dollar value of recommendations that were not agreed to by management	0	-0-
D. For which no management decision has been made by the end of the reporting period	0	-0-
Reports for which no management decision was made within six months of issuance	0	-0-

\* This statistical information is required by the Inspector General Act of 1978, as amended.

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# **INVESTIGATORY ACTIVITIES**

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## **OVERVIEW**

The Inspector General is authorized to receive and investigate complaints from PBGC employees, the public, and other sources concerning the possible existence of an activity constituting a violation of law, rule, or regulation; mismanagement; gross waste of funds; abuse of authority; or a substantial and specific danger to the public health and safety. Individuals may disclose information or make complaints to the Inspector General through the OIG "Hotline." (See announcement on back cover page.) The Inspector General has a policy to protect the legal rights of whistleblowers and complainants. At all times, the Inspector General takes reasonable precautions not to disclose the identity of the complainant without that person's consent.

When we receive an allegation, we review it to determine its sensitivity and need for immediate OIG investigation, whether it has a lower priority, or whether it can be referred to the agency for review and corrective action. Allegations designated as priority receive immediate attention. Generally, these investigations use more time and resources, often requiring a team approach. To meet these challenges, the OIG has undertaken many strategies to responsibly investigate allegations that are brought to us, including hiring former federal investigators as contractors. Even with these additional contract resources, we have had to cease investigation activities and close some cases administratively. Though we have systematically reduced our investigative caseload, we are still faced with the inability to investigate allegations timely, which is unacceptable to us. A third investigator remains mission critical and would result in cost savings to the Corporation through reduction in contract expenditures.

## **ACTIVITY THIS PERIOD**

The OIG received 8 complaints or allegations, and closed 24 investigative cases during the reporting period. As of September 30, 1998, 33 cases remain open (see Table 4 for investigative program statistics).

## **OIG HOTLINE**

The OIG operates a separate "1-800" hotline telephone number and a post office box. The Hotline telephone is answered by an investigative staff assistant for a two hour period, Monday through Friday; at all other times there is a message that provides information about the Hotline service. For the period April 1, 1998 through September 30, 1998, we received a total of 27 Hotline inquiries.

From our intake analysis, 79% of the contacts were first-time inquiries relating to pension benefit questions, which were referred to the agency for action. We did not open any cases from our Hotline contacts this period.

## **OIG PROACTIVE EFFORTS TO REDUCE PENSION FRAUD**

The OIG continues to work with agency personnel to identify and prevent instances in which fraud occurs in the payment of pension benefits. In May, 1998, we presented a briefing on pension fraud issues at a PBGC conference of employees and contractors. This conference was an opportunity for the OIG to meet with people who process pension benefit payments, and to present indicators useful in identifying pension fraud situations, an overview of successful prosecutions, and agency actions that can be taken to minimize the potential for misappropriation of pension benefits.

As a result of a prior investigation, we had reported to PBGC that a participant had engaged in fraud and received more than \$60,000 in pension benefits to which he was not entitled. Because the fraudulent representation was made to the pension plan prior to its termination and not to PBGC, the U.S. Attorney's Office declined prosecution. We have worked with agency officials since the case was closed to determine how to collect the overpaid amount. During this period, the agency determined that it could withhold the participant's future benefits in their entirety and thus, recoup the overpayment.

## **AGENCY TO INVESTIGATE FRAUD OVER OIG OBJECTIONS**

We must report that we could not reach agreement with the agency involving allegations of fraudulent waivers of spousal benefits. Under the law, a pension plan participant who is married must be given a joint and survivor benefit unless his spouse consents in writing to waive his/her entitlement to the benefit. PBGC's past practice was to refer to the OIG for investigation any potential allegations of fraud, including allegations from spouses that they did not execute the waiver that PBGC had in its files, including obtaining independent handwriting analysis from experienced government experts. The agency issued a policy, without OIG consultation, that changed this practice and assigned responsibility to investigate the alleged fraud to inexperienced program personnel. The OIG met with appropriate senior level officials to express our concerns about this unexpected policy change. Over the OIG's objections, the agency issued an amended policy statement but left unchanged its decision to conduct the spousal waiver fraud investigation.

Fraud is a crime and authority to conduct investigations into alleged criminal activity is vested solely in the OIG or other federal law enforcement entity. In addition, the OIG is an independent, neutral investigator. By conducting the fraud investigation itself, the agency could be open to conflict of interest allegations or other serious risk exposures. We intend to vigorously pursue this encroachment into the OIG's statutory mission.

## **SIGNIFICANT INVESTIGATIONS**

### **POSSIBLE MISREPRESENTATION OF EMPLOYMENT ON APPLICATIONS**

While conducting another investigation, it came to the OIG's attention that contractors who worked at PBGC might be misrepresenting their employment status when applying for jobs. A misrepresentation of an application for federal employment is a violation of 18 U.S.C. § 1001. We reviewed forty-two (42) applications and found that in twenty-five (25) instances that contractor employees falsely listed PBGC as their employer, rather than the contractor, and sometimes even listed a PBGC employee as their supervisor. This practice of allowing contractors to misrepresent their employment status could have spill-over effect into other areas, such as applications for outside employment or credit. We made several suggestions for improvement to management, including a more careful review of applications and rejection of those that incorrectly list PBGC as the employer, and proactive steps to remind contractors that they may not list PBGC as their employer.

### **POSSIBLE MISREPRESENTATION ON STANDARD FORM 171**

The OIG conducted an investigation into whether a PBGC employee had made false statements on their Standard Form (SF) 171. A false statement on an SF-171 is a violation of 18 U.S.C. § 1001. We concluded from our investigative work and documented evidence that the employee did, indeed, make false statements in the SF-171, including misrepresentations about experience, job responsibilities, job titles, and awards and recognition received. We also concluded that the employee made false statements during official investigations, including interview statements, Affidavits, and false accusations about OIG investigators' conduct.

TABLE 4

**STATISTICAL TABLES OF INVESTIGATIONS  
For The Six-month Period Ending  
SEPTEMBER 30, 1998**

**CASE LOAD**

Pending beginning of period	49
Opened this period**	8
Closed this period	24
Pending end of period ***	33

**WRONGDOING ALLEGED (CASES OPENED)**

Fraud, Waste & Abuse	5
Wrong Doing	1
Theft	2
Improprieties Relating to Pension Benefits	0
Customer Service Problems	0

**RESULTS OF CASES CLOSED**

Allegation disproved or not substantiated	5
Referred to agency for corrective action	5
Prosecutions & Civil Settlements	0
Monetary recovery	
Prosecution declined; referred for agency disciplinary action	1
OIG Customer Assistance	1
Referred to OIG Audit	1
Administrative Closings	11

**HOTLINE AND MAIL INQUIRIES**

Received this period	29
First time caller referrals to agency	23
Mail referrals to agency	2
OIG Customer Assistance	4
Cases opened	0

\*\* Of the eight new cases opened this period, none resulted from Hotline and mail inquiries.

\*\*\* Twenty-eight of the thirty-three investigative cases that are open are from prior reporting periods.

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# **OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES**

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## **REVIEW OF PROPOSED STATUTORY AND REGULATORY CHANGES**

To comply with the IG Act, the OIG Legal Counsel is notified by the Office of the General Counsel when the agency is proposing legislative and regulatory changes. During this period, we reviewed and commented on two proposed amendments to regulations.

## **OIG AND AGENCY CONSULTATION**

The OIG engaged in several activities this period that included coordination with agency officials to make PBGC a better place to work.

- The Deputy IG worked on a team to plan and implement a Violence in the Workplace Policy for PBGC. Part of that effort was an agreement to establish an early response team comprised of various PBGC employees, including OIG, to quickly respond to and investigate claims of workplace violence.
- As a result of the audit of expenditures of appropriated funds for food, entertainment and mementos (see page 2), we are working with the Office of the General Counsel to draft guidance regarding proper expenditures to be issued to PBGC employees.
- We are participating on a multi-department team to assess PBGC's compliance with Year 2000 issues.

## **LIAISON WITH THE UNITED STATES GENERAL ACCOUNTING OFFICE**

There is no on-going work of GAO involving PBGC at this time.

## **PEER REVIEW**

As a member of the Executive Council on Integrity and Efficiency, the OIG was requested to perform a peer review of the Office of Inspector General for another agency. The objectives of this peer review were to determine whether the organization's: (1) quality control system for audits was adequate, in place, and operating effectively; and (2) established policies, procedures, and applicable auditing standards were being followed in its audit work.

## STRATEGIC PLANNING

The Office of Inspector General (OIG) uses strategic planning techniques to identify and address functional risks faced by the Corporation. These techniques allow us to maximize our effectiveness with limited resources by focusing on those areas most critical to organizational success. This planning is performed at two levels: first, by identifying the most critical functional areas; and second, by examining specific risks affecting Corporate operations. This planning effort is then used to select areas for specific OIG audits. The OIG has identified five critical risk issues using our strategic planning process. Accordingly, these critical risk issues, listed and discussed below, have been addressed during the past year and will continue to be addressed by audit or investigative action during this and future fiscal years. When practicable, we have designed audit and evaluation projects to include multiple high risk areas.

- Procurement of and Performance by Contractors
- Pension Liabilities
- Systems Integration
- Integrity of Payment and Premium Systems
- Asset Management

This report summarizes activities conducted during FY 1998 (October 1, 1997 through September 30, 1998) and references work reported in this semiannual report and the prior report covering the period from October 1, 1997 - March 31, 1998.

## SUMMARY OF RISK AREAS AND SIGNIFICANT OIG ACTIVITIES

### *Procurement of and Performance by Contractors*

PBGC currently uses a large number of contractors throughout the corporation, which poses unique risks permeating virtually every aspect of PBGC's business. It is essential that proper controls be in place and functioning to ensure procurement policies are followed and contractor performance is properly monitored. The OIG has reviewed this function in the past and will continue to examine related areas.

**FY 1998 Activity.** During the audit of PBGC's financial statements (98-3/23126-2), we reviewed selected contractor performance by testing compliance with PBGC's policies and procedures.

**Projected FY 1999 Activity.** We plan to assess PBGC's procurement function to identify issues that remain high risk. Based on the assessment, we intend to review selected contractor performance issues.

## ***Pension Liabilities***

The primary areas of focus will include accuracy and timeliness of the pension liabilities components. The accuracy issue will address whether all components of the liability have been considered and whether factors used for each component are supported with sufficient detail and that data are correct. This area has been raised in earlier OIG and GAO reports and will be monitored to ensure progress is made and deficiencies overcome.

With respect to timeliness, it is essential that PBGC calculate the amount due individual plan participants in a timely manner. This area has negative implications to both participants and PBGC, as pension benefit payments may be inaccurate until this process has been completed, and overpayments may become uncollectible.

### **FY 1998 Activity.**

- As part of the financial statement audit, the OIG examined PBGC's calculation of the present value of future benefits (PVFB) for terminated plans (see OIG Report October 1, 1997 - March 31, 1998, page 2-3, 98-3/23126-2) which includes reviewing the components related to the PVFB. Our review disclosed that PBGC made improvements in maintaining participant file data.
- The OIG reviewed the Image Processing System (IPS) (see page 2, 98-7/23118). PBGC uses this system to capture and maintain participant and plan data which is used in calculating the PVFB liability. IPS was implemented to provide an electronic alternative for document archival and retrieval. The ultimate goal of IPS was to improve benefits administration and the delivery of services to participants by allowing faster response to inquiries from participants. Our evaluation disclosed that controls should be strengthened.
- The Participant Records Information Systems Management (PRISM) was developed by PBGC as participant database system. PRISM incorporates participant information including demographic, benefit payment and valuation data. The valuation data and participant demographic data are used to value the PVFB liability. The OIG conducted a survey of the system to gain a general understanding and to formulate a strategic audit approach. We have initiated an audit which addresses (1) the adequacy of controls associated with data conversion and performed between PRISM and its predecessor system, and (2) data integrity issues.
- In response to the Congressional inquiry regarding IDLs, we conducted a review of (1) the number of appeals docketed yearly; (2) the number of appeals pending at the end of each fiscal year; and (3) the number of appeals granted in favor of the participant or upholding the PBGC's initial decision (see page 3, 98-10/23131). PBGC provided a memorandum that presented certain statistical assertions concerning appeals pending at FY 1995, and docketed, closed and pending for FYs 1996 and 1997. As a result of our testing, we concluded that PBGC's assertions, as summarized in its memorandum, were fairly presented.

In related projects, we initiated an evaluation of the efficiency and effectiveness of the PBGC's benefit determination process that culminates in the issuance of IDLs to participants and impacts PBGC's PVFB liability.

- The Case Administration System (CAS) and the Integrated Present Value of Future Benefits System (IPVFB) are mission critical systems that support the calculation of PBGC's PVFB liability. The OIG has initiated a survey to obtain an understanding of processes and control structures and to perform a high level risk assessment. It will document our understanding of the design and operation of the two systems.

**Projected FY 1999 Activity.** We will complete our review of the efficiency and effectiveness of the benefit determination process and the timeliness of IDLs. We will also complete our initial audit of PRISM and surveys of CAS and IPVFB. Based upon the results of these reviews, we will initiate other audits of the systems as deemed necessary. During the audit of PBGC's financial statements, we will review all components relating to pension liability.

### ***Systems Integration***

The Corporation has recognized problems in systems integration and has responded with short and long term solutions. Since a large portion of PBGC's business is automated and depends upon the proper functioning of an integrated network of systems, the OIG will continue to maintain involvement in this area. Offering advice and technical assistance, the OIG will work with PBGC to help ensure an integrated network of systems is built, maximizing productivity while retaining sufficient controls to mitigate user risks. In addition, the OIG will be involved in interim reviews of the systems processes. The reviews will assess how the systems address the dynamic needs of the organization and whether the control structure is operating effectively.

#### **FY 1998 Activity.**

- During the audit of PBGC's financial statements, the PBGC's financial management systems were reviewed (see OIG Report October 1, 1997 - March 31, 1998, page 2-3, 98-3/23126-2). The report on internal controls noted that the financial systems lacked integration, a continuing reportable condition. We found that PBGC did not meet the requirements of OMB Circular A-127 regarding an integrated financial management system. As a result, PBGC's financial management systems did not promote efficiencies in processing financial data. PBGC also lacked a formal Systems Development Life Cycle Methodology (SDLC) which impacted upon data conversion efforts, security administration, user acceptance testing, reports definition, and consistency of systems development initiatives. We also found that PBGC lacked specific criteria to adequately manage its systems development projects that are outsourced to external vendors. Lack of systems integration inhibits management's ability to accumulate and summarize information required for management decision making purposes.

- The OIG has initiated a long term review of PRISM that will address (1) the adequacy of controls associated with data conversion and reconciliation's performed between PRISM and its predecessor system, and (2) data integrity issues.
- We are participating on a multi-departmental team to address PBGC's compliance with Year 2000 issues.
- CAS and the IPVFB are mission critical systems that support the calculation of PBGC's PVFB liability. The OIG initiated a survey to document our understanding of the design and operation of the two systems.

**Projected FY 1999 Activity.** We will complete our reviews of the PRISM, CAS, and IPVFB. We will expand our reviews of these systems as necessary. We will also continue to monitor Year 2000 and systems integration issues during annual financial statements audits.

### ***Integrity of Benefit Payment and Premium Data***

The volume of the corporation's benefit payment and premium collection systems make these critical areas warranting continuous monitoring by PBGC. With benefit payments approximating \$69 million per month, and contractors largely involved in the process, PBGC's monitoring function must be able to examine payments on a global and individual basis.

With respect to the premium collection system, PBGC's monitoring process must be sufficient to ensure payment status is captured for all insured pension plans and premiums are paid in the proper amount. Periodic monitoring should be performed to test data submitted by insured plans and ensure adjustments are sought when necessary.

#### **FY 1998 Activity.**

- During the audit of PBGC's financial statements, PBGC's Premium Accounting System (PAS) was reviewed (see OIG Report October 1, 1997 - March 31, 1998, page 2-3, 98-3/23126-2). We found that initiatives that addressed PAS control issues for restricting and monitoring access to data have resulted in improved system functionality and administrative capability. However, we also found that controls relating to source documentation required improvement. We also found that no clear audit trail exists for the tracking of PCR findings, settlements and collections to amounts in PAS.
- Also during the audit of PBGC's financial statements (98-3/23126-2), we tested PBGC's calculation of the present value of future benefits (PVFB) for terminated plans. We found that improvements have been made in maintaining participant file data. The reportable condition related to the lack of adequate documentation to support the PVFB liability calculation was deemed resolved based on the testing results.

**Projected FY 1999 Activity.** We plan to address broad based data integrity issues and to continue our evaluation of automated

premium accounting operations. Further, we are planning to review participant data requirements and to evaluate PBGC's policies and methodologies regarding the collection and safeguarding of the information.

### **Asset Management**

With approximately \$16 billion of assets, oversight over security and performance should be a continuous task. Many of these assets are managed by contractors and require an additional level of scrutiny concerning how and where they are invested, and whether performance is as expected. The Corporation needs to be proactive in establishing proper controls up-front, and then monitoring and reacting as necessary to variances which may occur.

**FY 1998 Activity.** During the annual financial statements audit, selected investment managers and their investment performance were reviewed (see OIG Report October 1, 1997 - March 31, 1998, page 2-3, 98-3/23126-2). Site reviews were performed at two of the investment managers hired by PBGC and charged with the responsibility of managing investments. These reviews included the contractors' internal controls as they related to implementing PBGC's investment policies, completing securities transactions and investment manager performance.

**Projected FY 1999 Activity.** During our audit of PBGC's financial statements, we will continue to monitor PBGC's management of assets and will continue conducting on-site reviews of selected investment managers.

With an audit staff of six professionals and limited resources for contracts, it is not possible to address each of the above issues in their entirety during the fiscal year. Rather, we will rotate or cycle certain aspects of each area into our annual management plans. In future periods, we will address other components in the same areas, thereby gaining entire coverage over time. The OIG critical risk issues will be reviewed annually with the purpose of adding significant risk functions as they are identified and to delete areas where risk had been reduced to an acceptable level.

It is the OIG's goal to have sufficient investigation resources available to adequately handle our law enforcement responsibility. For FY 1999, along with our current investigative staffing level, we will use contractors as well as "borrowed" intra- and inter-agency resources to process our case workload. OIG staff will continue to participate on organizational teams designed to improve the overall effectiveness of PBGC and will strive to maintain our professional relationship with all levels of PBGC management. In addition, we will also strive to coordinate with our colleagues in the Department of Labor OIG to ensure full coverage in areas which bridge the two agencies.

TABLE 5

**CROSS-REFERENCE TO REPORTING  
REQUIREMENTS OF THE INSPECTOR GENERAL ACT**

The table below cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

<b>Inspector General Act Reference</b>	<b>Reporting Requirements</b>	<b>Page</b>
Section 4 (a) (2)	Review of legislation and regulations.	12
Section 5 (a) (1)	Significant problems, abuses, and deficiencies.	2 - 3, 10
Section 5 (a) (2)	Recommendations with respect to significant problems, abuses, and deficiencies.	2 - 3, 10
Section 5 (a) (3)	Prior significant recommendations on which corrective actions has not been completed.	4
Section 5 (a) (4)	Matters referred to prosecutive authorities.	11
Section 5 (a) (5)	Summary of instances where information was refused.	4
Section 5 (a) (6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use.	5
Section 5 (a) (7)	Summary of each particularly significant report.	2 - 3, 10
Section 5 (a) (8)	Statistical table showing number of reports and dollar value of questioned costs.	6
Section 5 (a) (9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	7
Section 5 (a) (10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period.	None
Section 5 (a) (11)	Significant revised management decisions.	None
Section 5 (a) (12)	Significant management decisions with which the Inspector General disagrees.	4

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# GLOSSARY

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The following defines the terms used in this report.

<b>Questioned Cost</b>	A cost the OIG has questioned because of an alleged violation of law, regulations, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
<b>Unsupported Cost</b>	A cost the OIG has questioned because of a lack of adequate documentation at time of the audit.
<b>Disallowed Cost</b>	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.
<b>Funds To Be Put To Better Use</b>	Funds the OIG has identified in an audit recommendation that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.
<b>Management Decision</b>	Management's evaluation of audit findings and recommendations and issuance of a final decision concerning management's response to such findings and recommendations.
<b>Final Action</b>	The completion of all management actions -- that are described in a management decision -- with respect to audit findings and recommendations. If management concluded no actions were necessary, final action occurs when a management decision is issued.
<b>Misconduct</b>	Action of employees or contractors that violates law, rules, or regulations for which corrective action is warranted.

**IF YOU WANT TO REPORT OR DISCUSS CONFIDENTIALLY ANY INSTANCE OF MISCONDUCT, FRAUD, WASTE, ABUSE, OR MISMANAGEMENT, PLEASE CONTACT THE OFFICE OF INSPECTOR GENERAL.**

You can telephone:

The Inspector General's **HOTLINE**

**1-800-303-9737**

Or you can write:

**Pension Benefit Guaranty Corporation  
Office of Inspector General  
P.O. Box 34770  
Washington, D.C. 20043-4770**