

***PENSION BENEFIT GUARANTY CORPORATION***

**SEMIANNUAL REPORT  
TO THE CONGRESS**



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***OFFICE OF INSPECTOR GENERAL***

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**APRIL 1, 2001 - SEPTEMBER 30, 2001**



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

*Office of Inspector General*

October 31, 2001

The Honorable Elaine L. Chao  
Chairman, PBGC Board of Directors

It is my pleasure to submit this twenty-fifth Semiannual Report to the Congress. This report summarizes the major activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC or Corporation) Office of Inspector General (OIG) for the six-month period ending September 30, 2001. 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 eight (8) reports in the audit area, including the management letter relating to the audit of PBGC's financial statements; a penetration re-test of PBGC's network security; and PBGC's use of the government credit card for micro-purchases. At the request of PBGC Executive management, we evaluated the controls over handling and processing original documents that PBGC requires participants to submit for certain benefit determinations.

In the investigative area, we opened fourteen (14) and closed nine (9) investigations. Of the investigations we closed this period, several involved PBGC contract employees, including one investigation that found multiple contractor employees were accessing and distributing pornography using PBGC's electronic resources. Four of our closed cases involved pension fraud. One of these involved the daughter of a deceased participant who failed to notify PBGC of his death and cashed her father's pension checks. As a result of our investigation, she entered into an agreement to repay PBGC more than \$11,000.

To accomplish our work, I seek to maintain productive professional working relationships with PBGC's Acting 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,

A handwritten signature in black ink that reads "Wayne Robert Poll". The signature is written in a cursive, flowing style.

Wayne Robert Poll  
Inspector General

Enclosure

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## EXECUTIVE SUMMARY

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This is the twenty-fifth 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, 2001 through September 30, 2001. 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 eight (8) reports, including:

- *FY 2000 Financial Statement Audit – Management Letter (see page 2);*
- *Review of Sensitive Payments (see page 2);*
- *PBGC's Use of the Government Purchase Card for Micro-purchases (see page 3);*
- *Penetration Testing 2001 – An Update (see page 3); and*
- *PBGC's Controls Over Handling and Processing The Original Proof Documents Required for Benefit Eligibility (see page 3).*

In the investigative area, we opened fourteen (14) new investigative cases during the reporting period and closed nine (9) cases. Among the most significant cases closed this period we found:

- *Multiple contract employees misused PBGC's electronic resources to access and distribute pornography (see page 10);*
- *A deceased participant's daughter had cashed pension benefit checks; she entered into an agreement to repay \$11,457 to PBGC (see page 10);*
- *A participant filed a fraudulent form to waive his spouse's entitlement to a benefit (see page 10); and*
- *We could not determine who was responsible for the loss or theft of original proof documents submitted by participants because the documents were not safeguarded or controlled; new procedures were implemented based on suggestions made in the investigation (see page 10).*

During the period, we reviewed regulations relating to premium payments by plan sponsors and benefit payments made by PBGC, and participated in several Corporate initiatives to improve PBGC.

In our Strategic Planning (see page 13) we added a sixth high-risk area this year: Security of Information Technology Resources. The importance of IT security has significantly increased because of the phenomenal growth in Internet usage, the move toward e-government, and the deployment of intranets. In addition, the government has been subject to increasing attacks by hackers, information viruses, employee fraud, and computer abuse. In the past three reporting periods, we completed several security evaluations, including two penetration testings, to help PBGC management focus on strengthening security controls.

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# ***INTRODUCTION***

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## ***THE PENSION BENEFIT GUARANTY CORPORATION***

The Pension Benefit Guaranty Corporation (PBGC or Corporation) 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 226,700 participants receiving benefit payments from PBGC. Additionally, in its fiscal year 2000 financial statement, the PBGC reported that it has assets of about \$21.4 billion and liabilities of \$11.4 billion.

## ***THE OFFICE OF INSPECTOR GENERAL***

One of the strategic goals of the Office of Inspector General (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 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 2000 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 funding. The OIG has full discretion in establishing audit objectives, plans, and priorities. During this reporting period, the OIG issued eight (8) reports (see TABLE 1) to help PBGC reduce costs and strengthen management controls. Below is a summary of the most significant of those reports. Our audits comply with GAO'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 2000 FINANCIAL STATEMENT AUDIT – MANAGEMENT LETTER (2001-13/23149-4)**

The OIG engaged PricewaterhouseCoopers, LLP (PwC) to audit PBGC's financial statements of the Single-Employer and the Multiemployer Fund for the fiscal years (FY) ended September 30, 2000 and 1999. During our prior 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 OIG Report 2001-9/23149-2 and discussion in our previous Semiannual Report to Congress).

As a follow-on to the financial statement audit, we issued a management letter report with findings concerning several control conditions, including the need to:

- ◆ Develop procedures that would enable a more timely response in recording invoices as payables; compress the time frame for payment of invoices; and perform an internal study to determine compliance with the Prompt Pay Act.
- ◆ Verify that system access is being properly authorized and properly terminated in a timely manner, and supporting documentation is being maintained.
- ◆ Perform reconciliations of investment manager records with State Street Bank Custodial Services' records in a timely manner.

### **REVIEW OF SENSITIVE PAYMENTS FOR FISCAL YEAR 2000 (2001-14/23152)**

The OIG performed an audit of Sensitive Payments made to senior level officials in FY 2000. Sensitive payments encompass a wide range of executive functions including executive compensation, travel, official entertainment funds, unvouchered expenditures, consulting services, speaking honoraria and gifts, and executive perquisites. We found that the Corporation had improved its

processing of executive travel vouchers. However, we noted that an obsolete GSA form was still being used in PBGC's electronic travel management system.

**PBGC'S USE OF THE GOVERNMENT  
PURCHASE CARD FOR MICRO-PURCHASES  
(2001-16/23147)**

The OIG conducted an evaluation of PBGC's use of the Government's International Merchant Purchase Authorization Card (purchase card) for micro-purchases. PBGC requires departments to use the card for purchases of supplies or services below \$2,500. We found weaknesses in PBGC's management of the card program and employees' use of the purchase card. Controls available to limit Cardholder's expenditures were not consistently used, exceptions were not documented, payment and budgetary controls were not enforced, and oversight was lacking. We suggested that PBGC reassess the policies and procedures governing card use and strengthen oversight of the program.

**PENETRATION TESTING 2001 - AN UPDATE  
(2001-18/23148-2)**

The OIG engaged the PricewaterhouseCoopers Technology Security group to conduct a penetration retest of PBGC's network security. This testing, which focused on gaining access to PBGC systems and resources and escalating privileges on those systems, was a follow-up on computer security testing we conducted in 1999. At that time, we found significant computer security vulnerabilities and notified PBGC that we would retest the identified weaknesses.

The penetration retest found that PBGC significantly improved security over network resources used to provide protection from malicious external and insider attacks. We did find that not all PBGC accounts had strong passwords and instances where unauthorized personnel were allowed access to PBGC office areas. In addition to the publicly available report, we also produced a detailed report for responsible PBGC officials (OIG Report 2001-10/23148) which is restricted because it contains sensitive and proprietary data.

**PBGC'S CONTROLS OVER HANDLING AND  
PROCESSING THE ORIGINAL PROOF DOCUMENTS  
REQUIRED FOR BENEFIT ELIGIBILITY  
(2001-19/23160)**

At the request of PBGC management, the OIG evaluated PBGC's controls over the handling and processing of original proof documents that it requires participants and beneficiaries to submit for benefit eligibility determinations. PBGC had received complaints from individuals regarding the return of their original proof documents.

We noted that prior procedures failed to establish controls to adequately segregate duties, safeguard original proof documents, and monitor the return of those documents to participants. For example, prior procedures lacked key controls such as physical security of original documents and chain of custody documentation.

PBGC's new procedures establish key controls throughout the process which enhanced the security of original documents from their receipt, through processing and finally to their return to participants. At the time of our testing, we found that the controls incorporated in the new procedures appeared to be operational.



## **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 it determines that corrective actions have been completed by the agency.

In our *Semiannual Listing of Audit Recommendations* (OIG Report 2001-17/32101) we reported that there were seventy-two (72) open audit recommendations, of which sixty-two (62) were outstanding audit recommendations from prior reporting periods. The agency reviewed and reported to the OIG on their actions to address the recommendations. The OIG concurred that management had presented sufficient evidence to close two (2) audit recommendations. We reported that seventy (70) audit recommendations remained open on September 30, 2001 (*Semiannual Report on Follow-up of Audit Recommendations*, OIG Report 2001-20/32102).

## **ACCESS TO INFORMATION**

Under the Inspectors 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 was not restricted.

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

Semiannually, the OIG reports on the status of all unresolved audit reports that are more than six months old. 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.

In a prior period, 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 the prior reporting period, PBGC sought and received permission from the National Archives and Records Administration to destroy paper copies of source documentation from participants and plan sponsors that is imaged in the Image Processing System (IPS). The OIG has noted its concern about this destruction of paper records.

The OIG had planned to finalize a report on its analysis of the data elements necessary to calculate guaranteed benefits and, thus, which require supporting source documentation. Our plans changed, however, when we got further into a review we are conducting at the request of the United States Senate’s Special Committee on Aging and Committee on Small Business (Committees). The Committees asked us to determine the accuracy of benefit determinations that PBGC issues to participants. This review includes:

- ◆ examining source documentation that supports the critical data elements necessary to calculate participants’ benefits accurately;
- ◆ with actuarial support, identifying the critical data elements of a benefit calculation; and
- ◆ examining source documentation and recalculating the benefits of a statistically valid sample of participants.

When our review is completed, we will issue a draft report to PBGC management for comment. This report will discuss the need to identify, acquire and retain source documentation for critical data elements. We will continue to work with PBGC management to resolve this disagreement.

TABLE 1

**INSPECTOR GENERAL ISSUED REPORTS  
For The Six-month Period Ending  
SEPTEMBER 30, 2001**

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>					
2001-13/ 23149-4	FY 2000 Financial Statement Audit - Management Letter	9/17/01	-0-	-0-	-0-
2001-14/ 23152	Review of Sensitive Payments for FY 2000	6/1/01	-0-	-0-	-0-
<b>Evaluations</b>					
2001-10/ 23148	Penetration Testing 2001- Update (Restricted)	8/28/01	-0-	-0-	-0-
2001-16/ 23147	PBGC's Use of the Government Purchase Card for Micro-purchases	8/22/01	-0-	-0-	-0-
2001-17/ 32101	Semiannual Listing of Audit Recommendations	7/31/01	-0-	-0-	-0-
2001-18/ 23148-2	Penetration Testing 2001-An Update	8/28/01	-0-	-0-	-0-
2001-19/ 23160	PBGC's Controls Over Handling and Processing the Original Proof Documents Required For Benefit Eligibility	9/20/01	-0-	-0-	-0-
2001-20/ 32102	Semiannual Report on Follow-up of Audit Recommendations	9/30/01	-0-	-0-	-0-

TABLE 2 \*

**REPORTS ISSUED WITH QUESTIONED COSTS  
For The Six-month Period Ending  
SEPTEMBER 30, 2001**

	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, 2001**

	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, or whether it can be referred to the agency for review and corrective action. Allegations designated as priority, *e.g.*, those involving criminal violations and sensitive administrative matters, receive immediate attention. 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 fourteen (14) complaints or allegations, and closed nine (9) investigative cases during the reporting period. As of September 30, 2001, forty-five (45) 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, 2001 through September 30, 2001, we received a total of nine (9) Hotline inquiries. Eight of the nine contacts were first-time inquiries relating to pension benefit questions, which were referred to the agency for action. The OIG provided customer assistance to one (1) caller. We did not open any cases from our Hotline contacts this period.

## **SIGNIFICANT INVESTIGATIONS**

### **PENSION FRAUD CASES**

During this period, we closed four cases that raised issues of fraud relating to pension benefits. One of our investigations into the fraudulent payment of pension benefits resulted in an agreement to repay PBGC \$11,456. PBGC had issued twenty-eight (28) pension checks to a participant after his death but prior to obtaining notice that he died. All twenty-eight checks were cashed. By working with local law enforcement and interviewing a cooperating family member, we identified the deceased participant's daughter as the one who had cashed the checks. Subsequently, the daughter signed a repayment agreement with PBGC.

In three (3) cases, we investigated whether the pension plan participant had forged his spouse's signature on the form that waives the spouse's right to retirement benefits. One case resulted in the spouse receiving a survivor's pension benefit after our investigation showed that the signature on the waiver form was fraudulent. In two other cases, because the spouses who initially made the allegation of fraud refused to cooperate in the investigations, the cases were closed and the spouses are not entitled to spousal benefits.

### **CONTRACTOR ISSUES**

We conducted several cases this period involving misconduct by PBGC contractors. One case involved accessing and distributing pornography using PBGC's electronic resources, including e-mail, the Internet, and photocopy machines. The investigation uncovered a core group of contract employees engaging in this misconduct. The contractor management was responsive to the investigation, and terminated the employment of eleven (11) contract employees. We also made referrals to two (2) other government agencies from pornography that was sent from their e-mail systems.

Another case involved alleged contractor mistreatment of PBGC employees and other contractors. After conducting a few interviews, we facilitated meetings with appropriate PBGC managers, who took swift action. As a result, the contractor's interaction with PBGC employees and other contractors was curtailed, the current project was completed, and the contract was not continued.

### **LOST ORIGINAL DOCUMENTS**

A PBGC Division reported that several original documents that participants had sent to PBGC were lost or stolen. When we met with the Division managers it became clear that there were too many times when the original documents were not safeguarded to be able to determine who may be responsible for the loss or theft. We reviewed the document handling process with the managers and recommended implementation of document handling controls such as limiting access to the documents, locking them up when employees are not at their desks, maintaining a chain of custody log, and returning them to participants in a secure manner. The managers developed new procedures that PBGC management asked the OIG audit to review. This review concluded that the procedures established key controls throughout the process which enhanced the

security of original documents (see discussion of *PBGC'S Controls Over Handling and Processing Original Proof Documents*, 2001-19/23160, at 3 of this Report).

TABLE 4

**STATISTICAL TABLES OF INVESTIGATIONS  
For The Six-month Period Ending  
SEPTEMBER 30, 2001**

**CASE LOAD**


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Pending beginning of period	40
Opened this period**	14
Closed this period	9
Pending end of period ***	45

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**WRONGDOING ALLEGED (CASES OPENED)**

Fraud, Waste & Abuse	3
Wrongdoing	5
Improprieties Relating to Pension Benefits	6

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**RESULTS OF CASES CLOSED**

Allegation disproved or not substantiated	3
Referred to agency for corrective action	2
Worked with agency to develop corrective action	1
Fraudulent waiver of spousal pension benefits	1
Agency disciplinary action	1
Prosecution declined	1
Monetary recovery (\$11,457)	

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**HOTLINE AND MAIL INQUIRIES**

Received this period	9
First time caller referrals to agency	8
Mail referrals to agency	0
OIG Customer Assistance	1
Cases opened	0

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

\*\*\* Thirty-five of the forty--six 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 agency proposed regulations relating to premium payments by pension plan sponsors and benefit payments made by PBGC. We provided written comments and also met with the Office of the General Counsel.

We also review a proposed financial management policy and procedures directive, noting changes PBGC needed to implement based on an OIG evaluation of PBGC's use of the government-wide purchase card (see *PBGC'S Use of the Purchase Card for Micro-Purchases*, 2001-16/23147, at 3 of this Report).

## ***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 participated on a multi-departmental working group to address compliance with the Government Information Security Reform Act (GISRA). GISRA required government agencies to consider the state of information security over the data the agency has compiled and required the OIG and PBGC to prepare a joint report for submission to OMB.
- ◆ We continue to participate in a PBGC multi-departmental team that addresses financial management systems integration.
- ◆ The Inspector General is serving as a resource to PBGC's Government Paperwork Elimination Task Force.

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

The OIG maintains close liaison with GAO. There was no GAO activity during the reporting period.

# STRATEGIC PLANNING

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The OIG uses a strategic planning process to: (1) identify PBGC's functional risks, and (2) maximize the effectiveness of limited resources by focusing on those areas most critical to organizational success. Our planning is performed at two levels: first, by identifying the critical functional areas; and second, by examining specific risks affecting PBGC operations. This planning effort is then used to select risk areas for specific audits and inspections.

As the result of our strategic planning process, we are continuing the five risk areas that we previously identified.

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

Based on government-wide issues and audit work we have conducted at PBGC, we added a sixth risk area this year:

- ◆ Security of Information Technology Resources

This report section summarizes OIG's work associated with the six risk areas conducted during FY 2001 (October 1, 2000 through September 30, 2001). In addition, we provide a brief description of our FY 2002 audit and inspection plans in each risk area.

## RISK AREAS AND OIG ACTIVITIES

### PROCUREMENT OF AND PERFORMANCE BY CONTRACTORS

PBGC uses a large number of contractors, 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 2001 Activity

- ◆ During the audit of PBGC's financial statements (see OIG Report 2001-9/23149-2), we reviewed selected contractor performance by testing compliance with PBGC's policies and procedures. In a companion report (see OIG report 2001-13/23149-4), we recommended developing procedures that would enable a more timely response in recording invoices as payables; compressing the time frame for payment of invoices; and performing an internal study to determine compliance with the Prompt Pay Act.
- ◆ The Premium Compliance Review (PCR) program was established to audit pension plans' compliance with premium payment requirements. We reviewed contractor work for compliance with the PCR procedures, contract terms, and professional audit standards (see OIG Report 2001-2/23142).

We found that some contractors' work did not fully meet professional audit standards, was of poor quality, and in some instances was incomplete. We also found that some contractor employees did not meet the experience qualifications of the contract. We noted inconsistent contract monitoring contributed to the contractors' performance issues.

- ◆ We conducted an evaluation of PBGC's use of the Government's International Merchant Purchase Authorization Card (purchase card) for micropurchases, i.e., acquisition of supplies or services that does not exceed \$2,500 (see OIG Report 2001-16/23147). We identified weaknesses in the management of the micropurchase program and employees' use of the purchase card.

#### **Projected FY 2002 Activity**

- ◆ We plan to follow-up on our review of PBGC's use of the purchase card and the effectiveness of controls for other credit cards used by PBGC.
- ◆ We plan to review selected contracts for performance and compliance.

#### **PENSION LIABILITIES**

The primary areas of focus include accuracy and timeliness of the pension liability components. The accuracy issue includes whether all components of the liability have been considered and whether factors used for each component are supported with sufficiently detailed data. This area has been raised in past 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 2001 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 2001-9/23149-2). One of the three reportable conditions presented in the report on internal control found that PBGC needs to improve controls surrounding the Participant Records Information Systems Management (PRISM) application.
- ◆ As a follow-up to the high-level financial statement audit work of PRISM that resulted in a reportable condition, we evaluated the effectiveness of PRISM's controls surrounding benefit payments (see OIG Report 2001-7/23146-2). Our PRISM evaluation identified system vulnerabilities and determined that certain types of unauthorized payments could be generated. We identified control weaknesses and suggested that PBGC enhance access controls by implementing formal auditing, monitoring, reviewing, and logging procedures for system actions impacting on benefit payments. In addition to the written report, we provided a hands-on demonstration of our findings for PBGC management.
- ◆ At the request of the United States Senate's Special Committee on Aging and the Committee on Small Business (Committees), we initiated a review to

determine (1) the accuracy of PBGC's benefit determinations as represented in its notification to participants and (2) the availability of documentation to support PBGC's accuracy assertions. In addition, we will review the schedule of appeals decisions issued during FYs 1999 and 2000.

**Projected FY 2002 Activity**

- ◆ The pension liability risk area will be reviewed during PBGC's financial statements audit.
- ◆ We will continue our review of the accuracy of IDLs and appeals decisions.
- ◆ We plan to review PBGC's standard determination process.

**SYSTEMS INTEGRATION**

PBGC 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 involvement in this risk 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 system processes to determine whether controls are operating effectively.

**FY 2001 Activity**

- ◆ During the financial statements audit, PBGC's financial management systems were reviewed (see OIG Report 2001-9/23149-2). The report on internal control continued the reportable condition that the financial systems lacked integration. We again found that PBGC did not meet the requirements of OMB Circular A-127 regarding an integrated financial management system. We also identified that PBGC lacked a formal Systems Development Life Cycle Methodology (SDLC) which significantly impacted upon consistency of systems development initiatives. In addition, we reported 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. (This is one of three reportable conditions presented in the report.)
- ◆ The OIG updated its understanding of PRISM, an integrated information system developed to support PBGC's Insurance Operations Department (IOD) in administering pension plan customers (see OIG Report 2001-6/23146-1). With an understanding of PRISM's processes, we traced the affect of test transactions through PRISM applications, and identified potential control weaknesses in processing benefit payments. Based upon our testing, we identified opportunities for PBGC to enhance its current control and processing environment.

**Projected FY 2002 Activity**

- We will continue to assess PBGC's system integration issues during our financial statement audits.
- We plan to initiate system reviews for the Case Administration System and the Integrated Present Value of Future Benefits System that are mission

critical systems supporting the calculation of PBGC's pension liability. We will focus primarily on controls and data integrity issues.

### **INTEGRITY OF BENEFIT PAYMENT AND PREMIUM SYSTEMS**

The volume of PBGC's benefit payment and premium collection systems makes these critical areas warranting continuous monitoring by the OIG. With benefit payments of more than \$75 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 2001 Activity**

- . During the audit of PBGC's financial statements, PBGC's Premium Accounting System (PAS) was reviewed and the present value of future benefits (PVFB) calculation for terminated plans was tested (see OIG Report 2001-9/23149-2). Our audit identified areas where monitoring and information technology controls could be strengthened to reduce risks associated with the benefit payment process, participant record integrity, and protection of information residing on its systems.
- ◆ In the financial statement audit management letter report (see OIG Report 2001-13/23149-4), we found that system user access was not always properly approved or terminated. We recommended that PBGC verify that systems access is being properly authorized and properly terminated in a timely manner, and supporting documentation is being maintained.
- ◆ PBGC management requested that we evaluate controls regarding handling and processing of original proof documents required for benefit eligibility and subsequent benefit payment determinations (see OIG Report 2001-19/23160). We noted that prior procedures failed to establish controls to adequately segregate duties, safeguard original proof documents and return them to participants. We found that PBGC's new procedures implement key controls throughout the process which enhanced the security of original documents from their receipt, through processing, and finally to their return to participants.
- ◆ We completed our survey of the Premium Accounting System (PAS) where we updated our understanding of the current operational environment.
- ◆ We evaluated the effectiveness of PRISM's controls surrounding benefit payments (see OIG Report 2001-7/23146-2). Our PRISM evaluation identified system vulnerabilities and determined that certain types of unauthorized payments could be generated. In addition to the written report, we provided a hands-on demonstration of our findings for PBGC management.

#### **Projected FY 2002 Activity**

- We will continue to address the integrity of benefit payment and premium systems during our financial statement audit.
- ◆ We plan to follow-up on our PAS survey and risk assessment.
- We plan to address broad-based data and system integrity issues.

### **ASSET MANAGEMENT**

With approximately \$21 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. PBGC needs to be proactive in establishing proper controls up-front, and then monitoring and reacting as necessary to variances that may occur.

#### **FY 2001 Activity**

- ◆ During the annual financial statements audit, selected investment managers and their performance were reviewed (see OIG Report, 2001-9/23149-2). These reviews included the contractors' controls as they related to implementing PBGC's investment policies, completing securities transactions and investment manager performance.
- ◆ In the financial statement audit management letter report (see OIG Report 2001-13/23149-4), we found that PBGC was not always performing reconciliation of investment manager records with State Street Bank Custodial Services' records in a timely manner.
- ◆ As part of our review of the PCR program (see OIG Report 2001-2/23142), we found that PBGC continued to issue manually generated Statements of Account (SOA). The SOA presents the premium calculation, interest, and penalties for late payments; deducts amounts already paid; and tabulates the amount due. Not only is PBGC not in compliance with its own policy, but the practice of issuing manually prepared SOAs adds significant risk in the safeguarding of assets and ensuring that premiums are accurately reported.

#### **Projected FY 2002 Activity**

- ◆ We will continue to monitor PBGC's management of assets during our financial statement audit.

### **SECURITY OF INFORMATION TECHNOLOGY RESOURCES**

Information technology (IT) security provides management control over who can do what within computer systems and networks. The importance of IT security has significantly increased because of the phenomenal growth in Internet usage, the move toward e-government, and the deployment of intranets. In addition, the government has been subject to increasing attacks by hackers, information viruses, employee fraud, and computer abuse. Government agencies will need to focus on balancing adequate protection with end-user productivity, and the expenses of administering and auditing security across a wide variety of

computer and networking systems. Management must be diligent in re-evaluating IT security and related risk within their organization to keep pace with technology direction.

### **FY 2001 Activity**

- ◆ The OIG performed a security review of a UNIX server that hosts the Performance Accounting System. The review evaluated the security controls to determine whether only those with authorization had access to the sensitive information in the Performance Accounting System. Since the report contains sensitive and proprietary information, its release is restricted.
- The United States Senate's Special Committee on Aging and the Committee on Small Business (Committees) became interested in the results of our penetration testing (see OIG Report 2000-3/23137-3). They requested PBGC to formulate a Corrective Action Plan and implement that plan by September 30, 2000. The OIG was asked to monitor the implementation of the corrective actions and report to the Committees. We found that PBGC had taken action on our findings presented, and we validated its actions as appropriate.

To further test PBGC's corrective actions, we performed a second penetration test of PBGC's network security. Much like the original penetration test conducted during FY 2000, we again tested to attempt unauthorized accesses to PBGC systems and resources. Our second penetration testing found that PBGC significantly improved security over network resources used to provide protection from malicious external and insider attacks. However, we did identify that not all PBGC accounts had strong passwords and instances where unauthorized personnel were allowed physical access to PBGC office areas (see OIG Report 2001-18/23148-2).

- ◆ We participated on a multi-departmental working group to address compliance with the Government Information Security Reform Act (GISRA). GISRA required government agencies to consider the state of information security over the agency's data. GISRA mandates that particular events occur annually: (1) agency program reviews; (2) OIG evaluations; (3) an agency report to the Office of Management and Budget (OMB) concerning the results of the Inspector General evaluations and its own program reviews; and (4) an OMB report to Congress summarizing the materials received from the agencies. The OIG based its responses to certain OMB questions on independent evaluations, reviews, and assessments that we had recently conducted. The OIG and the agency issued a joint report to OMB. The OIG has a separate review plan for PBGC systems and will update its methodology to incorporate the requirements of GISRA.

### **Projected FY 2002 Activity**

- ◆ We will continue to review PBGC's security risk issues and report status as required.

TABLE 5

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

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

<b>Inspector General Act Reference</b>	<b>Reporting Requirements</b>	<b>Page</b>
Section 4 (a) (2)	Review of legislation and regulations.	12
Section 5 (a) (1)	Significant problems, abuses, and deficiencies.	2 – 5, 10
Section 5 (a) (2)	Recommendations with respect to significant problems, abuses, and deficiencies.	2 – 5, 10
Section 5 (a) (3)	Prior significant recommendations on which corrective actions has not been completed.	5
Section 5 (a) (4)	Matters referred to prosecutive authorities.	None
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.	6
Section 5 (a) (7)	Summary of each particularly significant report.	2 – 5, 10
Section 5 (a) (8)	Statistical table showing number of reports and dollar value of questioned costs.	7
Section 5 (a) (9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	8
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.	4-5

# 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.***

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