

PENSION BENEFIT GUARANTY CORPORATION
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT APRIL 1, 2008 - SEPTEMBER 30, 2008



Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, NW, Washington, DC 20005-4026

October 31, 2008

The Board of Directors
Pension Benefit Guaranty Corporation

I am submitting the Office of Inspector General's Semiannual Report to Congress, as required by the Inspector General Act of 1978, as amended. The report summarizes accomplishments for the period April 1, 2008 through September 30, 2008. The Act requires that you transmit this report, along with the management report prepared by the Pension Benefit Guaranty Corporation (PBGC), to the appropriate congressional committees by November 30, 2008.

During this semiannual period, significant work completed by the Office of Inspector General (OIG) includes audits addressing PBGC's contracting activities, a review of PBGC's mass transit and subsidized parking programs, and the evaluation of PBGC information security as required by the Federal Information Security Management Act (FISMA) of 2002. Other important work included investigations of diverse topics such as a pension recipient who went missing amid suspicion of foul play, an individual who falsely claimed to be an enrolled actuary and certified the forms used for important decisions about terminating pension plans, and a PBGC employee who forged a supervisor's signature. Ongoing significant activities include our audit of the implementation of PBGC's new investment policy and the annual audit of PBGC's financial statements, as required by the Chief Financial Officers' Act of 1990.

This work supports the mission embodied in the Inspector General Act; it also supports OIG's vision of being a primary source of objective and independent information for our stakeholders' key decisions. I congratulate my staff members on their dedication, innovation, and commitment to excellence.

On a personal note, I commend the important contributions of Luther Atkins, our Assistant Inspector General for Audits, who retired from Federal service on October 31. His entire 37-year career in the accountability community, first in GAO and then in various OIGs, demonstrates his commitment to improving government. We awarded Luther the OIG's first Extraordinary Achievement Award in recognition of his contributions to excellent government.

We appreciate the cooperation you, your staffs and the PBGC management team have provided to the OIG. We look forward to continuing our tradition of providing quality service to PBGC, the Board, and the American worker.

Sincerely,

Rebecca Anne Batts
Inspector General

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Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period April 1, 2008 through September 30, 2008. In order to achieve our mission under the Inspector General Act, we must continually evaluate major challenges and issues in order to identify vulnerabilities to fraud, abuse, and inefficient and ineffective activities. During the past six months, we focused on issues that PBGC is facing and will face over the next several years. Communicating our results to the Board, the Director, and to Congress through this report helps us achieve our vision of being a primary source of timely and objective information about PBGC.

We have designated five areas as PBGC's management challenges: Governance, Stewardship, PBGC's Business Model, Information Technology, and Procurement and Contracting. Significant audit and investigative activity during this period includes:

- **Governance**— We initiated an audit of PBGC's implementation of its new investment policy. Our objectives are to (1) identify the strengths and weaknesses of PBGC's approach to execution and (2) determine the effectiveness of PBGC's plans to identify and manage key risks that could affect investment performance or limit anticipated benefits. (See pages 5 -7).
- **Stewardship**— We investigated cases relating to the stewardship of PBGC assets, including a daughter who had been receiving her missing father's benefits since 1993, a private sector actuary who falsely represented his professional status when certifying key documents, and an employee who forged his supervisor's signature. We also assisted PBGC in recovering a misdirected premium check. In addition, we continued our focus on the annual financial statement audit and assisted in developing new audit followup guidance for PBGC. (See pages 7 – 10).
- **PBGC's Business Model**— We continued our series of audits of terminated multiemployer plans which have administrative costs that are disproportionate to the benefits paid. We issued an audit of PBGC's mass transit benefits and subsidized parking and made recommendations to correct internal control issues that could allow abuse. (See pages 10 – 13).
- **Information Technology** — In compliance with the Federal Information Security Act (FISMA), we conducted security reviews and other audits and evaluations of the effectiveness of PBGC's information security program. Current PBGC leadership has worked to correct previously reported issues and to develop a comprehensive information assurance program. While PBGC's implementation effort will take time, OIG will continue to perform independent audits and evaluations to assist PBGC in improving its security program. (See pages 13 – 14).
- **Procurement and Contracting**— We issued a series of incurred cost audits that reported concerns such as PBGC contractors whose employees failed to meet minimum education and experience requirements and issues with the integrity of contractor timekeeping. An investigation disclosed that an employee had exceeded her authority and made an unauthorized commitment of funds. (See pages 14-17).

The Appendix to this report presents statistical information about OIG audits and investigations and a cross-reference to the reporting requirements of the Inspector General Act.

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Introduction

The Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended (29 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 44 million Americans, PBGC provides assurance that their retirement benefits will be paid, up to a statutory limit. 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 unions. PBGC is now responsible for the pensions of about 1.3 million people.

PBGC manages about \$63 billion in assets and pays about \$360 million a month to about 600,000 current retirees. Despite significant deficits in both the single-employer and multiemployer programs, the Corporation has sufficient liquidity to meet its obligations for a number of years. However, neither program at present has the resources to satisfy all of the benefit obligations already incurred, much less future obligations likely to be assumed.

The Office of Inspector General

Our Office of Inspector General (OIG) was created under the 1988 amendments to the Inspector General Act of 1978. We provide an independent and objective voice that helps the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers by promoting positive change, accountability, and integrity. With twenty-two staff, the OIG conducts agency audits, inspections and investigations; participates in agency-wide working groups; and consults with our stakeholders to provide information they need to make decisions. We are committed to our values of respect, excellence, and integrity in all we do.

To provide value, we focus our work on the challenges facing PBGC. Each year, we assess risk in terms of materiality, impact on operations, and potential for adverse publicity for the Corporation. Based on this risk assessment, we identify the most important challenges on which to focus our work. The OIG follows the standards contained in the **Quality Standards for Federal Offices of Inspector General**, published by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), which incorporate **Generally Accepted Government Auditing Standards**, issued by the Government Accountability Office (GAO). Our investigations comply with PCIE and ECIE **Quality Standards for Investigations**.

Our staff consists primarily of auditors and criminal investigators, and includes an independent legal counsel.

*OIG provides an
objective and
independent voice.*

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Management Challenges

PBGC faces the challenge of dealing with the financial turmoil that is affecting much of the American investment community. PBGC states it has the resources to meet its commitments to America's retirees for many years to come, although the current turbulence in our economy will mean a challenging environment in 2009.

PBGC is taking action to address some of the external factors that create new challenges and opportunities. The Corporation recently adopted a new investment strategy, which will diversify its portfolio and increase its investment in stocks and in alternative asset classes. It continues to implement higher premium rates and other changes required by the Pension Protection Act of 2006 and the Deficit Reduction Act of 2005.

OIG has a goal of conducting audit and investigative work in each of PBGC's management challenge areas -- Governance, Stewardship, PBGC's Business Model, Information Technology, and Procurement and Contracting. The results of our efforts in each of these areas are detailed below.

1. Governance

PBGC's governance structure comprises the Board of Directors, their Board Representatives, a Presidentially-appointed Director, and Congressional oversight. Other elements of governance include PBGC's system of internal control, its clearly articulated authority to act, and the policies and procedures under which PBGC operates. PBGC governance is complex and requires those who are charged with its oversight to view the Corporation from a number of differing perspectives. Oversight of PBGC's financial operations and financial reporting by the Board of Directors, PBGC management and the OIG is critical to effective corporate governance. Equally important is the ethical tone set by PBGC leaders.

PBGC's New Investment Policy

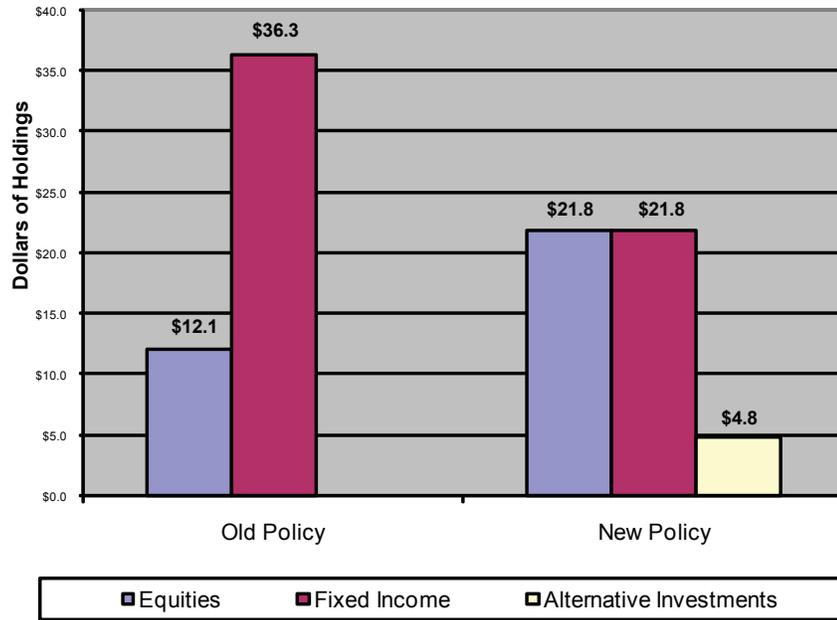
In February 2008, PBGC's Board of Directors adopted a new investment policy that represented a significant change in direction. Under the new policy, PBGC will invest 45 percent of its funds in fixed income securities (U.S. government securities, corporate bonds, high yield bonds, and emerging market debt) and increase its equity investments (US equities, non-US equities in developed markets, and emerging market equities) to 45 percent. The remaining 10 percent of investments will be in alternative investments, specifically private real estate and private equities. Previously, the investment policy directed PBGC to invest about 75 percent of its invested funds in fixed income securities (U.S. government securities issued by the U.S. Department of the Treasury and corporate bonds) and about 25 percent of its funds in private sector equities.

We identified PBGC's top Management Challenges:

- *Governance*
- *Stewardship*
- *Business Model*
- *Information Technology*
- *Procurement*

PBGC is implementing its new investment policy.

Change in Asset Allocation -- Old Policy versus New Policy (amounts in billions)



Note: The data comes from Investments reported as of September 30, 2008 by PBGC. Under "Old Policy" we show the actual amounts reported in PBGC's portfolio. Under "New Policy" we show how the investment allocation may appear once the new investment policy is instituted. The investment policy's target allocation consist of 3 major categories: I.) Equities - includes U.S. equities, developed market equities and emerging market equities, II.) Fixed Income - includes long-term corporate and treasury bonds, high yield fixed income and emerging market debt, and III.) Alternative investments - includes private real estate and private equity (buyout and venture).

Since the adoption of this policy change, PBGC has taken many actions to implement the new investment policy. These actions include contracting for investment consultants, investment managers, and a new strategic partnership. These are the first steps in PBGC's shift of about \$20 billion into new asset classes. PBGC's new investment policy calls for investments in international equity, private equity, real estate, emerging market equity and debt, and high yield debt. Further, PBGC is implementing its new policy at a time of unprecedented market volatility and unanticipated financial institution failures.

The Board's oversight during this transition is particularly critical in light of these financial uncertainties. In a report issued in July, GAO concluded that the Board needs to make improvements in the way it monitors PBGC progress in achieving investment policy goals. GAO noted that it did not review the implementation process because it had only recently been adopted and PBGC "had not yet devised its strategy for implementing the changes." (PBGC Assets: Implementation of New Investment Policy will Need Stronger Board Oversight, GAO-08-667, July 2008, at 3).

In September, we initiated an audit to identify the strengths and weaknesses of PBGC's approach to executing the new policy and to determine the effectiveness of PBGC's plan to identify and mitigate key risks that could affect investment performance or limit anticipated benefits. The investment policy is at a critical point in its implementation. While many of the actions to implement the new policy will take

place in a matter of weeks or months, the effects on the PBGC investment portfolio will last for years to come.

OIG Management Advisory on Flexiplace Results in PBGC Telework Policy Revision

Based on an allegation of abuse, we found that a PBGC employee had been teleworking full-time for nearly three years from her home more than 700 miles away from PBGC's Washington DC office. While the employee paid her own internet and telephone expenses, PBGC paid travel expenses between the employee's home and headquarters several times a year. Based on a verbal agreement, management had approved the special arrangement for the employee but had not documented the rationale for this permanent telework situation. The Collective Bargaining Agreement in force at the time permitted work from home for three days per pay period and did not address the issue of a permanent flexiplace. OIG issued a Management Advisory identifying these issues and made recommendations, including a recommendation that management conduct a review to determine whether additional policy was needed to address the situation of permanent flexiplace. As a result of the investigation and the accompanying management advisory memorandum, PBGC issued for comment a comprehensive telework directive that provides for a "telework alternative worksite exception" that must be justified in writing and reviewed and approved by management outside the requesting department.

OIG Member of PBGC Internal Control Committee

The Assistant Inspector General for Investigations (AIGI) serves as a non-voting member of the PBGC Internal Control Committee. This committee is responsible for oversight and accountability regarding PBGC internal controls over financial reporting and operations consistent with the Standards for Internal Control for the Federal Government (GAO Green Book), OMB Circular A-123, and Federal Managers' Financial Integrity Act requirements.

2. Stewardship

OIG's work in the "Stewardship" area focuses primarily on PBGC's overall financial management and its stewardship of entrusted resources; specific activities include preventing fraud, detecting improper payments, protecting participant data, and safeguarding plan assets close to plan termination.

PBGC's strategic plan outlines the "Stewardship" goal of exercising effective and efficient stewardship of PBGC resources. OIG shares this goal and dedicates a large proportion of resources to this challenge. Specifically, during the past six months we have:

- provided oversight to the audit of PBGC's financial statements.
- assisted PBGC in developing audit follow-up procedures that better define the relative roles and responsibilities of PBGC management and of OIG.

The Stewardship Challenge focuses on financial management and safeguarding entrusted resources.

*The financial statement
audit was a primary
focus this period.*

- investigated matters that threatened PBGC resources, with results including prosecution of a theft of benefits, assistance to PBGC in recovering a misdirected premium refund check, and identification of fraudulent internal and external activity related to pension benefit processing.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2008 and 2007 Financial Statements (FA-0049)

Financial audits provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives of financial statement audits are assessments of the internal controls over transaction processing for accurate financial reporting and assessment of compliance with applicable laws and regulations. As required by the Government Corporation Control Act of 1945, PBGC prepared comparative consolidated financial statements for the 2008 and 2007 fiscal years in accordance with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990 (CFO Act), as amended requires OIG, or an independent external auditor selected by the Inspector General, to audit PBGC financial statements. In accordance with the Inspector General Act, the OIG contracted with Clifton Gunderson, LLP to conduct the annual audit of PBGC's financial statements. The audit is to be conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States; OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, amended; and applicable sections of the U. S. GAO/PCIE Audit Manual.

As of the date of this report, the audit is in progress.

OIG Assists PBGC in Developing New Audit Follow-up Guidance

OIG participated in a working group charged with revising PBGC's process for following up on outstanding OIG and GAO audit recommendations, communicating the status of corrective action, and improving the audit resolution process. Highlights of the PBGC directive issued August 26, 2008 include:

- designation of the PBGC Deputy Director for Operations as the audit follow-up official.
- an explicit statement of PBGC management support for OIG audits, as well as management's expectation that PBGC employees and contractors will cooperate fully with OIG audits.
- a revised audit follow-up process intended to promote accountability.

Daughter Received Benefits of Participant Missing Since 1993

The daughter of a man missing since 1993 took action to receive her father's PBGC benefit payments totaling at least \$31,140 and then spent the money. We initiated our investigation after receiving information from law enforcement officials in Pennsylvania that a participant who was receiving benefits from PBGC had been reported as a missing person in 1993, and foul play was suspected. Records obtained by Pennsylvania law enforcement officials reflected that the daughter was receiving her missing father's benefit from PBGC. These records were obtained during the execution of a search warrant issued pursuant to another case; the daughter was subsequently convicted by a jury of first degree murder and is awaiting sentencing.

Actuary Misrepresented Professional Status to Government

A private sector individual falsely claimed to be an Enrolled Actuary and certified official documents attesting to the value and sufficiency of pension plan assets and the accuracy of pension benefit liabilities. An Enrolled Actuary must fulfill certain knowledge and experience requirements and satisfy the standards and qualifications as set forth in the regulations of the Joint Board for the Enrollment of Actuaries (the EA Board). Based on information received from the EA Board, we investigated an individual who had made numerous certifications to PBGC, signing as an Enrolled Actuary, as far back as 1998. We found that the EA Board had placed the actuary in an inactive status in 1999 and subsequently terminated his professional certification because he failed to meet the EA Board's requirements.

The individual we investigated had signed Schedules B of the Form 5500. The integrity of the actuarial calculations supporting these schedules is critical because PBGC uses Schedules B to evaluate whether pension plans meet the legal criteria for a distress termination and to estimate PBGC's claims for unfunded benefit liability and unfunded plan contributions in the event of a plan termination. The individual had also certified PBGC Schedules EA-S as an enrolled actuary. The Schedule EA-S is required for standard terminations, containing information relating to the fair market value of the pension plan's assets and the present value of plan benefits.

OIG issued a Management Advisory notifying PBGC management of the individual's fraudulent activity and identifying weaknesses and risks relating to PBGC assets. We suggested that PBGC identify all filings from this individual and decide on further action, and verify the eligibility of actuarial certifiers by comparing their names to an official source. In response, PBGC has obtained the list of enrolled actuaries from the EA Board and is planning to add verification of current status to the review steps for the sample of standard terminations selected for audit.

We will continue to follow-up with PBGC to address the impact of the actuary's fraudulent certifications, in particular on distress termination filings.

*Private sector actuary
falsely claimed enrolled
status.*

Forgery of supervisor's signature was referred to PBGC management.

Recovery of Pension Premium Refund

When PBGC mailed a \$24,088.64 refund check to an incorrect address and the check was deposited by the recipient, OIG identified the company to which the refund had been misdirected and confirmed that the check had been cashed in error. The company that received the erroneous check refunded the full amount to PBGC, who redirected the refund to the appropriate recipient. This example of assistance to the Corporation demonstrates another way that OIG supports PBGC in its day-to-day operations.

Employee Forged Supervisor's Signature

A PBGC employee forged his supervisor's signature on a Source Document Audit and scanned the resulting document into an official electronic file. Because PBGC takes in numerous plans that do not have complete information necessary to calculate accurately employees' pension benefits, PBGC has to research or gather the required data through another means. This is known as the Source Document Audit, an important component of the benefit determination process.

We investigated a complaint from a PBGC supervisor that someone had forged her signature on a Source Document Audit - indicating the audit had been reviewed and approved - and scanned the document into the e-file. The supervisor said that no one had been authorized to sign her name on this document. Our investigation determined that the employee who conducted the Source Document Audit and prepared the report forged the supervisor's signature. Such misconduct violates the Standards of Ethical Conduct for Employees of the Executive Branch. Our finding was referred to PBGC management for disciplinary and corrective action.

3. PBGC's Business Model

PBGC's business environment is constantly changing. As noted above, PBGC is in the process of implementing a new investment policy. PBGC is also working to improve its information security program and make decisions about updating old business systems.

Although it is regularly called upon to deal with very large and sophisticated corporate players, PBGC is a relatively small Federal entity charged with the mission of protecting the retirement income of nearly 44 million American workers. PBGC is challenged to adapt its business model to a constantly changing environment — to have the right staff and resources in the right place at the right time. In helping PBGC respond to the "Business Model" challenge, OIG conducts work to evaluate PBGC programs and make recommendations to improve effectiveness and efficiency.

PBGC's Multiemployer Program

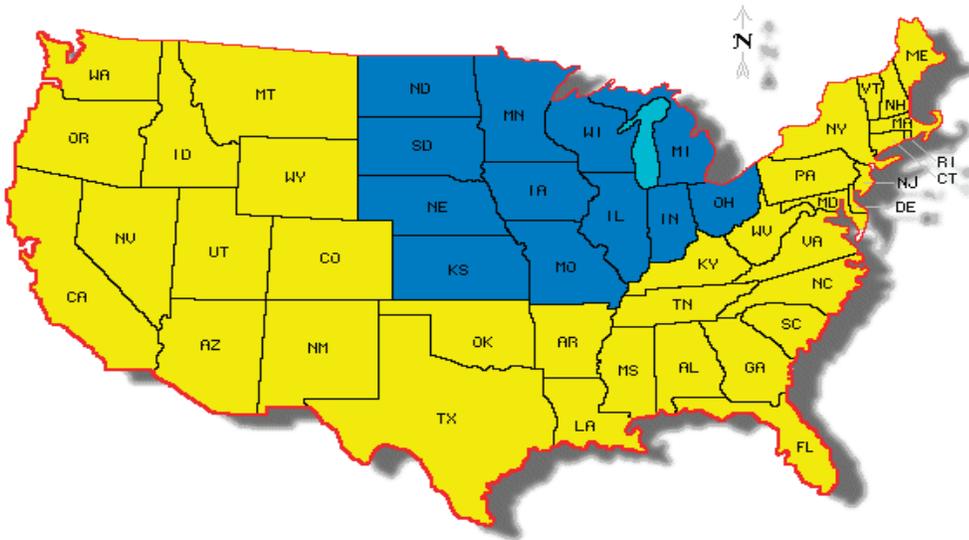
PBGC currently insures about 1,500 multiemployer plans. Those plans provide or promise benefits to roughly 10 million participants or their beneficiaries. As of September 30, 2008, the Corporation reported that 90 multiemployer plans need, or will need at some time in the future, financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. Each year, PBGC has been providing increased financial assistance to insolvent plans to pay their benefits. The present value of non-recoverable future financial assistance for the 90 plans is \$1.8 billion.

Based on our series of multiemployer audits, OIG has developed a variety of analytical procedures to evaluate administrative costs of terminated multiemployer plans. We are also consulting with Department of Labor (DOL) officials with ERISA Title I responsibility for these plans.

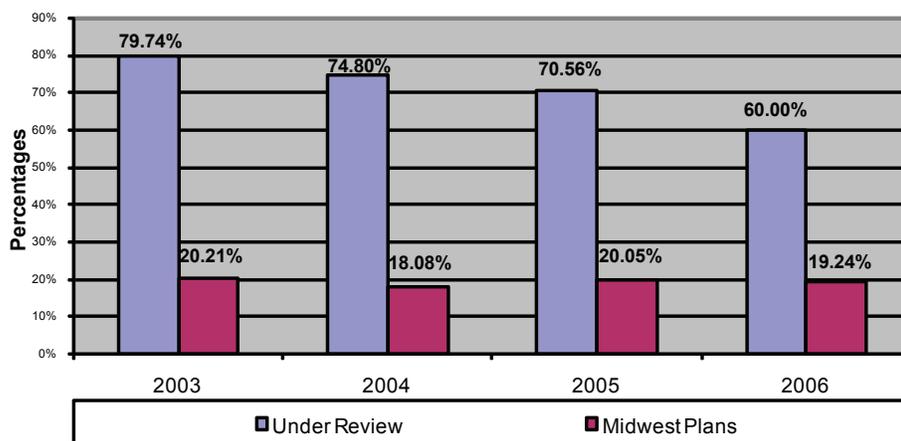
Ongoing Audit. As part of our ongoing series of audits addressing issues in the multiemployer program, we initiated a review of a terminated, but not yet insolvent, multiemployer plan located in the Midwest.

Ongoing OIG work addressed high-risk multiemployer plans.

Multiemployer Plans Located In The Midwest (Blue Highlight)



Comparison of Administrative Expenses
Under Review Plan versus All Midwest Multiemployer Plans



This plan showed disproportionately high administrative costs in relation to the benefits paid. That is, for every dollar of pension benefits paid, administrative costs totaled about 60 cents. We are examining the plan’s administrative costs, primarily consisting of legal, accounting, investment management, actuarial and other administrative and professional fees. Further, because this pension plan is administered in concert with four other employee benefit plans, we are examining whether professional fees were properly allocated and paid. During the course of our audit, we have consulted with DOL’s Employee Benefits Security Administration (EBSA) and will continue to do so as needed. We anticipate issuing a report on the results of our audit at the completion of our field work.

Coordination with DOL’s OIG and EBSA. OIG’s ongoing review of a large multiemployer pension plan requires us to coordinate with the DOL OIG and EBSA. Prior to initiating our cross-agency work, we shared our preliminary observations with PBGC and DOL officials. Among the issues we discussed were (1) this one plan is responsible for a significant amount of PBGC’s total annual payout for the multiemployer program and (2) the plan’s administrative costs are disproportionate to those of other similar plans. PBGC and DOL officials agreed that additional review of this plan is needed. As a result, we are continuing our coordinated review of this high-risk multiemployer plan and anticipate reporting our results in a future semiannual report.

PBGC’s Mass Transit and Subsidized Parking Programs (08-8/PA-0045)

Our audit to determine the adequacy of PBGC’s controls over the mass transit and subsidized parking programs showed that PBGC’s internal controls were generally adequate, although they could be further improved. Because GAO had reported numerous instances of fraud and abuse of these programs in other Federal agencies, the councils of Inspectors General encouraged the OIG community to examine the mass transit programs for which they had oversight. We initiated our audit in January 2008, and made recommendations to improve employee exit procedures so benefits

PBGC OIG coordinated with DOL OIG and EBSA.

are not paid after separation, guard against employee eligibility for and receipt of duplicate benefits, and enhance separation of duties. Our audit also examined the role of parking in these programs and included benchmarking with 9 other Federal agencies. PBGC management agreed to implement our recommendations.

4. Information Technology

PBGC's mission of protecting and providing pension plan retirement benefits for over 44 million Americans relies heavily on the integrity and security of the PBGC information systems network. The confidentiality, completeness, accuracy, and availability of information for pension benefits are key elements. Information security has been reported as a significant deficiency in the internal controls report issued as part of PBGC's annual financial statement audit. Although PBGC has made progress in this area, information security improvements are still needed. We continue to perform work to assist the Corporation in meeting the challenge of protecting the integrity and privacy of pension plan participants' information.

Continuity of Operations Plan (COOP) & Contingency Planning

PBGC continues to improve its emergency preparedness planning and execution. The Facilities and Services Department leads a working group of representatives from the major business areas within the Corporation, including the OIG. In FY 2008, PBGC completed a major expansion of its business recovery focus; by developing contingency and disaster recovery processes, PBGC went beyond the minimal requirements for an effective COOP. Additionally, an improved testing and exercise plan is to be implemented in FY 2009 with the goal of obtaining valuable feedback from business system owners. We will continue to support PBGC by monitoring and providing feedback on its COOP testing for recovery of operations in the event of a disaster or emergency situation.

Federal Information Security Management Act (FISMA) Report

Over the past years, PBGC has focused on improving the effectiveness of its security program and reducing the associated risks to the business operations. OIG has aided PBGC in this endeavor, in part, by conducting security reviews and other audits and evaluations as required by FISMA and as reported to OMB. During FY 2008, PBGC continued to take steps to identify security controls required to protect its assets and information, and further improve its security program. Recent events have heightened the focus on security, especially as related to personally identifiable information and privacy issues. PBGC has taken these issues seriously and has responded positively to OMB requirements by implementing policy and processes to address the security of sensitive information.

Various issues with information security have been reported over the past years in OIG audits and in the audits of PBGC's annual financial statements. The current PBGC leadership, and in particular the Chief Information Officer, has promoted a

PBGC is making progress in addressing information security.

focused effort to correct these outstanding issues through the development and implementation of a comprehensive information assurance program. While this effort will take time, management has developed a well-defined plan to address security issues. In addition, OIG will continue to perform independent audits and evaluations to assist PBGC in improving its security program.

5. Procurement and Contracting

PBGC relies heavily on the services of contractors to carry out its operations, a factor that makes procurement and contracting a significant PBGC activity. In its FY 2009 Congressional budget submission, PBGC reported spending about two-thirds of its annual budget through contracts. When base and option years are considered, total obligations for PBGC's active contracts are \$831 million, of which \$312 million was actually obligated during FY 2008. In addition, between 2000 and 2007, the dollar value of PBGC's contracting activity more than doubled. This trend and volume of expenditures makes contract management a major challenge for PBGC.

OIG continues to devote a significant portion of its resources to audits and reviews of PBGC's procurement and contracting activities, and to consultations and fraud briefings with procurement staff. During the past six months, we issued audit reports addressing contracts totaling more than \$14 million. Our audit efforts determined, among other things, whether billings were reasonable, supported and consistent with the contracts' terms. We also made recommendations for improvements to PBGC's procurement process. Our criminal investigators conducted six fraud briefings, coordinated with the Procurement Department to implement a new regulation requiring contractors to advertise the OIG's Hotline, and issued an investigative report regarding the improper commitment of PBGC funds.

Three Agreed-Upon Procedures Contract Audits (08-11/CA-0047, 08-12/CA-0050, 08-13/CA-0046)

OIG often uses Independent Public Accountants (IPAs) to review contractor invoices submitted to PBGC. During this semiannual period, IPAs applied agreed-upon procedures designed to assist OIG in evaluating whether costs incurred by three PBGC contractors were allowable, reasonable, supported and consistent with contractual provisions. Payment on the contracts reviewed totaled nearly \$7.5 million and the time period covered was October 1, 2005 through September 30, 2007. For each of the contractors reviewed, we issued reports detailing our findings and making recommendations for improvement and recovery of unsupported costs. Questioned costs totaled \$248,514. The IPAs considered the contractors' comments in formulating audit conclusions. In addition, the IPAs issued management letters including observations about PBGC internal controls and operations and making recommendations as appropriate. Following are some of the types of issues identified:

*Contract management
is a major challenge for
PBGC.*

Qualifications. Contract labor is a major component of PBGC operations. As part of providing hourly labor, contractors agree to provide employees who meet minimum levels of education and experience as specified in their contracts. However, our reviews of three PBGC contractors showed that 7 of 25 contract employees reviewed did not meet the minimum experience requirements for the position filled and 2 of the 25 reviewed did not have the minimum required education. That is, contractors furnished PBGC with contract employees that had less experience or education than required; nevertheless, the contractors billed PBGC and PBGC paid as if the contract employees had the higher levels of experience and education actually mandated by the contract. Questioned costs related to the issue of contract employee qualifications totaled \$226,988.

The following examples illustrate the shortfall between contract requirements and the qualifications of contract staff provided:

- **Lack of Required Experience.** PBGC entered into a labor-hour contract to provide technical support for its Information Systems Security Program. However, three of the five employees provided by the contractor did not have the levels of experience specified for the labor categories under which they were billed. For example, PBGC paid the contractor for a subject matter expert, based on that individual having at least 8 years total experience with 5 years of specific technical experience. However, the individual's resume showed only two years total experience and no specialized experience at all. For the three contractors we audited, seven of 25 employees tested lacked required experience.
- **Lack of Required Education.** PBGC's labor-hour contract for services to improve its corporate data layer called for a program manager with a Master's degree or 15 years equivalent industry experience. The contractor was paid based on providing an employee with those qualifications. However, the contract program manager's resume showed only a Bachelor's degree and 13 years experience. Our review identified a total of two contract employees who lacked the required education, of 25 tested.

The IPAs issued management letters detailing potential improvements and making recommendations for specific actions that PBGC can take to improve contractor compliance with minimum requirements. While contractors are responsible for ensuring that the personnel furnished have all the necessary experience and education specified in the contract, PBGC should press for improvement, in part because the use of non-qualified personnel on a contract may result in performance that is less than what PBGC paid for. Further, the use of unqualified personnel may provide the contractor an unfair competitive advantage over other potential bidders that propose only personnel who meet or exceed contract requirements. Over time, unfair competitive advantages can erode competition, a situation that is contrary to the best interests of PBGC and the Federal government.

Some contract employees lacked required education and/or experience.

*The integrity
of contractors'
timekeeping is critical.*

Timekeeping. Because the number of hours worked forms the basis of payment to the contractor, timekeeping is a critical function in the administration of labor-hour contracts. For two of the three labor-hour contracts we audited, we identified issues with the integrity of this process. For example:

- **Timesheet Changes.** For one contractor, our review disclosed that, of 153 timesheets tested, 61 had changes made with correction fluid. None of the individual changes was initiated by the employee or supervisor or included any explanation for the change. Alterations to timesheets without accompanying approvals or explanations call into question the accuracy of the time being reported and billed.
- **Unsupported Time.** For a different contractor, our audit identified discrepancies between the manual sign-in/out sheets and PBGC's electronic building access records for the contract employee who was working as on-site program manager. For example, the manual sign in record for a particular day showed an arrival time of 9:00 a.m., while the electronic building access records for the same day reflected arrival at 10:47 a.m. Similar situations occurred a total of 36 times over a two month period. We questioned \$21,164 related to this issue.

For this contractor, our management letter addressed the actions of the PBGC Contracting Officer's Technical Representative (COTR) who had noted that the on-site program manager described above was not on-site during some of the hours indicated by the sign-in sheets. Although the COTR had information indicating that the on-site program manager did not work some of the hours for which the contractor billed and received payment from PBGC, the PBGC employee did not report the issue to the Contracting Officer or to OIG. Further, the PBGC COTR did not require the contractor to adjust its billing for the excessive hours. The IPAs' management letter recommendations to PBGC included the need to re-emphasize the requirement to report potential fraud, waste and abuse promptly to OIG.

The three audit reports and associated management letters also included other issues affecting integrity in contract management, such as the need for timely audit resolution, an apparent conflict of interest, and the need for a corrective action plan.

Incurring Cost Audit of PBGC Contractor (2008-9/CA-0054)

The Defense Contract Audit Agency (DCAA) has audit cognizance over some of the large contractors who do business with PBGC. OIG supported DCAA's audit of a PBGC contractor's FY 2006 certified final incurred cost proposal and related books and records and applied the audit results to four PBGC contracts. Payments on these contracts totaled \$6,848,034 for the time period April 1, 2005 through March 31, 2006. As a result of DCAA's work, we issued a report that questioned \$97,581 in indirect costs, primarily due to excessive executive compensation and associated fringe costs.

Items questioned by DCAA included intercompany costs for meetings held at Pebble Beach Resort, travel costs for events including the Virginia Gold Cup horse races and holiday parties, and external training which included costs for a “meet and greet” reception. Because the contractor did not agree with the questioned amount and the Defense Contract Management Agency (DCMA) has cognizance over this contractor’s indirect rates, the DCMA Administrative Contracting Officer will review and resolve the questioned costs. When DCMA resolves all questioned costs, DCAA will calculate and distribute final indirect cost rates applicable to all contracts of this contractor.

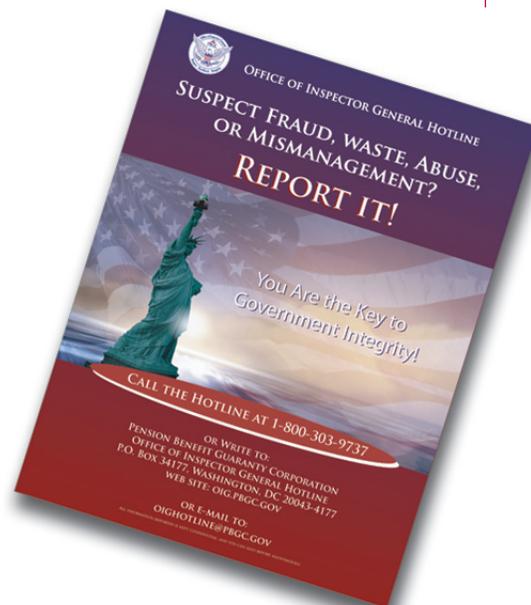
Unauthorized Contract Commitment

While investigating another matter, we reviewed a PBGC employee’s actions in contracting with a vendor for professional photography services. The investigation found that the employee exceeded her authority when making an unauthorized commitment of PBGC funds without receiving management’s approval. The findings of the investigation were referred to PBGC management and the employee received an official reprimand.

Hotline Posters: New Rules for Federal Contractors

An amendment to the Federal Acquisition Regulations (FAR) requires certain contractors to either (1) implement a mechanism for employees to report suspected wrongdoing or (2) prominently display the agency’s OIG Hotline posters at contract performance sites and on any website maintained for employees. As part of OIG’s Hotline initiative, the Office of Investigations worked with PBGC’s Procurement Department to ensure that applicable newly-awarded contracts contain provisions to notify the contractors of this new responsibility to have their own Hotline or publicly advertise the PBGC OIG’s Hotline. Because we anticipate that the new regulation will increase demand for our Hotline posters, we are redesigning them to facilitate printing in a standard paper size for easier and more cost-effective reproduction.

PBGC employee exceeded her contract authority.



*Inspector General
access to information
and assistance was not
restricted.*

Other OIG Reporting

Access to Information

Under the Inspector General 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 and assistance was not restricted.

Management Decisions

The Inspector General is required to report the following about management decisions on audit reports that occurred during this six-month period:

- There are twelve audit reports for which management decisions are pending, four of which relate to reports issued this period (see page 23).
- There were no significant revised management decisions.
- There were no management decisions with which the Inspector General disagreed.

Other Office of Inspector General Activities

Review of Proposed Statutory and Regulatory Changes

Statutes

A major responsibility of the OIG under the Inspector General Act is to independently review PBGC-proposed changes to laws and regulations. ERISA was amended in August 2006 by the Pension Protection Act of 2006 (PPA) to provide simplicity, flexibility, accuracy and stability in the defined benefit pension insurance program that PBGC administers; there were no significant PBGC statutory proposals this period.

Regulations

PBGC continues in a major effort to streamline its regulations and to improve administration of the pension insurance program, with a focus on making pension-related information more accurate, complete and transparent. Its recent proposed regulations were required to implement the PPA's amendments relating to benefits that PBGC will pay in the event of an "unpredictable contingent event," such as a plant shut-down, and limitations on guaranteed benefits. We reviewed, provided written comments, and had substantive conversations with the drafters of these proposed rules.

Inspector General Reform Act of 2008

On the eve of the Inspector General Act's 30th anniversary, Congress passed long-awaited amendments to the Act. The Legislative Committee of the IG councils worked in particular with Congressman Cooper and Senator McCaskill to draft language and include provisions important to IG independence. The Deputy IG worked with this committee and helped draft the pay provisions for IGs at designated Federal entities (DFEs), such as PBGC.

Among the amendments are provisions that either clarify or provide parity between IGs at DFEs and those IGs who are Presidentially-appointed, Senate-confirmed. Specific provisions of the Act:

- clarify that DFE IGs are appointed without regard to political affiliation and based on demonstrated ability.
- clarify that all IGs are to have independent legal counsel, and DFEs may obtain that counsel in various ways.
- allow DFE IGs to apply for full statutory law enforcement (i.e., arrest authority).
- extend the Program Fraud Civil Remedies Act to DFE IGs.

*Inspector General Act
was amended to increase
independence.*

The amendments also included provisions to amend the pay for all IGs, prohibit pay-related bonuses, codify and combine the two IG councils into one unified council of IGs, and codify the Integrity Committee that reviews allegations against IGs and the most senior IG officials.

Assistance to Other Federal Entities

Planning for and Recruiting Senior OIG Employees

Our office assisted two other OIGs in assessing their needs before they began recruiting for their Assistant Inspector General for Audits (AIGA) and Assistant Inspector General for Investigations (AIGI) positions. That assistance included discussions about the expected leadership roles and responsibilities within their respective OIGs and externally with their agencies, sharing and reviewing certain personnel documents, and consulting about skills that might be needed. The PBGC AIGA and AIGI also participated as subject matter experts in the panels that evaluated and rated the applicants.

District of Columbia US Attorney Office's Prosecution

The PBGC OIG assisted the Fraud and Public Corruption section at the US Attorney's office in the District of Columbia this past summer in preparing for a criminal trial. The OIG auditor, a former employee of the US Attorney's office, reviewed bank and credit card records, prepared charts and graphs, worked with the Federal prosecutors and FBI agents in advance of the trial, and testified for two days during the two week trial.

Other Activities

Various staff members participated in external and internal professional activities. Examples include:

- The IG participates in the ECIE, a council of Inspectors General that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. In the Federal Financial Regulatory Inspectors General group, she joins with other IGs to discuss common financial concerns and the work each is doing.
- The Assistant IG for Audits is a member of the Audit Committee of the Federal Audit Executive Council (FAEC). FAEC's purpose is to discuss and coordinate issues affecting the Federal audit community, with special emphasis on audit policy and operations of common interest.
- The Assistant IG for Investigations participates actively as a member of the National Organization of Black Law Enforcement Executives.
- An OIG auditor was selected to participate in a nine-month PBGC structured mentoring program in which she is paired with a more senior employee to identify specific career and individual goals and implement an action plan.

PBGC OIG provided assistance to the accountability community.

Appendix

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.

Inspector General Act Reference	Reporting Requirements	Page
Section 4(a)(2)	Review of legislation and regulations.	19
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-17
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-17
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	25
Section 5(a)(4)	Matters referred to prosecutorial authorities.	9, 26
Section 5(a)(5)	Summary of instances in which information was refused.	18
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use.	22
Section 5(a)(7)	Summary of each particularly significant report.	5-17
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	22
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	22
Section 5(a)(10)	Summary of each audit report issued before this reporting period for which no management decision was made by end of reporting period.	23-24
Section 5(a)(11)	Significant revised management decisions.	18
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	18

RESULTS OF REPORTS ISSUED*

For the Six-Month Period Ending September 30, 2008

	Number of Reports	Questioned Costs	Unsupported Costs**	Funds put to Better Use
A. For which no management decision had been made by the commencement of the reporting period.	9	\$2,017,099	\$4,241	\$0
B. Which were issued during the reporting period.				
Contract Audits				
Incurred Cost Audit, # 2008-9/CA-0054 (8/26/08)		\$97,581		
Incurred Cost Audit, # 2008-11/CA-0047 (9/30/08)		\$82,141		
Incurred Cost Audit, # 2008-12/CA-0050 (9/30/08)		\$114,225		
Incurred Cost Audit, # 2008-13/CA-0046 (9/30/08)		\$51,786	\$21,164	
Performance Audit				
PBGC's Mass Transit and Subsidized Parking Programs, # 2008-8/PA-0045 (9/30/08)				
Total	5	\$345,733	\$21,164	\$0
Subtotal (Add A. & B.)	14	\$2,362,832	\$25,405	\$0
C. For which a management decision was made during the reporting period.	2	\$167,459	\$0	\$0
(i) dollar value of disallowed costs	1	\$68,500	\$0	\$0
(ii) dollar value of costs not disallowed	1	\$98,959	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	12	\$2,195,373	\$25,405	\$0
E. For which no management decision was made within six months of issuance.	8	\$1,849,640	\$4,241	\$0

* This statistical information is required by Section 5(a)(6), (8) and (9) of the Inspector General Act of 1978, as amended.

**Unsupported costs are a subset of questioned costs.

**SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH
MANAGEMENT DECISION HAS NOT BEEN ACHIEVED**

Report and Summary	Reason For No Management Decision	Anticipated Management Decision
<p>Incurred Cost Audit, 2005-2005 (2/28/05)</p> <p>Questioned Costs of \$21,084 because the contractor billed the contract rate for subcontract costs rather than the actual costs paid to the subcontractor as required by the FAR.</p>	<p>Management recently met with the contractor and requested additional information no later than 11/30/08 for negotiation and settlement of the outstanding issues.</p>	<p>12/31/08</p>
<p>Incurred Cost Audit, 2005-2010 (2/28/05)</p> <p>Questioned Costs of \$24,743 because the contractor billed the contract rate for subcontract costs rather than the actual costs paid to the subcontractor as required by the FAR.</p>	<p>Management recently met with the contractor and requested information no later than 11/30/08 for negotiation and settlement of the outstanding issues.</p>	<p>12/31/08</p>
<p>Examination of Contract Termination Proposal, 2006-14/CA-0013 (9/27/06)</p> <p>Questioned Costs of \$197,035 because the contractor did not effectively manage its employees and allowed idle time to be billed as a direct expense.</p>	<p>Management continues to consider the noted issues and expects to address this matter in the coming months.</p>	<p>6/30/2009</p>
<p>Incurred Cost Audit, 2006-16/CA-0013 (9/27/06)</p> <p>Questioned Costs of \$146,628 for unallowable costs associated with the use of the actual indirect rates instead of the forward pricing indirect rates; unallowable facility costs; and unsupported purchased labor costs.</p>	<p>Management continues to consider the noted issues and expects to address this matter in the coming months.</p>	<p>6/30/2009</p>
<p>Incurred Cost Audit, 2007-5/CA-0028 (3/19/07)</p> <p>Questioned Costs of \$475,896 because of unsupported labor hour billings; questionable experience and education of contract employees; Improper billings; and erroneous time charges.</p>	<p>Management continues to consider the noted issues and expects to address this matter in the coming months.</p>	<p>6/30/2009</p>

**SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH
MANAGEMENT DECISION HAS NOT BEEN ACHIEVED**

Report and Summary	Reason For No Management Decision	Anticipated Management Decision
<p>Incurring Cost Audit, 2007-13/CA-0038-1 (9/27/07)</p> <p>Questioned Costs of \$533,081 because of unsupported labor hour billings; unsigned timesheets; erroneous and unapproved billings; and unverified education and experience for contract employees.</p>	<p>Management recently met with the contractor and requested additional information no later than 11/30/08 for negotiation and settlement of the outstanding issues.</p>	<p>6/30/2009</p>
<p>Incurring Cost Audit, 2007-14/CA-0038-2 (9/27/07)</p> <p>Questioned Costs of \$113,782 because of unsupported documentation for labor hour billings; erroneous and unapproved billings; and unverified education and experience for contract employees.</p>	<p>Management recently met with the contractor and requested additional information no later than 11/30/08 for negotiation and settlement of the outstanding issues.</p>	<p>6/30/2009</p>
<p>Incurring Cost Audit, 2007/CA-0039 (9/27/07)</p> <p>Questioned Costs of \$337,391 related to unsupported costs; erroneous and unapproved billings; and unverified education and experience for contractor employees.</p>	<p>Management continues to consider the noted issues and expects to address this matter in the coming months.</p>	<p>6/30/2009</p>

SIGNIFICANT PROBLEMS, DEFICIENCIES AND RECOMMENDATIONS

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
96-4/23093-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996	1*	Significant Deficiency: Integrating Financial Management Systems	PBGC needs to complete the integration of its financial management systems.
2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003	6*	Significant Deficiency: Entity-Wide Information Security Program Planning & Management	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2008-1/FA-0034-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and 2008-2/FA-0034-2 Limited Disclosure Report on Internal Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	11*	Significant Deficiency: Access Controls	PBGC needs to mitigate the systemic issues related to information access control.

This chart complies with Section 5(a)(1), (2) and (3) of the Inspector General Act of 1978, as amended.

* Includes Significant Recommendations from previous semi-annual reports on which corrective action has not been completed.

SUMMARY OF INVESTIGATIVE ACTIVITIES
For the Six-Month Period Ending September 30, 2008

Investigations

Pending beginning of period	17
Opened	8
Closed	8
Pending end of period	17

Complaints*

Pending beginning of period	9
Opened	68
Closed	59
Pending end of period	18

Financial Recoveries**

Theft of Funds Recovered	\$0
Court Ordered Fines, Penalties, and Restitution	\$0
U.S. Government Property Recovered	\$24,089

Criminal Actions**

Arrests	0
Indictments	0
Convictions	0

Administrative Actions**

Terminations	0
Suspensions	0
Oral or Written Reprimand	1

Referrals

For Prosecution:	
Department of Justice	2
Declined	2
<hr/>	
Various States' Attorney Offices	2
Declined	2
<hr/>	
For Other Action:	
PBGC Management for Corrective Action	4

* Complaints include allegations received through the hotline operation and issues resulting from proactive investigative efforts.

**Results reported for Financial Recoveries, Criminal and Administrative Actions include both open and closed cases.

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

**TELEPHONE:
THE INSPECTOR GENERAL'S HOTLINE
1-800-303-9737**

**FOR DEAF OR HARD OF HEARING, DIAL:
FRS (800)877-8339 AND GIVE THE
HOTLINE NUMBER TO THE RELAY OPERATOR.**

**WEB:
[HTTP://OIG.PBGC.GOV/INVESTIGATION/DETAILS.HTML](http://oig.pbgc.gov/investigation/details.html)**

**OR WRITE:
PENSION BENEFIT GUARANTY CORPORATION
OFFICE OF INSPECTOR GENERAL
PO Box 34177
WASHINGTON, DC 20043-4177**