

*PENSION BENEFIT GUARANTY CORPORATION*

**SEMIANNUAL REPORT  
TO THE CONGRESS**



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*OFFICE OF INSPECTOR GENERAL*

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**APRIL 1, 2000 - SEPTEMBER 30, 2000**

*Office of Inspector General*

October 31, 2000

The Honorable Alexis Herman  
Chairman, PBGC Board of Directors

It is my pleasure to submit this twenty-third semiannual report to the Congress. This report summarizes the major activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the six-month period ending September 30, 2000. Our accomplishments were made possible by the dedicated efforts of a committed and professional staff.

Our work this reporting period has resulted in significant operational benefit to PBGC. Our efforts were directed to increased economy, efficiency, and quality of PBGC's operations and combating actual or potential occurrences of waste, fraud, and misuse of Government funds. My office issued five (5) reports in the audit area, including the management letter relating to the audit of PBGC's financial statements for 1999 and 1998, a report on sensitive payments made to PBGC senior level employees, and an evaluation of PBGC's security policies and procedures.

In the investigative area, we opened ten (10) and closed twenty (20) investigations. Of the investigations we closed this period, the most significant case found that a senior level employee had misused his government credit card for improper cash advances and personal items, and engaged in multiple abuses relating to government travel. In addition, we closed five (5) cases involving pension fraud without obtaining prosecutions because the cases were old when the agency referred them to the OIG.

During this period, the Inspector General testified before the Senate Special Committee on Aging and the Senate Small Business Committee. The Committees asked the IG to address audit work we performed at their request concerning PBGC's benefit determination process and the timeliness of PBGC's issuance of initial determination letters. The testimony also discussed the results of a penetration study we performed of PBGC's computer systems and an audit of computer security policies and procedures.

To accomplish our work, I seek to maintain productive professional working relationships with PBGC's Executive Director, managers, employees, and the Congress. I look forward to continuing these relationships, as the OIG strives to maintain the highest levels of integrity and quality in the Corporation's programs and operations, and help PBGC meet its important challenges.

Sincerely,

Wayne Robert Poll  
Inspector General

Enclosure

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# EXECUTIVE SUMMARY

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This is the twenty-third 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, 2000 through September 30, 2000. Our efforts were directed toward performing audits, inspections, and evaluations of the Corporation's programs and operations, conducting several large and complex investigations, and providing technical assistance and advice on Corporate programs.

In the audit area, we issued five (5) reports, including:

- *management letter report citing control weaknesses found during the fiscal year 1998 Financial Statement audit (see page 2);*
- *audit of sensitive payments made to senior PBGC officials related to travel, honoraria, gifts, and executive pay (see page 2); and*
- *an evaluation of PBGC's security policies and procedures (see page 3).*

In the investigative area, we opened ten (10) new investigative cases during the reporting period, and closed twenty (20) cases. The most significant case we closed this period involved a senior level employee's abuse of the government credit card and travel violations (see page 9). In addition, we continue to vigorously pursue cases of pension fraud. During this period, however, we closed without prosecution five (5) fraud cases because the frauds had occurred many years before they were referred to us for investigation. The age of the referred matters caused investigation problems as well as prosecution concerns because the statute of limitations had expired, or was about to expire, on most of the fraud.

During this period, the Inspector General testified before the Senate Special Committee on Aging and the Senate Small Business Committee. The Committees asked the IG to address audit work we performed at their request concerning PBGC's benefit determination process and the timeliness of PBGC's issuance of Initial Determination Letters (IDLs). The testimony also included discussion of a penetration study we performed of PBGC's computer systems and an audit of their computer security policies and procedures. (This audit work was reported in the two previous Semiannual Reports to Congress, covering the periods April 1, 1999 through September 30, 1999, and October 1, 1999 through March 31, 2000).

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

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# **INTRODUCTION**

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## **THE PENSION BENEFIT GUARANTY CORPORATION**

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

For about 43 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 215,000 participants receiving benefit payments from PBGC. Additionally, in its fiscal year 1999 financial statement, the PBGC reported that it has assets of about \$19.1 billion and liabilities of \$11.9 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 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. In addition, we are in the process of hiring an information technology auditor.

The Chief Financial Officers Act (CFO Act) requires that a government corporation's financial statements be audited by the Inspector General, unless preempted by the General Accounting Office (GAO). The OIG contracted with an Independent Public Accountant (IPA) to perform the audit of the Corporation's FY 1999 financial statements.

# AUDIT ACTIVITIES

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## OVERVIEW

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

## AUDITS AND EVALUATIONS

### **FISCAL YEAR 1999 FINANCIAL STATEMENT AUDIT – MANAGEMENT LETTER (2000-8/23138-3)**

The OIG engaged PricewaterhouseCoopers, LLP (PwC) to audit PBGC's financial statements of the Single-Employer and Multiemployer Funds for the fiscal years (FY) ended September 30, 1999 and 1998. In the prior 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 OIG Report 2000-7/23138-2).

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

- Strengthen compliance with PBGC's policies and procedures related to reconciliations, and retention of adequate source documentation.
- Develop formal policies and procedures related to the Multiemployer Working Group's methodology for selecting multiemployer plans to review and its screening ratio process.

### **REVIEW OF SENSITIVE PAYMENTS FISCAL YEAR 1999 (2000-14/23143)**

The OIG performed a review of sensitive payments made to senior level officials in FY 1999. 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 PBGC's directives did not comply with current Federal Travel Regulations. As a result, the Corporation was inconsistent in its reimbursement of travel expenses when actual subsistence expense was required.

### **EVALUATION OF PBGC'S SECURITY POLICIES, PROCEDURES, AND STANDARDS (2000-9/23137-4)**

The OIG, assisted by PricewaterhouseCoopers LLP, performed an evaluation of the security policies, procedures, and standards documented in PBGC's *Automated Information Systems Security Plan*. The objective of our work was to identify possible security gaps at the policy level by evaluating the adequacy of PBGC's security policies and practices and comparing them against Federal Government and private sector security standards and practices.

We found several security issues and suggested improvements, including to:

- Establish uniform entity-wide security policies, procedures, and standards;
- Incorporate security standards over new systems development;
- Revise the AISSP to include risks and controls over technology infrastructure at PBGC and compliance with NIST and OMB guidance;
- Develop an internet/intranet security policy; and
- Develop entity-wide security plans for Windows NT, UNIX, and Oracle.

### **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* (OIG Report 2000-15/32097) which contained eighty-two (82) audit recommendations of which sixty-eight (68) were outstanding audit recommendations from the prior reporting period. Of these open audit recommendations, the OIG's *Semiannual Report on Follow-up of Audit Recommendations* (OIG Report 2000-16/32098) reported four (4) audit recommendations that agency management represented as closed and in which the OIG concurred. Seventy-eight (78) audit recommendations remained open on September 30, 2000.

## **ACCESS TO INFORMATION**

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

## **PBGC MANAGEMENT - INSPECTOR GENERAL DISAGREEMENTS**

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

However, PBGC disagreed with a recommendation contained in the *Fiscal Year 1998 Financial Statement - Management Letter (99-8/23132-3)*. 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."

The OIG feels strongly that in order for PBGC to adequately manage its program and to ensure the proper calculation of each participant's guaranteed benefit, it is imperative that supporting documentation for all critical data elements be collected and retained. During this reporting period, the OIG conducted an analysis of the data elements necessary to calculate guaranteed benefits and, thus, require supporting documentation. We will provide PBGC management with our analysis when it is complete. We will continue to work with PBGC management to resolve our disagreement.

TABLE 1

**INSPECTOR GENERAL ISSUED REPORTS  
For The Six-month Period Ending  
SEPTEMBER 30, 2000**

REPORT NUMBER	REPORT TITLE	DATE ISSUED	DOLLAR VALUE OF QUESTIONED COSTS	DOLLAR VALUE OF BETTER USED FUNDS	DOLLAR VALUE OF UNSUPPORTED COSTS
<b>Audits</b>					
2000-8/ 23138-3	Fiscal Year 1999 Financial Statement Audit- Management Letter	8/21/00	-0-	-0-	-0-
2000-14/ 23143	Review of Sensitive Payments Fiscal Year 1999	8/21/00	-0-	-0-	-0-
<b>Evaluations</b>					
2000-9/ 23137-4	Evaluation of PBGC's Security Policies, Procedures, and Standards	5/4/00	-0-	-0-	-0-
2000-15/ 32097	Semiannual Listing of Audit Recommendations	7/31/00	-0-	-0-	-0-
2000-16/ 32098	Semiannual Report on Follow-up on Audit Recommendations	9/30/00	-0-	-0-	-0-

**TABLE 2 \***  
**REPORTS ISSUED WITH QUESTIONED COSTS**  
**For The Six-month Period Ending**  
**SEPTEMBER 30, 2000**

	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, 2000**

	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***

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## ***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 ten (10) complaints or allegations, and closed twenty (20) investigative cases during the reporting period. As of September 30, 2000, forty-three (43) 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, 2000 through September 30, 2000, we received a total of five (5) Hotline inquiries. Four of the five contacts were first-time inquiries relating to pension benefit questions, which were referred to the agency for action. For the fifth contact, the OIG provided customer assistance. We did not open any cases from our Hotline contacts this period.

## **SIGNIFICANT INVESTIGATIONS**

### **GOVERNMENT CREDIT CARD AND TRAVEL ABUSE**

Upon investigation, we found that a senior level employee had misused the government credit card for improper cash advances, and for personal items purchased locally and while on travel. We also discovered that the employee engaged in multiple abuses relating to government travel, including conducting personal travel under the guise of official government travel, abuse of travel bonus programs, and solicitation of loans from a subordinate employee. Because the offenses involved violations of criminal statutes, this matter was referred to the District of Columbia Office of the United States Attorney for possible prosecution, which initially declined prosecution. A Report of Investigation was issued to the agency for appropriate administrative action, including collection of funds that were improperly claimed by and paid to the employee. Portions of this case are currently under review by the United States Attorney's office in conjunction with another on-going investigation involving the employee.

### **PENSION FRAUD CASES**

During this period, we closed five (5) cases without prosecution that involved the fraudulent receipt of pension benefits. When the agency referred these cases to the OIG, we discovered that the fraudulent activity had occurred between 1992 and 1996. The age of these cases caused many problems in the investigations. For instance, some of the people who took the pension checks were elderly or had died; some could not be located. In all of the cases, the statute of limitations for prosecution was about to expire or had expired on most of the checks that were fraudulently received. We referred these cases back to the agency for pursuit of appropriate collection activities.

In another case, we determined that the pension plan participant had filed a forged waiver of spousal retirement benefits. In this case, the husband forged his wife's signature on a document that gave up her right to any future retirement benefits. Upon determination of the fraud, we referred the matter to the agency to correct the records regarding the wife's entitlement to a spousal benefit and recoup benefits overpaid to the husband as a result of the fraud.

TABLE 4

**STATISTICAL TABLES OF INVESTIGATIONS  
For The Six-month Period Ending  
SEPTEMBER 30, 2000**

**CASE LOAD**


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Pending beginning of period	53
Opened this period**	10
Closed this period	20
Pending end of period ***	43

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**WRONGDOING ALLEGED (CASES OPENED)**

Fraud, Waste & Abuse	3
Wrongdoing	1
Theft	1
Improprieties Relating to Pension Benefits	5
Proactive	0

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**RESULTS OF CASES CLOSED**

Allegation disproved or not substantiated	4
Referred to agency for corrective action	10
Referred to other law enforcement agency	1
Prosecutions & Civil Settlements	1
Monetary recoveries      \$900	
Prosecution declined; referred to agency for disciplinary action & monetary recovery	1
Administrative Closings	3

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**HOTLINE AND MAIL INQUIRIES**

Received this period	5
First time caller referrals to agency	3
Mail referrals to agency	1
OIG Customer Assistance	1
Cases opened	0

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

\*\*\* Thirty-four of the forty-three investigative cases that are open are from prior reporting periods.

# **OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES**

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

To comply with the IG Act, the OIG Legal Counsel is notified by the Office of the General Counsel when the agency is proposing legislative and regulatory changes. During this period, the regulatory amendments proposed by PBGC related to providing better customer service, e.g., simplifying and clarifying rules, providing more annuity benefit choices, and adding rules on who will receive payments when a participant dies. These regulations did not impact the detection of fraud or abuse.

In addition, as part of the OIG community, we provided periodic comments on proposed bills currently before Congress, including amendments to the IG Act.

## **TESTIMONY BEFORE CONGRESS**

On September 21, 2000, the Inspector General appeared before the Senate Special Committee on Aging and the Senate Small Business Committee to testify about audit work that we had conducted concerning PBGC's:

- pension benefit determination process and the timeliness of issuing determination letters to plan participants, and
- computer security.

At the conclusion of the testimony, the Committees stated that they want the OIG to conduct some further reviews in these areas. *(Note: the audit work that was the subject of the testimony was reported in the two previous Semiannual Reports to Congress, covering the periods April 1, 1999 through September 30, 1999, and October 1, 1999 through March 31, 2000).*

## **OIG AND AGENCY CONSULTATION**

The OIG engaged in several activities this period that included coordination and consultation with agency officials to improve agency operations.

- We continued to work with a PBGC department to reinforce its referrals to the OIG of fraudulent pension payments. This included reviewing its revised written policy and procedures, establishing standards for referrals including required documentation, and engaging in on-going dialog.
- We participated in a PBGC multi-departmental team that formulated and implemented an Information Security Corrective Action Plan based on the results of our penetration testing audit. Congress requested that the Plan be completed by September 30, 2000. Congress asked us to monitor and report on the progress of implementation of the corrective actions.

**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, 2000.

- Completed a review of PBGC's use of contractors to carry out its responsibilities and the processes associated with the selection and oversight of such staff (GAO/HEHS-00-130).
- Completed studies of Cash Balance Plans (GAO/HEHS-00-185. GAO/HEHS-00-207).

# STRATEGIC PLANNING

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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 strategic planning section contains the critical functional risk areas and summarizes activities conducted during FY 2000 (October 1, 1999 through September 30, 2000) and references work reported in this semiannual report and the prior report covering the period from October 1, 1999 - March 31, 2000.

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 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 has been reduced to an acceptable level. 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.

## **PROCUREMENT OF AND PERFORMANCE BY CONTRACTORS**

PBGC currently uses a large number of contractors throughout the Corporation, which poses unique risks permeating virtually every aspect of PBGC's business. It is essential that proper controls be in place and functioning to ensure procurement policies are followed and contractor performance is properly monitored.

### **FY 2000 Activity.**

- During the audit of PBGC's financial statements (see OIG Report 2000-7/23138-2), we reviewed selected contractor performance by testing compliance with PBGC's policies and procedures. In our companion report (see OIG report 2000-8/23138-3), we recommended that the General Accounting Branch reconcile monthly the Procurement Department records with the accounting records, and maintain documentation to support each of the transactions.

- The OIG provided the Chief Management Officer with an executive advisory memorandum discussing continuing weaknesses found in PBGC's procurement process that were similar to weaknesses discussed in earlier PBGC and OIG reports (see OIG Report 2000-12/23144).
- GAO completed its review of PBGC's contracting activities (GAO/HEHS-00-130). Specifically, GAO reviewed the basis for PBGC's contracting decisions, assessed the processes and procedures for selecting contractors, and determined how effective PBGC was in monitoring contractor activity. We assisted GAO by providing them with information regarding PBGC's procurement process.

#### **Projected FY 2001 Activity.**

- We will complete a survey of PBGC's use of the government purchase card for micropurchases. At a minimum, we will alert PBGC about our concerns and will make suggestions, as appropriate.
- We will report on our review of the quality of the work performed by contractors engaged to assist PBGC in examining premium payer compliance with applicable statutory obligations and reporting requirements.
- We plan to conduct our annual assessment of PBGC's procurement function to identify issues that remain high risk.

### **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 final 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 2000 Activity.**

- As part of the financial statement audit, the OIG examined PBGC's calculation of the present value of future benefits (PVFB) for terminated plans (see OIG Report 2000-7/23138-2) which includes reviewing the components related to the PVFB. Our review disclosed that PBGC needs to improve controls surrounding the Participant Records Inventory Systems Management (PRISM) database. This is one of four reportable conditions presented in the financial statement audit report. In our companion report (see OIG report 2000-8/23138-3), we recommended that the Multiemployer Working Group develop formal policies and procedures related to the methodology for selecting multiemployer plans to review, and its screening ratio process. These recommendations impact upon PBGC's calculation of its liability.

- We updated 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 (see OIG Report 2000-4/23140-1). This work was originally performed at the request of Senators Bond and Grassley, Chairmen for the Small Business Committee and the Special Committee on Aging, respectively.
- As a way to assist PBGC in addressing prior recommendations related to records retention for those critical elements that support the calculation of participants' benefits and ultimately PBGC's total pension liability, we initiated an analysis to document: 1) PBGC's procedures for collecting supporting documentation; 2) the procedures performed on the information collected, including verification of accuracy and completeness; 3) how those procedures impact on the financial statement audit; and, 4) earlier recommendations for improving the process and identifying what supporting documentation should be collected and retained.

#### **Projected FY 2001 Activity.**

- We will complete our review of PRISM and report our findings to PBGC.
- We will issue an analysis to PBGC for its consideration that discusses critical data elements of the benefit determination and the need to maintain supporting documentation.
- During the audit of PBGC's financial statements, 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 2000 Activity.**

- During the audit of PBGC's financial statements, the PBGC's financial management systems were reviewed (see OIG Report 2000-7/23138-2). The report on internal controls noted that:
  - The financial systems are not integrated, a continuing reportable condition. PBGC did not meet the requirements of OMB Circular A-127 regarding an integrated financial management system. Lack of systems integration inhibits management's ability to accumulate and summarize information required for management decision-making purposes.

- ❑ PBGC also lacked a formal Systems Development Life Cycle methodology which impacted upon data conversion efforts, security administration, user acceptance testing, reports definition, and consistency of systems development initiatives.
- ❑ PBGC lacked specific criteria to adequately manage its systems development projects that are outsourced to external vendors.
- ❑ PBGC needs to improve controls surrounding the PRISM database. This is one of four reportable conditions presented in the report.

**Projected FY 2001 Activity.**

- We will further review PBGC's system integration issues.
- We will complete a review of the PRISM system. We will focus our testing on the general and application controls with particular attention to those controls present in the benefit payment process.
- 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. We will initiate system reviews for the IPVFB and CAS focusing on internal control, data integrity and security issues.

**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 2000 Activity.**

- During the audit of PBGC's financial statements, PBGC's Premium Accounting System (PAS) was reviewed (see OIG Report 2000-7/23138-2). As discussed in our companion report (see OIG Report 2000-8/23138-3), we found that PBGC was not recording, in conformity with GAAP and in a timely manner, amounts identified by the Premium Compliance Review Program as due to PBGC.
- During the audit of PBGC's financial statements (see OIG Report 2000-7/23138-2), we tested PBGC's calculation of the PVFB for terminated plans. Our audit identified areas where monitoring and information technology controls could be strengthened to reduce risks related to the benefit payment process, participant record integrity, and protection of information residing on its systems.

- The OIG completed its 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. We reported that PBGC did not have an effective information systems architecture (see OIG Report 2000-3/23137-3), and we identified network security vulnerabilities (see OIG Report 2000-2/23137-2).
- We performed an evaluation of the security policies, procedures, and standards documented in PBGC's *Automated Information Systems Security Plan* and identified security gaps in the policy (see OIG Report 2000-9/23137-4).
- As presented in the Pension Liabilities section, we updated our review of the length of time it takes PBGC to issue IDLs to participants in terminated plans by extending our scope through FY 1999 (see OIG Report 2000-4/23140-1).

#### **Projected FY 2001 Activity.**

- We will complete our response to the Committees regarding PBGC's completion of its Corrective Action Plan respecting the security issues identified during the penetration testing. In addition, we will again perform testing of network security measures at PBGC.
- Senators Bond and Grassley, Chairmen for the Small Business Committee and the Special Committee on Aging, respectively, have asked that we determine the accuracy of PBGC's benefit determination letters that are sent to pension plan participants. This project will incorporate reviews of certain processes to include actuarial computations, and examination of source documentation.
- We will complete our review and risk assessment of the Premium Accounting System. Based upon our assessment, we will initiate action to address the problems identified.
- We will complete our reviews of the PRISM system and will be reporting our findings to PBGC. The results of our initial reviews may require the OIG to perform additional testing.

#### **ASSET MANAGEMENT**

With approximately \$19 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 2000 Activity.**

- During the annual financial statements audit, selected investment managers and their investment performance were reviewed (see OIG Report, 2000-7/23138-2). These reviews included the contractors' internal controls as they related to implementing PBGC's investment policies, completing securities transactions, and investment manager performance.

- As discussed in our companion report (see OIG Report 2000-8/23138-3), we found that PBGC was not documenting or enforcing policies and procedures related to the reconciliation between two receivables reports and the general ledger.

**Projected FY 2001 Activity.**

- During our audit of PBGC's financial statements, we will continue to monitor PBGC's management of assets.
- We will complete a review of 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. In addition, we will review whether controls are adequate to insure that the Trust Funds are not reimbursing the Revolving Funds for administrative expenses that should be subject to limitation.

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.	3
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

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The following defines the terms used in this report.

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

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

You can telephone:

The Inspector General's **HOTLINE**

**1-800-303-9737**

Or you can write:

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