

PENSION BENEFIT GUARANTY CORPORATION

**SEMIANNUAL REPORT
TO THE CONGRESS**



OFFICE OF INSPECTOR GENERAL

APRIL 1, 1999 - SEPTEMBER 30, 1999

Office of Inspector General

October 31, 1999

The Honorable Alexis Herman
Chairman, PBGC Board of Directors

It is my pleasure to submit this twenty-first 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, 1999. 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 two (2) reports in the audit area, one relating to sensitive payments to PBGC executives and the financial statement management letter. We continue to conduct special reviews of particular PBGC issues at the request of two congressional committees, the Senate Special Committee on Aging chaired by Senator Grassley, and the Small Business Committee chaired by Senator Bond.

In the investigative area, we opened fourteen (14) and closed ten (10) investigations. The most significant investigation we closed this period involved travel and ethics violations by a senior PBGC official. In two of the pension fraud cases we worked this period, one pension plan participant pled guilty to defrauding the PBGC of more than \$35,000 by filing an altered birth certificate, and another participant's son was indicted for taking actions to continue and then steal his deceased father's pension benefits.

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

This is the twenty-first 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, 1999 through September 30, 1999. 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 continue to work with two congressional committees, the Senate Special Committee on Aging and the Senate Small Business Committee, to respond to specific requests concerning PBGC operations. We also issued two (2) reports:

- *audit of sensitive payments made to senior PBGC officials related to travel, honoraria, gifts, and executive pay (see page 2);*
- *management letter report citing control weaknesses found during the fiscal year 1998 Financial Statement audit (see page 2);*

In the investigative area, we opened fourteen (14) new investigative cases during the reporting period, and closed ten (10) cases. The most significant case we closed this period involved travel and ethics violations (see page 9). In addition, we continue to vigorously pursue cases of pension fraud. During this period, a pension plan participant pled guilty to defrauding PBGC of more than \$35,000 by altering his birth certificate, and a participant's son was indicted for taking action to continue and then steal his deceased father's pension payments from PBGC.

This report also contains our annual update of the OIG's strategic planning for the coming year.

TABLE OF CONTENTS

LETTER TO THE CHAIRMAN	
EXECUTIVE SUMMARY	i
TABLE OF CONTENTS	ii
LIST OF TABLES	iii
INTRODUCTION	1
The Pension Benefit Guaranty Corporation The Office of Inspector General	
AUDIT ACTIVITIES	2
Overview	
Audits and Evaluations	
Audit Follow-up and Resolution	
Access to Information	
PBGC Management - Inspector General Disagreements	
INVESTIGATORY ACTIVITIES	8
Overview	
Activity This Period	
Significant Investigations	
OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES	11
Review of Proposed Statutory and Regulatory Changes	
Consultation With Agency	
Consultation With Congress	
Liaison With the United States General Accounting Office	
STRATEGIC PLANNING	12
Risk Areas and OIG Activities	
GLOSSARY	18

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>10</i>
<i>TABLE 5 - CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT</i>	<i>17</i>

INTRODUCTION

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 approximately 209,000 participants receiving benefit payments from PBGC. Additionally, in its fiscal year 1998 Financial Statement, the PBGC reported that it has assets of about \$18.4 billion and liabilities of \$13 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 twelve (12) employees, of which two are investigators. We continue to accomplish our investigative program through the use of contract investigators, though this is limiting because conducting criminal investigations is an inherently governmental function. We have been given a position to hire an EDP auditor, which we anticipate posting soon.

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.

AUDIT ACTIVITIES

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 four (4) 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

AUDIT OF SENSITIVE PAYMENTS FOR FISCAL YEAR 1998 (99-4/23136)

The OIG performed an audit of Sensitive Payments made to senior level officials in FY 1998. Sensitive payments encompass a wide range of executive functions including compensation, travel, official entertainment funds, unvouchered expenditures, consulting services, speaking honoraria, gifts, and executive perquisites. Sensitive payments issues are addressed in various laws, regulations, policies and procedures, and codes of ethics and conduct for government employees.

We found that control problems identified in prior audits continue to exist. Our review disclosed that travel vouchers were not submitted timely as required by PBGC policy. In addition, we found that, with respect to these senior executives, PBGC was inconsistent in adhering to policies and procedures that require notification of all PBGC employees of their overdue travel vouchers.

FISCAL YEAR 1998 FINANCIAL STATEMENT – MANAGEMENT LETTER (99-8/23132-3)

The OIG engaged PricewaterhouseCoopers, LLP (PwC) to audit PBGC's financial statements of the Single-Employer Fund and the Multiemployer Fund for the fiscal years (FY) ended September 30, 1998 and 1997. Last reporting period, the OIG issued opinions on the financial statements and management's assertion concerning the system of internal control, and a report on compliance with laws and regulations (see Audit Report 99-7/23132-2, discussed in our previous Semiannual Report to Congress).

During this period, we issued a follow-on management letter report with findings concerning several control conditions, including the need to:

- Improve controls over financial reporting;
- Improve compliance with PBGC's own policies and procedures;
- Improve controls over the PRISM database application and update the Corporation's policies and procedures for this new application; and

- Establish a control environment improving monitoring capabilities for segregation of duties concerns.

CONGRESSIONAL INQUIRIES

The OIG responded to several requests presented by Senator Christopher Bond, Chairman of Small Business Committee, and Senator Charles Grassley, Chairman (Committees). Among the most significant issues we were asked:

- to review PBGC's response to the Committees regarding questions concerning the Atlanta field office and a former contractor employee responsible for implementing this office's operations. The OIG has been asked to obtain and analyze supporting documentation for certain of PBGC's statements.
- to review a benefit overpayment to an annuitant made by PBGC. The OIG obtained the payment data and discussed with PBGC the operational conditions that allowed this transaction to be processed and the related corrective actions.
- to determine if PBGC reconciled benefit payments.
- to determine if PBGC was paying the professional membership fees for its employees, such as the dues to the American Bar Association and the American Institute of Certified Public Accountants.

The results of these reviews were orally provided to the Committees. In addition, we reported monthly to Congressman Hoekstra on PBGC's activities to ensure that its mission-critical systems are Y2K compliant.

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. The OIG 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* (99-11/32093) which contained eighty (80) audit recommendations of which fifty-five (55) were outstanding audit recommendations from prior reporting periods. Of these open audit recommendations, our *Semiannual Report on Follow-up of Audit Recommendations* (99-12/32094) reported seventeen (17) audit recommendations that agency management represented as closed and in which the OIG concurred. Sixty-three (63) audit recommendations remained open on September 30, 1999.

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) the age of unresolved recommendations. For this reporting period, there were no unresolved audit reports in which PBGC management decisions are pending.

However, during this reporting period, PBGC disagreed with a recommendation contained in the *Fiscal Year 1998 Financial Statement – Management Letter* (99-8/23132-3). PBGC management was provided a draft copy of this report for review and comment. We met with PBGC officials several times to discuss the impact of the report's findings and recommendations and provide greater detail from our fieldwork.

PBGC management commented on the Report and concurred "with its recommendations except for one item." PBGC disagreed with a recommendation which states that PBGC should "modify existing Insurance Operations Department (IOD) procedures to require retention of source documentation generated as a result of the participant data audits and used to calculate benefit payments and value the PVFB [Present Value of Future Benefits] liability."

In their response, PBGC stated that current IOD procedures indeed "require that source documentation is to be maintained to support participant data audits, the calculation of benefit payments, and the valuation of the Present Value of Future Benefits (PVFB) liability." However, we found that the IOD Manual Section 12.5, "Perform Source Documentation Audit," clearly instructs IOD personnel to retain source documentation obtained from prior sponsors of terminated plans only for a sample of participants, rather than for all participants. This documentation consists of several sample files for each category of participants and is used to analyze the data gathered in the field. IOD's collection and retention of only a sample of participant data may not be adequate in the future to provide a proper audit trail to support benefit calculations and the PVFB liability.

Lack of proper audit trails has been an historical issue in PBGC's financial statements as a whole. In addition, throughout the IOD Manual a completeness of the participants' files is emphasized and encouraged. Complete documentation is the cornerstone for providing a proper audit trail to support data elements used to calculate benefits, and in turn, the PVFB liability. Failure to capture full and complete participant data could ultimately affect the overall future financial statement opinions, including internal controls.

TABLE 1

**INSPECTOR GENERAL ISSUED REPORTS
For The Six-month Period Ending
SEPTEMBER 30, 1999**

REPORT NUMBER	REPORT TITLE	DATE ISSUED	DOLLAR VALUE OF QUESTIONED COSTS	DOLLAR VALUE OF BETTER USED FUNDS	DOLLAR VALUE OF UNSUPPORTED COSTS
Audits					
99-4/ 23136	Audit of Sensitive Payments for Fiscal Year 1998	6/7/99	-0-	-0-	-0-
99-8/ 23132-3	Fiscal Year 1998 Financial Statement Audit – Management Letter	9/23/99	-0-	-0-	-0-
Evaluations					
99-11/ 32093	Semiannual Listing of Audit Recommendations	7/31/99	-0-	-0-	-0-
99-12/ 32094	Semiannual Report on Follow-up of Audit Recommendations	9/30/99	-0-	-0-	-0-

TABLE 2 *
REPORTS ISSUED WITH QUESTIONED COSTS
For The Six-month Period Ending
SEPTEMBER 30, 1999

	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	0	-0-	-0-
Subtotal (Add A & B)	0	-0-	-0-
C. For which a management decision was made during the reporting period	0	-0-	-0-
(i) dollar value of disallowed costs	0	-0-	-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, 1999**

	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.

INVESTIGATORY ACTIVITIES

OVERVIEW

The Inspector General is authorized to receive and investigate complaints from PBGC employees, the public, and other sources concerning violations 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, our limited investigative staff causes an inability to investigate allegations timely, which is unacceptable to us.

ACTIVITY THIS PERIOD

The OIG received 14 complaints or allegations, and closed 10 investigative cases during the reporting period. As of September 30, 1999, 48 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, 1999, we received a total of 6 Hotline inquiries. Five of the six contacts were first-time inquiries relating to pension benefit questions, which were referred to the agency for action. The sixth contact we were able to answer their question. We did not open any cases from our Hotline contacts this period.

SIGNIFICANT INVESTIGATIONS

PENSION FRAUD CASES PROSECUTED

During this period, we had two investigations that involved fraudulent receipt of pension benefit payments issued by PBGC. In one, a participant pled guilty to altering his birth certificate so he could receive more than \$35,000 in pension benefits from PBGC 10 years before he was entitled to receive any benefit. He is awaiting sentencing. In another case, a pension plan participant's son was indicted by a federal grand jury of theft of more than \$11,000 for taking steps to have his deceased father's pension benefits continue to be paid by PBGC and then taking the money. Several other cases were on-going at the close of the period.

TRAVEL AND ETHICS VIOLATIONS

From another investigation, we obtained evidence that a PBGC Executive may have engaged in travel related improprieties, including improper acceptance of entertainment and gratuities. This investigation required extensive document review for multiple years of government travel, and interviews of out-of-state contractors, as well as federal employees. Because the offenses involved falsification of government documents and acceptance of gratuities, which are violations of criminal statutes, this matter was referred to the U.S. Attorney's Office for possible prosecution. After careful consideration and review, the U.S. Attorney's Office referred the matter back to the OIG for pursuit of administrative action in lieu of prosecution.

Upon interviewing the subject and bringing our review of the travel documents current, we found that the subject had made multiple false travel statements and claims, accepted gratuities from contractors who were prohibited sources, and failed to report the acceptance of gratuities on the financial disclosure statement. We found no evidence of a violation of the criminal bribery statute. In a report, we referred the matter to the Executive Director for disciplinary and corrective action.

TABLE 4

**STATISTICAL TABLES OF INVESTIGATIONS
For The Six-month Period Ending
SEPTEMBER 30, 1999**

CASE LOAD	
Pending beginning of period	44
Opened this period**	14
Closed this period	10
Pending end of period ***	48

WRONGDOING ALLEGED (CASES OPENED)	
Fraud, Waste & Abuse	6
Wrong Doing	2
Theft	4
Improprieties Relating to Pension Benefits	2
Proactive	0

RESULTS OF CASES CLOSED	
Allegation disproved or not substantiated	2
Referred to agency for corrective action	2
Prosecutions & Civil Settlements	0
Monetary recovery	
Prosecution declined; referred for agency disciplinary action	1
Administrative Closings	5

HOTLINE AND MAIL INQUIRIES	
Received this period	6
First time caller referrals to agency	5
Mail referrals to agency	0
OIG Customer Assistance	1
Cases opened	0

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

*** Forty of the forty-eight investigative cases that are open are from prior reporting periods.

OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES

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, the OIG did not have any comments on regulations or statutes proposed by the agency. However, we did comment on many proposed statutory changes to the Inspectors General Act of 1978, as amended, and other newly proposed statutes.

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.

- We continue to participate on a multi-department team to assess PBGC's compliance with Year 2000 issues.
- We provided the Chief Financial Officer with technical assistance and advice regarding certain accounting and financial issues.

CONSULTATION WITH CONGRESS

The OIG continues to meet with the Senate Special Committee on Aging and the Senate Small Business Committee to answer questions about agency operations. We also provide a monthly status to Congress on the agency's Y2K efforts.

LIAISON WITH THE UNITED STATES GENERAL ACCOUNTING OFFICE

The OIG maintains close liaison with GAO. Listed below are the GAO on-going review efforts at PBGC as of September 30, 1999.

- Review of PBGC's use of contract staff to carry out its responsibilities and the processes associated with the selection and oversight of such staff; and
- Study of cash balance plans.

STRATEGIC PLANNING

The Office of Inspector General (OIG) uses strategic planning techniques to identify 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 audits and inspections. The OIG has identified five risk areas using our strategic planning process. Accordingly, these risk areas, listed and discussed below, have been addressed during the past year and will continue to be addressed by future audits or investigations. When practicable, we have designed audit and evaluation projects to include multiple 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 1999 (October 1, 1998 through September 30, 1999) and references work reported in this semiannual report and the prior report covering the period from October 1, 1998 - March 31, 1999.

RISK AREAS AND OIG ACTIVITIES

PROCUREMENT OF AND ACTIVITIES 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.

FY 1999 Activity.

- During the audit of PBGC's financial statements (see OIG Report 98-3/23126-2), we reviewed selected contractor performance by testing compliance with PBGC's policies and procedures.
- The OIG initiated a quality review of the work performed by contractors engaged to assist PBGC in examining premium payer compliance with applicable statutory obligations and reporting requirements.

Projected FY 2000 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 liability 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 1999 Activity.

- 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 was 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 (see OIG Report "Improvements Are Needed To Achieve Better Efficiency And Effectiveness In PBGC's Benefit Determination Process," 99-2/23128-1);
 - The length of time it takes PBGC to issue an IDL (see OIG Report "The Length Of Time It Has Taken PBGC To Issue Initial Determination Letters," 99-3/23128-2);
 - The effect of such delays upon individuals awaiting IDLs (see OIG Report "Pension Plan Participants Impacted By Delays In Initial Determination Letter Issuance," 99-1/23128-3); and
 - 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 (see OIG Report "Audit Of PBGC's Response To Certain Questions Concerning Appeals Of PBGC Initial Determinations Of Pension Benefits," 98-10/23131).
- The OIG completed a survey of the PRISM system to obtain a general understanding and to formulate a strategic audit approach. Using this survey information, we initiated a review that will evaluate the adequacy of controls associated with data conversion and integrity issues.
- 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 99-7/23132-2) which includes reviewing the components related to the PVFB. Our review disclosed that PBGC needs to improve controls surrounding the PRISM application. This is one of three reportable conditions presented in the report.

Projected FY 2000 Activity.

- We will update our review of the length of time that it takes PBGC to issue IDLs to participants in terminated plans by extending our scope through FY 1999.
- We will review PBGC's process for gathering and maintaining critical data to support participant benefits payments.
- During the audit of PBGC's financial statements all components relating to pension liability will be reviewed.

SYSTEMS INTEGRATION

The Corporation has recognized problems in systems integration and 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 1999 Activity.

- During the audit of PBGC's financial statements, the PBGC's financial management systems were reviewed (see OIG Report 98-3/23126-2). The report on internal controls noted that the financial systems lacked integration, a continuing reportable condition. We again found that PBGC did not meet the requirements of OMB Circular A-127 regarding an integrated financial management system. 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. We also found that PBGC needs to improve controls surrounding the PRISM application. This is one of three reportable conditions presented in the report.

In our companion report (see OIG Report 99-8/23132-3), we recommended improving controls over financial reporting; improving controls over the PRISM database application and updating the Corporation's policies and procedures for this new application; and establishing a control environment that would improve the monitoring capabilities for segregation of duties.

- We are participating on a multi-departmental team to address PBGC's compliance with Year 2000 issues.
- 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 completed its survey of CAS

and IPVFB. The surveys filled a planning role for the OIG and documented an understanding of the design and operation of the two systems.

Projected FY 2000 Activity.

- Further review of PBGC's system integration issues.
- Initiate system reviews for the IPVFB and CAS focusing on internal control, data integrity and security issues.
- We will also continue to monitor Year 2000 issues during annual financial statement audits.

**INTEGRITY OF BENEFIT PAYMENT
AND PREMIUM DATA**

The volume of the corporation's benefit payment and premium collection systems makes these critical areas warranting continuous monitoring by PBGC. With benefit payments of more than \$70 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 1999 Activity.

- During the audit of PBGC's financial statements, PBGC's Premium Accounting System (PAS) was reviewed (see OIG Report 99-7/23132-2). As discussed in our companion report (see OIG Report 99-821), we found that PBGC was using incorrect data in generating its premium receivable balance. With respect to PBGC's Premium Compliance Review Program (PCR), we found that improvements were made in creating a clear audit trail for the tracking of PCR findings, settlements and collections to amounts in PAS. However, the amounts due PBGC were not posted in a timely manner.
- During the audit of PBGC's financial statements (99-7/23132-2), we tested PBGC's calculation of the present value of future benefits (PVFB) for terminated plans. Our audit identified areas where monitoring and information technology controls could be strengthened to reduce risks associated with the benefit payment process and participant record integrity.
- The OIG initiated reviews of network security and components of the PBGC information technology environment. These reviews focused on systems vulnerability, network security policies and procedures, physical security of network devices, Internet firewall and client server configurations. The reviews were in process at the end of the reporting period.

Projected FY 2000 Activity.

- We will complete our various reviews of network security and components of the PBGC technology environment and monitor PBGC implementation strategy.
- We will initiate a review of the Premium Accounting System.
- We plan to address broad-based data integrity issues and to continue our evaluation of automated premium accounting operations.

ASSET MANAGEMENT

With approximately \$18.4 billion in 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 that may occur.

FY 1999 Activity.

- During the annual financial statements audit, selected investment managers and their investment performance were reviewed (see OIG Report, 99-7/23132-2). 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 2000 Activity.

- During our audit of PBGC's financial statements, we will continue to monitor PBGC's management of assets.
- We plan to review the controls surrounding PBGC's use of trust fund assets to reimburse the revolving fund for expenses related to the trust fund operation and management.

* * *

With an audit staff of six professionals and limited resources from contracts, it is not possible to address each of the above issues in their entirety during the fiscal year. Rather, we will cycle certain aspects of each area into our annual plans. In future periods, we will address other components in the same areas, thereby gaining entire coverage over time. The OIG risk areas will be reviewed annually to add significant risk functions as they are identified and 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 2000, 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 coordinate, when appropriate with our colleagues in the Department of Labor OIG to ensure full coverage in areas that 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.

Inspector General Act Reference	Reporting Requirements	Page
Section 4 (a) (2)	Review of legislation and regulations.	11
Section 5 (a) (1)	Significant problems, abuses, and deficiencies.	2 - 3, 9
Section 5 (a) (2)	Recommendations with respect to significant problems, abuses, and deficiencies.	2 - 3, 9
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.	10
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, 9
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

GLOSSARY

The following defines the terms used in this report.

Questioned Cost	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.
Unsupported Cost	A cost the OIG has questioned because of a lack of adequate documentation at time of the audit.
Disallowed Cost	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.
Funds To Be Put To Better Use	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.
Management Decision	Management's evaluation of audit findings and recommendations and issuance of a final decision concerning management's response to such findings and recommendations.
Final Action	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.
Misconduct	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**