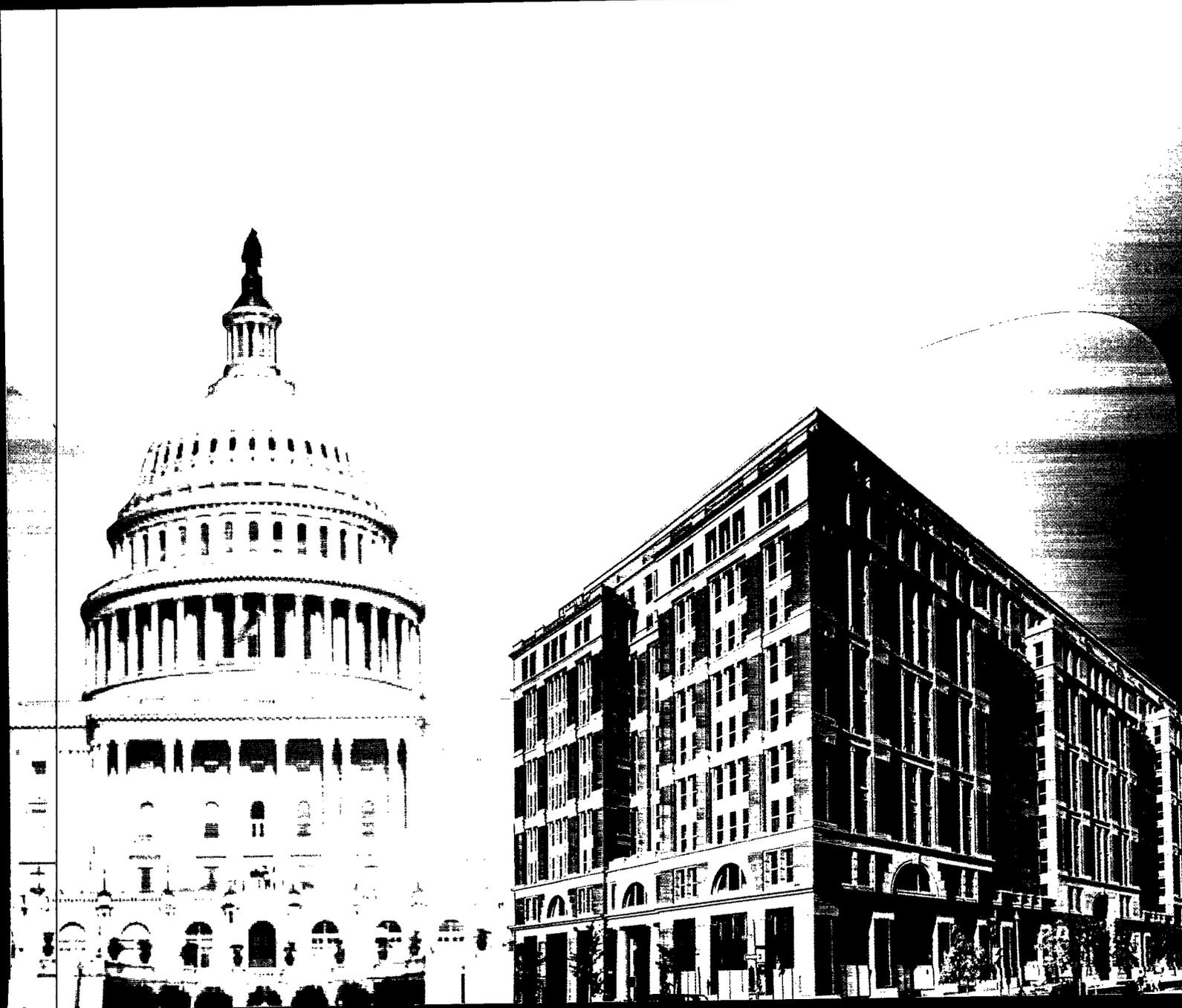




Pension Benefit Guaranty Corporation
Office of Inspector General

Semiannual Report to Congress
October 1, 2003 to March 31, 2004



Mission

The Office of Inspector General is an independent and objective voice that helps Congress, the Board of Directors and PBGC protect the pension benefits of American workers by promoting positive change, accountability, and integrity

Vision

We will be recognized by our stakeholders as the primary source of objective & independent information for their key decisions

Values

Respect

We will treat others as we would like them to treat us

Excellence

We will constantly innovate & improve the quality and value of our work

Integrity

We will be a role model of ethical behavior



Pension Benefit Guaranty Corporation
Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

April 30, 2004

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

On behalf of the Office of Inspector General (OIG) for the Pension Benefit Guaranty Corporation, I am pleased to submit this Semiannual Report to the U.S. Congress. The report summarizes OIG activities for the six-month period ending March 31, 2004.

During my first year as the PBGC Inspector General, I have set a new course for the OIG. We worked hard to enhance our value by improving communication with management and focusing our work on important issues. The mission, vision, and values on the inside cover of this report represent a commitment from the entire OIG staff to provide critical information that our stakeholders need to make key decisions. I am convinced that my office is an independent and objective voice that helps Congress, the Board of Directors and PBGC management protect the pensions of American workers by promoting positive change, accountability and integrity.

In the last six months, I appointed two key members to the OIG leadership team that are the source of much of my optimism about the future. Tom Zigan was appointed as the Assistant Inspector General for Investigations, and Luther Atkins became the Assistant Inspector General for Audits. Both bring considerable knowledge and experience to OIG, and I am confident that they will bring a renewed commitment to accomplishing our mission.

PBGC will continue to face significant challenges in the coming year. Workload has dramatically increased over the last three years, and continuing increases are expected in the future. Terminations of under-funded pension plans continue, and the funding status of defined benefit pension plans has dropped dramatically. The single-employer insurance program remains on the General Accounting Office's high risk list. These challenges emphasize the importance of promoting accountability so that today's pension problems are not passed on to future generations.

Based on the input we received from key stakeholders and the knowledge we have gained from our work, we have identified what we believe are the most important challenges the Corporation faces. These issues, as well as the work we have accomplished to address the issues are discussed in the body of this report. During this reporting period, we worked closely with the Board of Directors and management to improve accountability and performance.

We worked with the Board to improve oversight of the Corporation, and made recommendations to integrate financial systems to enhance financial reporting, and to protect security and privacy. We also worked with management to identify options for improving the customer service and efficiency of Field Benefit Administration offices.

A change in leadership occurred in January with the departure of PBGC's Executive Director, Steve Kandarian. The cooperative spirit he encouraged dramatically improved the relationship between PBGC management and the OIG. I look forward to building a strong relationship with the new Executive Director, Bradley Belt.

Finally, I would like to express my appreciation to the Board of Directors, as well as the senior management of the Corporation, for their support to the mission of the OIG and their collaborative work in improving operations. I also want to express my appreciation for the accomplishments of all OIG employees and their continued professionalism, dedication and willingness to accept new challenges.

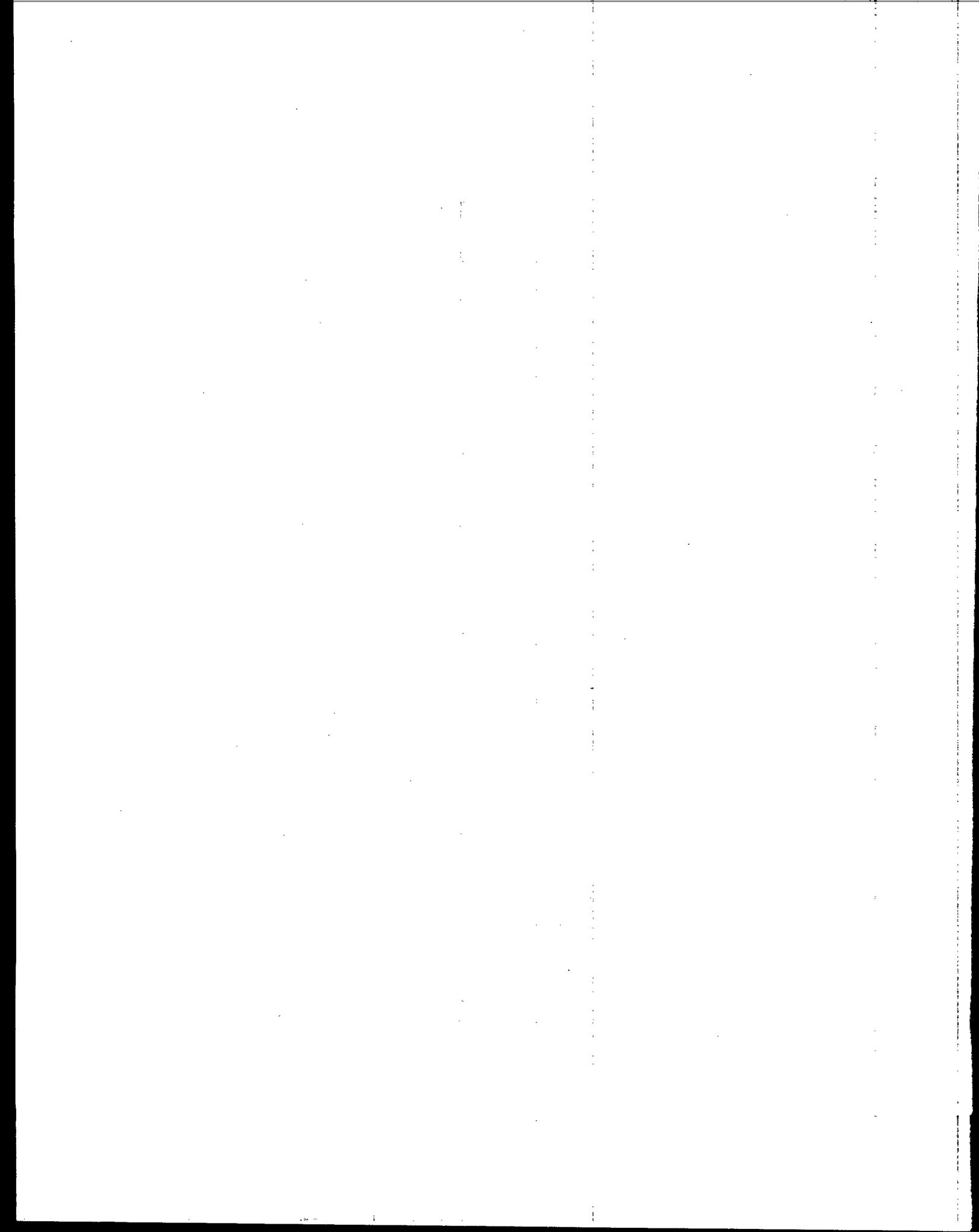


Robert L. Emmons
Inspector General

TABLE OF CONTENTS

LETTER TO THE CHAIRMAN

EXECUTIVE SUMMARY	i
INTRODUCTION	1
The Pension Benefit Guaranty Corporation The Office of Inspector General	
AUDITS	3
Overview	
Audit Activity	
Governance	
Financial Management	
Program Operations	
Information Technology Security	
Continuity of Operations	
Other Audit Activity	
Audit Follow-up and Resolution	
Access to Information	
PBGC Management - Inspector General Disagreements	
Table of Audit Reports	
INVESTIGATIONS	15
Overview	
Activity This Period	
Significant Investigations	
Table of Investigative Activities	
OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES	19
Review of Proposed Statutory and Regulatory Changes	
Developing Mission, Values and Vision	
PCIE/ECIE Participation	
OIG Participation in Mentoring	
APPENDIX	21
Cross-Reference to Reporting Requirements of the Inspector General Act	
Reports Issued With Questioned Costs	
Reports Issued With Recommendations That Funds Be Put to Better Use	
Open Recommendations	
GLOSSARY	30



EXECUTIVE SUMMARY

This semiannual report to the Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period October 1, 2003 through March 31, 2004. During this period, we spent time discussing where we are as an office and where we want to be, resulting in Mission, Values and Vision statements that are unique to our office. When accomplishing audit and investigative work, we will ensure that it accords with our mission to be an "independent and objective voice for Congress, the Board of Directors and PBGC." We want to focus our work on the challenges facing PBGC, and to be the primary source of timely and objective information. We will accomplish our work demonstrating our values of Respect, Excellence and Integrity.

In the audit area, our work included:

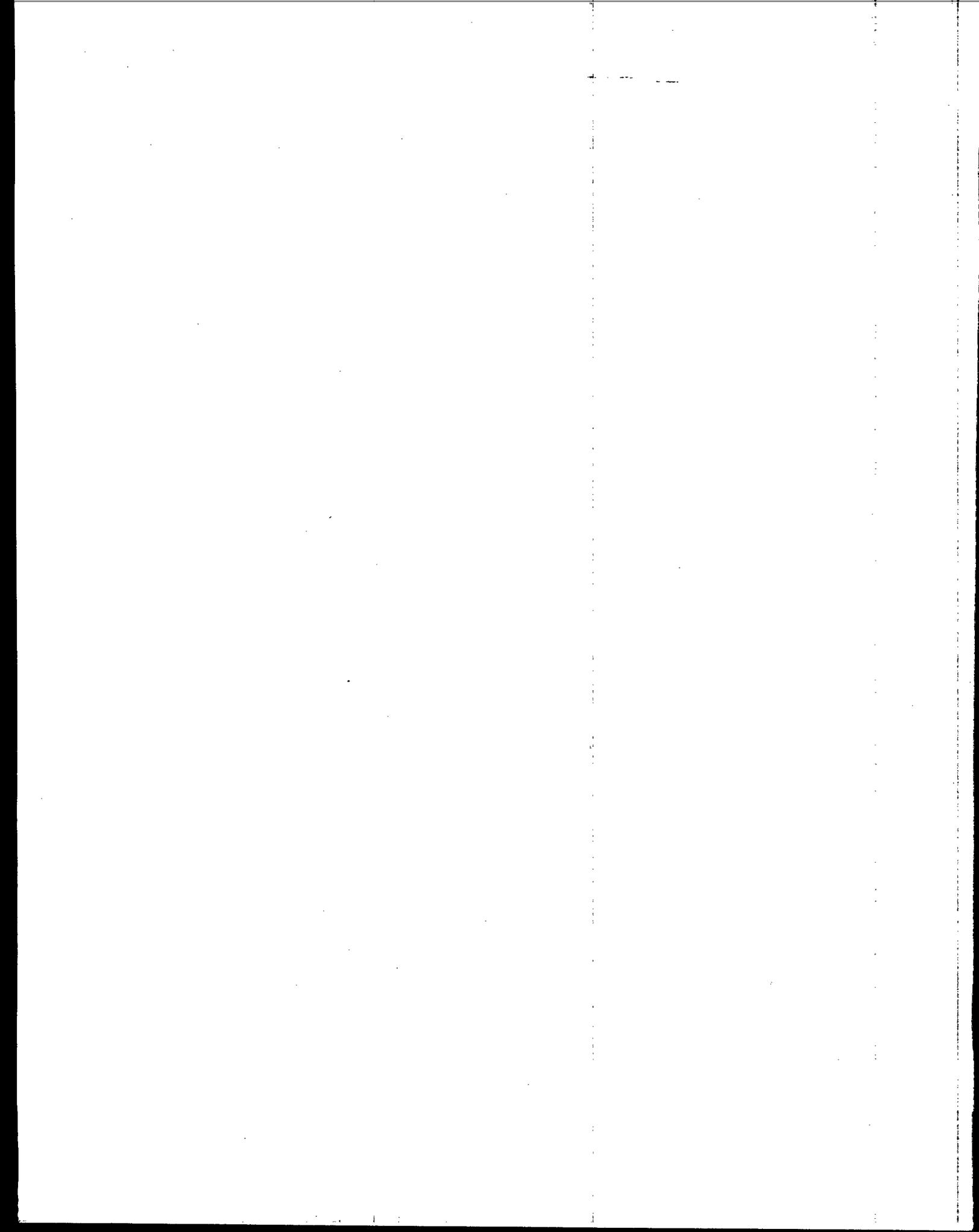
- *Governance issues: working with the Board of Directors, Executive management (see page 3);*
- *Financial Management: issuing the independent public accountant's Financial Statement Audit Opinion, and Management Letters, and accelerated financial statement reporting (see page 4);*
- *Program Operations: issuing a report and participating on teams to address premium accounting issues, and completing work to review field benefit administration offices (see page 8);*
- *Information Technology Security: submitting the OMB-mandated response on the agency's progress (see page 10); and*
- *Continuity of Operations: finding significant progress (see page 10).*

In the investigative area, we continued implementation of our new allegation evaluation system. Our goal is to systematically and timely address each allegation, open only the highest priority cases that we agree should be worked based on our criteria, and for which we have the resources to conduct a full investigation. We received thirty-five (35) Inquiries, of which five (5) became cases. We closed twelve (12) cases and twenty (20) inquiries during the reporting period. Among the significant investigative work conducted this period, we:

- *Found that a senior level employee engaged in ethical misconduct (see page 18);*
- *Found that a individual obtained bank routing information from PBGC's website and debited PBGC's account using on-line resources (see page 18);*
- *Closed 6 cases related to pension benefit fraud (see page 18).*

Another highlight of this period is staff changes, including the appointments of:

- A new Assistant Inspector General for Audit Luther Atkins, formerly with the State Department OIG.
- A new Assistant Inspector General for Investigations, Tom Zigan.



INTRODUCTION

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 44 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 unions. In recent testimony, PBGC reported that it insures pension benefits worth \$1.5 trillion and is responsible for paying benefits to nearly 1 million people in over 3200 terminated defined benefit plans. Benefit payments totaled about \$2.5 billion in FY 2003, and are expected to grow to nearly \$3 billion in FY 2004.

In its fiscal year 2003 financial statement, the PBGC reported that it has assets of about \$35 billion and liabilities of \$46 billion, and a net deficit of \$11 billion.

THE OFFICE OF INSPECTOR GENERAL

The mission of the Office of Inspector General (OIG) is to be an independent and objective voice that helps Congress, the Board of Directors and PBGC to protect the pension benefits of American workers by promoting positive change, accountability and integrity. To accomplish this goal, the OIG conducts agency audits, inspections, and investigations to provide our stakeholders with information they need to make decisions. Our OIG staff consists of thirteen (13) employees, of which two are investigators and one is an administrative assistant.

Major change continued during this reporting period. We developed our own unique Mission, Values and Vision statements (see front inside cover) that express what we do, what we believe in, and where we are going. We are committed to undertaking our work with an eye toward the challenges that PBGC is facing, whether we are issuing audit, evaluation and investigative reports, or consulting with PBGC and participating on various teams and working groups.

Our approach to audit planning concentrates our efforts on identifying issues that are important to PBGC. We maintain an inventory of suggested audits that we receive from a variety of sources, including the Board of Directors and PBGC's senior managers. Each year, we assess risk in terms of materiality

impact on operations, and potential for adverse publicity to the Corporation. Based on this risk assessment, we identify the most important challenges we want to focus our work on. The final step is to plan and conduct audits that address those challenges. These are the major challenges we plan to focus on in the coming year:

- Does PBGC have strong financial controls that are needed to protect assets and minimize cost?
- Do the Field Benefits Administration Offices operate in a way that maximizes customer service at the lowest possible cost?
- Do PBGC information systems maximize customer service while at the same time protecting the privacy and integrity of information?
- Does PBGC's performance measurement system accurately report progress in achieving the President's Management agenda and Corporate goals?
- Does the appeals process safeguard the interests of participants and allow timely resolution of appeals?

We have scheduled audits in 2004 to address each of these challenges.

As required by the Chief Financial Officers Act, we continue to audit PBGC's financial statements. The OIG has a multi-year contract with an Independent Public Accountant (IPA) to perform the audit of the Corporation's FY 2003 and FY 2004 financial statements.

In our attempt to maximize limited resources, our approach to investigations is to apply strict criteria in evaluating the quality of the allegations received. For example, we evaluate allegations against the potential criminal and civil violations, the statute of limitations, potential for negative publicity for PBGC, and the total assets involved. This will allow us to concentrate on investigative issues that are most relevant to PBGC.

The OIG follows the standards contained in the *Quality Standards for Federal Offices of Inspector General* published by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Those standards require audits to be conducted in accordance with *Government Auditing Standards* issued by the General Accounting Office. Our investigations comply with *Quality Standards for Investigations*, which have been accepted by the PCIE and ECIE.

AUDITS

OVERVIEW

We changed our approach to audits of Corporate programs and operations by focusing our work on major management challenges. Using our past work and input from the Board of Directors and senior managers, we identified what we believe are the most important challenges facing the Corporation: corporate governance, financial management, program operations, information technology security, and continuity of operations. In addition to conducting traditional audits and evaluations in these challenge areas, the OIG staff participated on corporate-wide teams addressing various issues of joint concern and looked for opportunities to provide consultation. Our goal is to have a positive impact on the decision-making process of the Board of Directors and PBGC management.

AUDIT ACTIVITY

1. GOVERNANCE

Just as in corporate America, the Board of Directors of PBGC is at center stage thanks to a steady stream of new rules and regulations. The Sarbanes-Oxley Act of 2002 established new standards for accountability that are having a major impact on boards, management and auditors in corporate America. Sarbanes-Oxley does not apply to PBGC, but the underlying principles of corporate governance do. The Board of Directors, PBGC management, and the Office of Inspector General are committed to a governance model that ensures reliable and complete financial reporting, effective customer service, and ethical business dealings. To assist the Corporation in addressing the challenge of corporate governance, the OIG is working with the Board of Directors and management to identify ways to improve its governance.

BOARD OF DIRECTORS

The OIG continued to work with the Board of Directors to assess the process for overseeing the Corporation in a way that balances the requirements for greater oversight without crossing the line into management's responsibilities. During the reporting period, the OIG met with the Board and their representatives, and:

- Presented the results of the annual financial audit,
- Identified major management challenges,
- Reviewed the annual audit plan and the results of the OIG's peer review,
- Met with the Board of Directors in executive session,
- Briefed the Board on the impact of Sarbanes-Oxley, and
- Highlighted the role and function of a corporate audit committee, contrasting it with PBGC's governance model and the IG's responsibility.

Regular meetings allow the OIG to keep the Board informed and use our independent work to identify operational improvements, assess performance and encourage accountability. The OIG looks forward to a continuing dialogue with

the Board on how to best provide appropriate financial oversight to PBGC, given the backdrop of increased audit committee responsibilities in the private sector.

MANAGEMENT

PBGC management is a major component of the Corporation's governance model and is responsible for implementing internal controls that ensures effective and ethical operations. A major aspect of this responsibility is identifying business risks and implementing controls to mitigate those risks. OIG is working with management to reassess organizational structure and business processes to improve oversight of programs and operations. During the reporting period, we:

- Continued to work with management to identify changes to organizational structure to enhance governance.
- Initiated discussions of Sarbanes-Oxley's impact on PBGC.
- Provided advice and assistance in developing a process to routinely assess internal controls in major business areas.
- Coordinated the work of financial auditors with management's comprehensive review of internal controls to prevent duplication and save resources.
- Continued to work with management to integrate financial systems and comply with financial standards.

Management has aggressively initiated several initiatives to identify key controls and assess the overall control environment. OIG supports these initiatives because we believe the initiatives will improve management oversight over the operations and programs of the Corporation.

INDEPENDENCE

The OIG engages outside auditors to conduct audits of the Corporation's financial statements. In doing so, the OIG is responsible for ensuring that the public accounting firm is independent. Recent changes in auditing standards impacted on the types of audit-related and consulting services auditors can provide without impacting independence. The OIG continued to work with management to assess the impact of non-audit related services provided by independent auditors to ensure that the services are consistent with government auditing standards. During the reporting period, we responded to several requests from management for determinations of impact on independence.

2. FINANCIAL MANAGEMENT

PBGC is a major government enterprise that manages assets of over \$35 billion. In FY 2003, the Corporation paid out about \$2.5 billion to retirees. For this reason, strong financial management controls are needed to protect assets and minimize cost. The OIG continues to focus much of its work on financial management issues to help management address this challenge.

AUDIT OF THE PENSION BENEFIT GUARANTY CORPORATION'S FISCAL YEARS 2003 AND 2002 FINANCIAL STATEMENTS (2004-1/23176-1 and 2004-2/23176-2)

The OIG issued reports report with three opinions related to the audit of PBGC's financial statements of the Single-Employer Program Fund and the Multiemployer Program Fund for the fiscal years (FY) ended September 30, 2003 and September 30, 2002 (No. 2004-2/23176-2). PricewaterhouseCoopers, LLP performed the audit under the general guidance of the OIG.

- ◆ An unqualified opinion on the financial statements opines that the financial statements fairly present, in all material respects: (1) the financial position of the Single-Employer and Multiemployer Program Funds as of September 30, 2003 and 2002, and (2) the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.
- ◆ The report on internal controls identified a material weakness in the methodologies PBGC uses for estimating multiemployer plan liabilities. The report noted that PBGC made progress in addressing control issues previously reported, however, three reportable conditions were carried forward from prior financial statement audits. PBGC needs to: (1) continue in efforts to integrate its financial management systems; (2) complete its efforts to fully implement and enforce an effective information security program; and (3) improve its controls over the identification and measurement of contingent liabilities.

In addition, the FY 2003 audit work identified three new reportable conditions. PBGC needs to: (4) improve controls related to single-employer premiums; (5) improve controls over the estimation of reserves for Single-Employer Program Fund losses incurred but not reported or not specifically identified; and, (6) to strengthen controls over the identification and classification of Multiemployer plans probable of receiving financial assistance.

- ◆ The report on compliance with applicable laws and regulations states that, with respect to items tested, no instance of non-compliance was disclosed.

In addition, the OIG issued a single-page unqualified opinion report that PBGC incorporated into its FY 2003 Annual Report (No. 2004-1/23176-1).

FISCAL YEAR 2003 FINANCIAL STATEMENT - MANAGEMENT LETTER (2004-7/23176-6)

The OIG prepared and issued two separate management letter reports as follow-on to the FY 2003 Financial Statement Audit. This first report contained findings and recommendations concerning several control conditions, including the need to:

- Develop a procedure to require the Balancer Administrator to complete a final review of the Balancer reconciliation within a certain timeframe.

- Design and implement a standard participant data audit report format that incorporates required elements from the IOD Procedures Manual.
- Develop, document and implement procedures to ensure that the Multiemployer Working Group obtains the most recent available financial information for each plan during the ratio calculation process.
- Develop, document and implement procedures to report and support the performance measures that are disclosed in the annual report.

Management agreed with all of our recommendations and plans to implement corrective actions.

**FISCAL YEAR 2003 FINANCIAL STATEMENT -
MANAGEMENT LETTER - INFORMATION
TECHNOLOGY
(2004-5/23176-5)**

This second report contained findings and recommendations related to PBGC's Information Technology environment. Several control conditions were noted, including the need to:

- Improve physical security and monitoring of security awareness training.
- Enhance the monitoring and enforcement of existing policies and procedures.
- Complete and formalize use of PBGC's Systems Life-Cycle Methodology.
- Improve controls in the Integrated Present Value of Future Benefits application.
- Enhance access and configuration controls related to PBGC's operating environments that support its business application processing.
- Continue to improve the development, implementation, and testing of a Continuity of Operations Plan to provide for PBGC recovery in the event of an unexpected interruption to normal business operations.

Management agreed with all of our recommendations and plans to implement corrective actions.

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR CFO REPRESENTATIONS FOR FEDERAL
INTRAGOVERNMENTAL ACTIVITY AND BALANCES
(2004-4/23176-4)**

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
(2004-3/23176-3)**

The General Accounting Office (GAO) requested the OIG to perform specific procedures enumerated by the U.S. Treasury and related to PBGC's submission of its CFO representations for Federal Intragovernmental Activity and Balances transmission and Federal Agencies Centralized Trial-Balance System (FACTS) transmission, which included the Adjusted Trial Balance for the revolving and trust funds and selected footnote data. The agreed-upon procedures were performed to assist with the accounting for and eliminating intragovernmental activity and balances in the preparation of agency and government-wide financial statements and reports. These procedures are performed to assist in the preparation of the consolidated United States Government financial statements for the year ended September 30, 2003.

SYSTEMS INTEGRATION PROJECT

The Corporation's lack of integrated financial management systems was identified as a reportable condition in past audit reports. In our work related to the Premium Accounting System (PAS), we also questioned whether the ongoing initiative to redesign PAS would be successful unless a common set of financial requirements for all financial systems is developed. Lack of integrated financial systems can significantly impact the Corporation's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting.

As a result of our continued highlighting of the issue, PBGC made integration of financial systems a priority in its strategic plan. In January 2004, a working group was established to develop an action plan for integrating systems that impact financial statements. The OIG is participating in this working group as an advisory member. A draft plan of action has been developed and presented to the Executive Director and the project Steering Committee and is now awaiting funding and resources prior to completing the next step toward addressing the system integration issue.

ACCELERATED FINANCIAL REPORTING

PBGC is committed to complying with the Federal Government's mandate for accelerated reporting on audited financial statements. This year, PBGC submitted its financial statements to the Office of Management and Budget (OMB) on January 5, 2004, almost a month before OMB's deadline. This year's OMB mandate requires that the FY 2004 audited financial statements be issued by November 15, 2004, which will present an even greater challenge.

The OIG and its financial auditors, PricewaterhouseCoopers, continue to meet with management to assist in identifying PBGC's challenges to completing

financial statements earlier. Some of the challenges PBGC is addressing are identifying, documenting and testing its controls, modifying its methodology for estimating contingency reserves, and requiring analyses for the third-quarter financial close that was formerly only performed at year-end. The auditors are accelerating much of the audit work, and plan to test the controls of PBGC's new processes on the third-quarter close. We applaud PBGC's commitment to examine its operations for efficiency and effectiveness to produce well-supported financial statements.

PROGRAM ASSESSMENT RATING TOOL TEAM

During the prior reporting period, OIG participated as a consultant to an agency team that completed a self-assessment of operations using the Program Assessment Rating Tool (PART). PART is a diagnostic tool designed by the OMB to rate federal programs and assist OMB and Congress in making funding decisions. It addresses the President's Management Agenda initiative to integrate budget and performance and the Government Performance and Results Act requirements.

This year, OMB will conduct a PART assessment in conjunction with its FY 2006 budget review of the Department of Labor, which includes PBGC. Serving again as a consultant to the PART team, the OIG attended an OMB training session for DOL programs, commented on proposed responses to the PART questionnaire and assisted in identifying supporting documentation. This activity was ongoing at the end of the reporting period.

3. PROGRAM OPERATIONS

PBGC is constantly facing the challenge of balancing operational efficiency with providing optimal customer service, while at the same time protecting Corporate resources. During the reporting period, management requested OIG work in two areas to address this challenge and provide objective information needed for management decisions -- the premium accounting system and field benefits administration.

PREMIUM ACCOUNTING

REVIEW OF PBGC'S PREMIUM ACCOUNTING PROCESS (2003-10/23177-2)

The Premium Accounting System (PAS) is used to process and record filings, correspondence, and premium payments received from sponsors of single-employer and multiemployer pension plans. Over the years, the OIG issued reports that identified problems; however, PBGC's initiatives did not result in a long-term solution to the reliability of premium data. Currently, PBGC is re-designing PAS.

At the Executive Director's request, we undertook an evaluation to review some specific concerns. That work was completed and a draft report was issued last period (see Semiannual Report to Congress, April 1 - September 30, 2003). Our final report was issued in October 2003, identifying significant control weaknesses in the premium accounting process that undermined the quality

and integrity of reported premium revenues. These control weaknesses resulted in unreliable and inaccurate premium data in PAS. Because system data was unreliable, we were unable to determine with certainty the potential monetary impact of the control weaknesses on premiums.

Management agreed with our recommendations and in December 2003 developed action plans to address the issues. The OIG has been following progress on these recommendations and plans follow-up testing once corrective action has been implemented.

**PREMIUM ACCOUNTING BUSINESS
PROCESS REENGINEERING**

The OIG is continuing its support of the Corporation's efforts to reengineer its premium accounting system. In August 2003, the firm of Booz Allen Hamilton began work on the requirements phase of the Business Process Reengineering (BPR) of the premium accounting system. During this phase, the OIG provided advice to the PBGC Project Manager on requirements relating to system control and to issues identified in previous OIG audit/review work.

The BPR requirements phase was approaching completion at the end of the reporting period. The main product of this phase was a functional requirements specification for the reengineered premium accounting system. This functional specification will provide the basis for a solicitation to select a contractor to implement the reengineered system. The OIG will monitor the system implementation phase and continue to provide advice, as appropriate, to the Project Manager.

A successful premium accounting BPR would, result in a more accurate, timely, and reliable premium accounting information for PBGC and its customers. This would lead to more effective debt management and improved financial management and reporting.

PROCESSING BENEFITS OF TERMINATED PLANS

**EVALUATION OF THE FIELD BENEFITS
ADMINISTRATION CONCEPT**

PBGC operates 11 Field Benefits Administrator (FBA) offices that are staffed by contractor staff to assist in administering pension plans that PBGC has terminated. At the request of Executive management, we initiated an evaluation of the FBAs in September 2003, and engaged a team from the accounting firms of Regis and Associates, PC and Clifton Gunderson LLP. The overall objective of this evaluation was to determine if the current FBA concept optimizes customer service at the lowest possible cost. We identified key issues that are central to the evaluation: the FBA concept, how PBGC contracts for FBA services, processes, performance metrics, best practices, and the inter-relation of the Call Center and FBAs.

We used several new approaches in conducting this evaluation. To facilitate good information flow, we established a "contact group" to meet regularly with the OIG and its contractors throughout the engagement. The contact group was comprised of individuals who had expertise in areas to be addressed in the FBA

evaluation. The contact group was a valuable resource to the evaluation team for vetting preliminary findings and potential solutions. In addition to looking at other government entities, the review team also benchmarked with private sector service providers in benefit outsourcing and call center operations.

The report was being drafted at the end of the reporting period, and will be issued on April 30. It will provide management with objective information to make decisions about future FBA operations. In anticipation of the report, Management has already committed in its Strategic Plan to addressing issues.

4. INFORMATION TECHNOLOGY SECURITY

PBGC has major initiatives to enhance customer service by providing access to information through web-based applications. Protecting the privacy and integrity of customer information is a major challenge for PBGC. OIG continues to accomplish numerous audits to assist the Corporation in meeting this challenge.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT REPORT TO OMB

Significant information security-related issues were reported in both the Internal Control Report, where Information Security remains a reportable condition at PBGC for FY 2003, and the Management Letter Report as part of the financial statement audit.

Additionally, those security-related issues that OMB defines as a material weakness are reported to OMB as part of the Federal Information Security Management Act (FISMA). The PBGC Plan of Action and Milestones (POA&M) report submitted to OMB in October 2003 identified 7 material weaknesses, an increase over FY 2002. OIG continues to review and monitor progress related to the issues identified in the POA&M through the required quarterly update submitted to OMB.

5. CONTINUITY OF OPERATIONS PLAN

Planning for continuity of operations (COOP) in the event of an emergency has been a major challenge for PBGC. In this most recent financial audit report on internal control, COOP was downgraded from a reportable condition. During the past three years we have worked with PBGC to address COOP as an enterprise-wide process.

We participated in two exercises conducted by PBGC and related to COOP. The first was a shelter-in-place exercise that involved all staff at the headquarters building in Washington, DC. The second involved PBGC management at an off-site location performing tasks associated with simulated emergency conditions. This latter exercise was a tune-up for the government-wide test to take place on May 12.

Although these exercises were completed with a high level of satisfaction, PBGC has not yet tested a "fail over" of its information technology systems which is critical to COOP success. This is scheduled for the summer. PBGC has laid the

groundwork and created a process that it can build on to achieve a very successful COOP program. PBGC should continue to keep its focus and full-time commitment to the COOP through unannounced tests that are closely aligned with real world scenarios.

OTHER AUDIT ACTIVITY

AUDIT RESOLUTION AND FOLLOW-UP TEAM

A major initiative of OIG is to promote accountability for implementing audit recommendations. The Inspector General and the Chief Financial Officer co-sponsored an Audit Resolution and Follow-up Team (Team) that was tasked to develop a policy for audit resolution and follow-up that encouraged: accountability; management and OIG agreement before issuing final reports; addressing disagreements and the lowest responsible organizational level; flexibility regarding corrective actions; effective communication; and a cooperative spirit.

During the last reporting period, the Team, which was composed of members from management and OIG, reengineered the existing process to encourage resolution of disagreements as early in the process as possible, improve communication between PBGC and the OIG, and improve accountability for implementing audit recommendations.

During this reporting period, the process was formally presented to PBGC management. PBGC agreed to the changes recommended by the Team. Currently, the OIG is working with management in revising the PBGC directive on audit follow-up and resolution.

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's audit follow-up system documents and reports on management's actions to encourage prompt resolution of audit recommendations. We follow the Office of Management and Budget (OMB) Circular A-50 guidance that audit recommendations be resolved within six (6) months of issuance. An audit recommendation is resolved when agency management and the OIG reach agreement on firm plans of action to correct reported weaknesses. Resolution 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 2004-6/32111) we reported that, as of January 31, 2004, there were:

- Eighty-six (86) open audit recommendations, including
- Sixty-three (63) outstanding audit recommendations from prior reporting periods.

In our *Semiannual Report of Audit Recommendations as of March 31, 2004* (OIG Report 2004-8/32112):

- The OIG concurred that management had presented sufficient evidence to close sixteen (19) audit recommendations.
- Seventy (70) audit recommendations remain open.

ACCESS TO INFORMATION

Under the Inspector General Act, the Inspector General is to have unfettered access to all agency records, information, or assistance when engaged in an investigation or audit. Whenever access to requested records, information, or assistance is unreasonably refused or not provided, the Inspector General must promptly report the denial to the agency head.

During this six-month reporting period, the Inspector General's access to information was not restricted.

INSPECTOR GENERAL REPORTS*
For The Six-month Period Ending
MARCH 31, 2004

REPORT NUMBER	REPORT TITLE	DATE ISSUED	DOLLAR VALUE OF QUESTIONED COSTS	DOLLAR VALUE OF BETTER USED FUNDS	DOLLAR VALUE OF UNSUPPORTED COSTS	NUMBER OF NON-MONETARY RECOMMENDATIONS
Audits						
2004-1/23176-1	Audit of Pension Benefit Guaranty Corporation Fiscal Years 2003 and 2002 Financial Statements (Single Page Report)	12/22/2003				
2004-2/23176-2	Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2003 and 2002 Financial Statements	01/15/204				9
2004-7/23176-6	Fiscal Year 2003 Financial Statement Audit- Management Letter	03/26/2004				17
2004-5/23176-5	Fiscal Year 2003 Financial Statement Audit- Management Letter Information Technology	03/30/2004				32
Evaluations						
2003-10/23177-2	Review of PBGC's Premium Accounting Process	10/10/2003				16
2003-11/32110	Semiannual Report on Audit Follow-up	10/10/2003				
2004-4/23176-4	Independent Accountants' Report On Applying Agreed- Upon Procedures For CFO Representations For Federal Intragovernmental Activity and Balances	01/23/2004				

2004-6/32111	Semiannual Listing of Audit Recommendations	01/31/2004
2004-3/23176-3	Independent Accountants' Report On Applying Agreed- Upon Procedures For FACTS Data	02/04/2004

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

INVESTIGATIONS

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. The Office of the Inspector General takes great care to not disclose the identity of the complainant without that person's consent.

OIG HOTLINE

The OIG operates a separate "1-800" hotline telephone number and a confidential Hotline 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 and refers callers to our main telephone number.

ACTIVITY THIS PERIOD

During this reporting period, OIG Investigations was presented with two awards for excellence by the Executive Council on Integrity & Efficiency. The first was for recognition of outstanding achievement for completing an investigation of the theft of a large premium check and recommending changes to detect and prevent future losses (investigation previously reported). The second was for recognition of outstanding achievement and customer service by raising the overall awareness of employees to potential fraud through the establishment and utilization of the "Fraud Alerts".

Also during this reporting period, the Inspector General appointed Tom Zigan a new Assistant Inspector General for Investigations.

SIGNIFICANT INVESTIGATIONS

ETHICAL MISCONDUCT

We issued a Report of Investigation that focused on multiple allegations of wrongdoing by a senior-level PBGC employee. We found that, over a course of years, this employee had engaged in misconduct by participating in procurement activities that resulted in almost \$900,000 in government contract work being awarded to a former business partner with whom there was a close personal relationship. The employee also failed to cooperate in our OIG investigation. The U.S. Attorney's office declined criminal prosecution and referred the matter back to OIG for pursuit of administrative action in lieu of prosecution. We issued an investigative report for disciplinary action, and PBGC management is currently considering the actions they will take.

BANK FRAUD USING PBGC ON-LINE SELF-SERVICE

We investigated a matter involving an individual who used PBGC's new on-line self-service forms on its website and obtained a PBGC bank routing number. The individual then went through his America On-Line (AOL) account and conducted a stock transaction through E-Trade. Utilizing the PBGC routing number, the individual was able to create an ACH debit transaction and removed \$9,800 from a newly established PBGC Bank account. Upon learning of this, the PBGC quickly recovered its losses and coordinated with the bank to insure that unauthorized individuals cannot conduct ACH debit transactions from the PBGC account. The OIG was able to quickly identify the location of the individual and referred the matter to the FBI and the Special Fraud Squad of the New York Metropolitan Police Department.

CONTRACTOR MISUSE OF POSITION

A PBGC contractor wrote a letter of recommendation on PBGC letterhead for her boyfriend. The letter gave the appearance that a PBGC official knew of the individual's work habits and highly recommended him. Upon our notification, PBGC management took action and the contractor was removed from the PBGC. We also identified a systemic weakness in the approval process for contractor employees, which management is currently working to resolve.

PENSION FRAUD CASES

During this period, we closed six cases/inquiries that raised issues of fraud relating to pension plans and benefits. Our investigations resulted in the following:

- Notice to PBGC not to replace an alleged missing benefit check because the bank verified that the participant had, in fact, cashed the check.
- A participant received a lump sum check of \$2,507.

SUMMARY OF INVESTIGATIVE ACTIVITIES
For The Six-month Period Ending
SEPTEMBER 30, 2003

ALLEGATIONS INTAKE STATISTICS**CASES**

Pending beginning of period	21
Opened	5
Closed	12
Pending end of period	14

INQUIRIES

Pending beginning of period	24
Received this period	35
Converted to a Case	5
Closed	20
Pending end of period	34

WRONGDOING ALLEGED (INQUIRIES RECEIVED)

Fraud, Waste & Abuse	0
Wrongdoing	15
Threats Against PBGC	1
Ethics	0
Improprieties Relating to Pension Benefits	19

INQUIRIES RECEIVED THROUGH HOTLINE

Received this period	8
Referrals to agency	8
OIG Customer Assistance	0
Cases opened	0

RESULTS OF CASES AND INQUIRIES CLOSED

Matters Referred for Criminal Prosecution	1
Prosecution Declined – Referred for Discipline	3
Prosecution Declined – Case closed	1
Removal from position	1
Pension Fraud	
Fraud Substantiated – Participant Repaid	3
Fraud Unsubstantiated	4
Referred to Agency for Disciplinary/Corrective Action	1
Customer Service	5
Allegation disproved or not substantiated	4
Administrative Closing	10
TOTAL	32

OTHER OFFICE OF INSPECTOR GENERAL ACTIVITIES

REVIEW OF PROPOSED STATUTORY AND REGULATORY CHANGES

To comply with the IG Act, the OIG Legal Counsel is notified by the Office of the General Counsel when the agency is proposing legislative and regulatory changes. During this period, we reviewed proposed policy and procedures to encourage pension plans to correct recent compliance failures without penalty and to facilitate plans' future compliance.

DEVELOPING MISSION, VALUES, AND VISION

PBGC has hired the Gallup Organization as a consultant to help improve the workplace by measuring and encouraging employee engagement, and identifying and focusing on strengths. As part of this, OIG employees participated in the Gallup Q12 question survey that assesses employee engagement. Upon analyzing our results, the OIG as a group, decided to work collectively to understand and define "what's expected of me at work." In our action plan, we decided to develop our own Mission, Values and Vision. This proved to be an energizing activity that generated much lively discussion. The process of developing our Mission, Values and Vision statements resulted in more employee engagement as we exchanged ideas about what the OIG does, what we believe in, and what we want to be. We proudly highlight our Mission, Values and Vision statements in the inside cover of this report, in our offices, and on our website.

PCIE/ECIE ACTIVITIES

Various staff members participated in PCIE/ECIE activities:

- The Inspector General was appointed as the ECIE representative to the Human Resources Committee. He also meets monthly as a participant in the Financial Regulatory Agency Inspectors General Coordination Group.
- The Deputy IG and Assistant IG for Investigations have participated in the Investigative Peer Review meetings to provide input to draft guidelines and discuss implementation issues.

OIG PARTICIPATION IN MENTORING

Both the Inspector General and the Deputy Inspector General are participating in special mentoring programs:

- The Inspector General continues as a mentor in PBGC's "Leaders Growing Leaders" Program, which was cited by the General Accounting Office as a model of innovation for succession planning. The Inspector General is sponsoring a high potential candidate in developing leadership skills that are needed to achieve results for PBGC.
- The IG and Deputy IG participated as senior mentors in the new "Leadership Toolkit," which is a more intensive leadership development program for employees who have completed a PBGC nine-month mentor program.

APPENDIX

CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

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

Inspector General Act Reference	Reporting Requirements	Page
Section 4 (a) (2)	Review of legislation and regulations.	9
Section 5 (a) (1)	Significant problems, abuses, and deficiencies.	3-11, 16
Section 5 (a) (2)	Recommendations with respect to significant problems, abuses, and deficiencies.	3-11, 16
Section 5 (a) (3)	Prior significant recommendations on which corrective actions has not been completed.	11, 24-29
Section 5 (a) (4)	Matters referred to prosecutive authorities.	18
Section 5 (a) (5)	Summary of instances where information was refused.	12
Section 5 (a) (6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use.	13-14
Section 5 (a) (7)	Summary of each particularly significant report.	3-11, 16
Section 5 (a) (8)	Statistical table showing number of reports and dollar value of questioned costs.	22
Section 5 (a) (9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	23
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.	12

REPORTS ISSUED WITH QUESTIONED COSTS *
For The Six-month Period Ending
MARCH 31, 2004

	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 section 5(a)(8) of the Inspector General Act of 1978, as amended.

**REPORTS ISSUED WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE ***
**For The Six-month Period Ending
MARCH 31, 2004**

	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-

OPEN RECOMMENDATIONS
For The Six-month Period Ending
MARCH 31, 2004

Report	Report Number	Date Issued	Recommendation Number	Recommendation
Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 1997 and 1996 Financial Statements	98-3/ 23126-2	3/23/98	FOD-268	Complete its efforts to integrate its financial management systems, in accordance with OMB Circular A-127 and its Five-Year Financial Management Systems Plan.
Improvements Are Needed To Achieve Better Efficiency And Effectiveness In PBGC's Benefit Determination Process	99-2/ 23128-1	3/2/99	IOD-168	Enforce compliance with time accounting requirements established in IOD's Procedures Manual.
Fiscal Year 1998 Financial Statement Audit-Management Report	99-8/ 23132-3	9/23/99	FOD-274	Enhance financial reporting controls surrounding PAS to improve the system's ability to accurately track premiums receivable on a plan basis.
			FOD-275	Analyze the existing year-end processes surrounding PAS and identify improvements that will reduce the necessity of manual adjustments, validity testing, and reclassifications at year-end.
			IOD-181	Establish a formal reconciliation process for the plans assumed from the prior paying agents whereby reconciliations are reviewed and approved by an appropriate level of management.
Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 1999 and 1998 Financial Statements	2000-7/ 23138-2	3/31/00	IRMD-118	Finalize accreditation and certification of systems.
Fiscal Year 2001 Financial Statement Audit-Management Letter	2002-6/ 23157-5	08/29/02	CTO-2	Implement the established policies and procedures for completing risk assessments to comply with OMB requirements.
			IRMD-131	Improve the information security structure to provide for enhanced responsibility and accountability.

OPEN RECOMMENDATIONS
For The Six-month Period Ending
MARCH 31, 2004

Report	Report Number	Date Issued	Recommendation Number	Recommendation
Fiscal Year 2001 Financial Statement Audit – Management Letter			IRMD-132	Develop and document policies and procedures for the performance of periodic re-certifications of PBGC systems' user accounts.
			IRMD-133	Implement periodic re-certifications of PBGC systems' user accounts.
			IOD-210	For cases with data sources more than five years old, implement a procedure to determine whether 1) an updated data source would provide a more accurate estimate of the NRFFA liability and 2) a valuation is available or can be completed without a significant burden on resources.
			FOD-291	Revise the Controller Division Consolidated Procedures Manual to require that the promissory notes and financial assistance disbursement documents are timely placed in the General Accounting Branch vault, and sign-out logs are periodically reviewed to ensure documents are returned timely.
Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2001 and 2000 Financial Statements	2003-3/ 23168-2	01/30/03	CFND-5	Implement independent review procedures of unfunded benefit liability calculations for contingent liabilities.

OPEN RECOMMENDATIONS
For The Six-month Period Ending
MARCH 31, 2004

Report	Report Number	Date Issued	Recommendation Number	Recommendation
Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2001 and 2000 Financial Statements			CFND-6	Reexamine the process for classifying and determining appropriate values of contingent liabilities to meet compressed financial reporting timeframes.
			CTO-5	Assign specific resources to complete the implementation of a fully functional and integrated enterprise-wide information security program, with priority given to implementation and monitoring of technical security standards.
			CTO-6	Develop enforcement mechanisms to ensure that all departments comply with the enterprise-wide information security program as well as consistently enforce policies and procedures for logical access to information resources that are based on the concepts of "least possible privilege."
			IRMD-135	Update the PBGC Change Management Manual to include procedures governing the entire change management cycle, rather than limiting the focus to the usage of Peregrine Service Center. This updated manual should require all departments and users to consistently follow the same procedures and complete uniform documentation in a timely manner for the release of all changes into production. IRMD Management should establish monitoring procedures to enforce compliance with existing change control policies, procedures, and standards.
			IRMD-136	Develop, document, approve, and implement a security plan for all key production environments that process PBGC's financial systems that, at a minimum, follows the guidelines and standards prescribed by NIST and OMB.
Fiscal Year 2002 Financial Statement Audit-Management Letter	2003-7/23168-5	07/03/03	CCRD-11	Amend PBGC Directive GA15-1 to require a risk assessment methodology to identify and document risks both at the agency-level and the departmental level.

Fiscal Year 2002 Financial
Statement Audit –
Management Letter

- CCRD-12 Amend PBGC Directive GA15-1 to require departments to identify and document the specific procedures they used to assess and monitor controls as part of the departmental self-assessment.
- CCRD-13 Amend PBGC Directive GA 15-1 to assign CCRD a more robust monitoring role in evaluating departmental FMFIA reports.
- FOD-308 Develop and implement a policy on the accounting for internally developed software.
- IRMD-137 All users should complete a PBGC Information Security Acknowledgement Form. Management should address this recommendation during the recertification of user access.
- IRMD-139 Develop enforcement mechanisms so all passwords on PBGC's IT Environment, including but not limited to Novell, Windows 2000/XP, Windows NT, SUN Solaris, and Oracle databases, are in compliance with the PBGC Password Usage Policy.
- IRMD-140 Set the IDLE TIME to 15-30 minutes of inactivity for the Oracle environment.
- IRMD-141 Identify active generic accounts and remove any that are inappropriate or unnecessary.
- IRMD-142 Document the justification for the use of any generic accounts.
- IRMD-143 Enhance PBGC's monitoring and auditing of its IT environment by including procedures related to the activities of generic and duplicate user accounts.
- IRMD-144 PBGC should retain the approved access forms of users with access to the Computer Room and LAN Rooms for as long as they are employed by PBGC and require such access.
- IRMD-147 Establish a procedure that enables the removal and proper disposal of disabled user IDs. These IDs could be archived and the backup tapes containing these user IDs stored off-site at Iron Mountain.

Fiscal Year 2002 Financial
Statement Audit -
Management Letter

- IRMD-151 Train Computer Room employees in their emergency responsibilities and review these procedures with employees at least annually.
- CTO-7 System owners should establish and document service level agreements that include specific required performance goals to better gauge their systems' performance relative to business needs. These performance goals should be established for services both performed internally by PBGC, as well as those provided by contractors and outsourced vendors.
- CTO-8 Performance records should be maintained and actual vs. expected results reported and reviewed by management periodically.
- IRMD-152 PBGC should continue with the implementation of HP OpenView to aid them in this initiative.
- IRMD-156 Permissions for all world writeable directories and files should be reviewed and unless the world writeable permission is needed for the proper functioning of the system, the permission should be reduced to mitigate the risk of unauthorized alteration.
- IRMD-160 Remove all active users in the Genesis schema that have already been removed from the CAS application.
- IRMD-161 Explore and implement methods (such as synchronizing the CAS table with the PRISM table) to prevent the manipulation of separated employee's user IDs from accessing the PRISM production data within the Genesis database.
- IRMD-162 Conduct periodic reviews certifying that the authorization levels of temporary authorizers are appropriate relative to their approved limits.
- IRMD-163 Develop standard profiles for PRISM to grant access that is compatible with the employee's job functions and provides an audit trail.

- IOD-213 Implement a process to identify and report critical transactions for review by management or their designee. These reports should be reviewed on a routine basis and signed by management as evidence of the review.

- IRMD-165 Inspect the system roles, table privileges, and system privileges assigned to users, roles, and schemas within the Oracle environment and remove any inappropriate system roles.

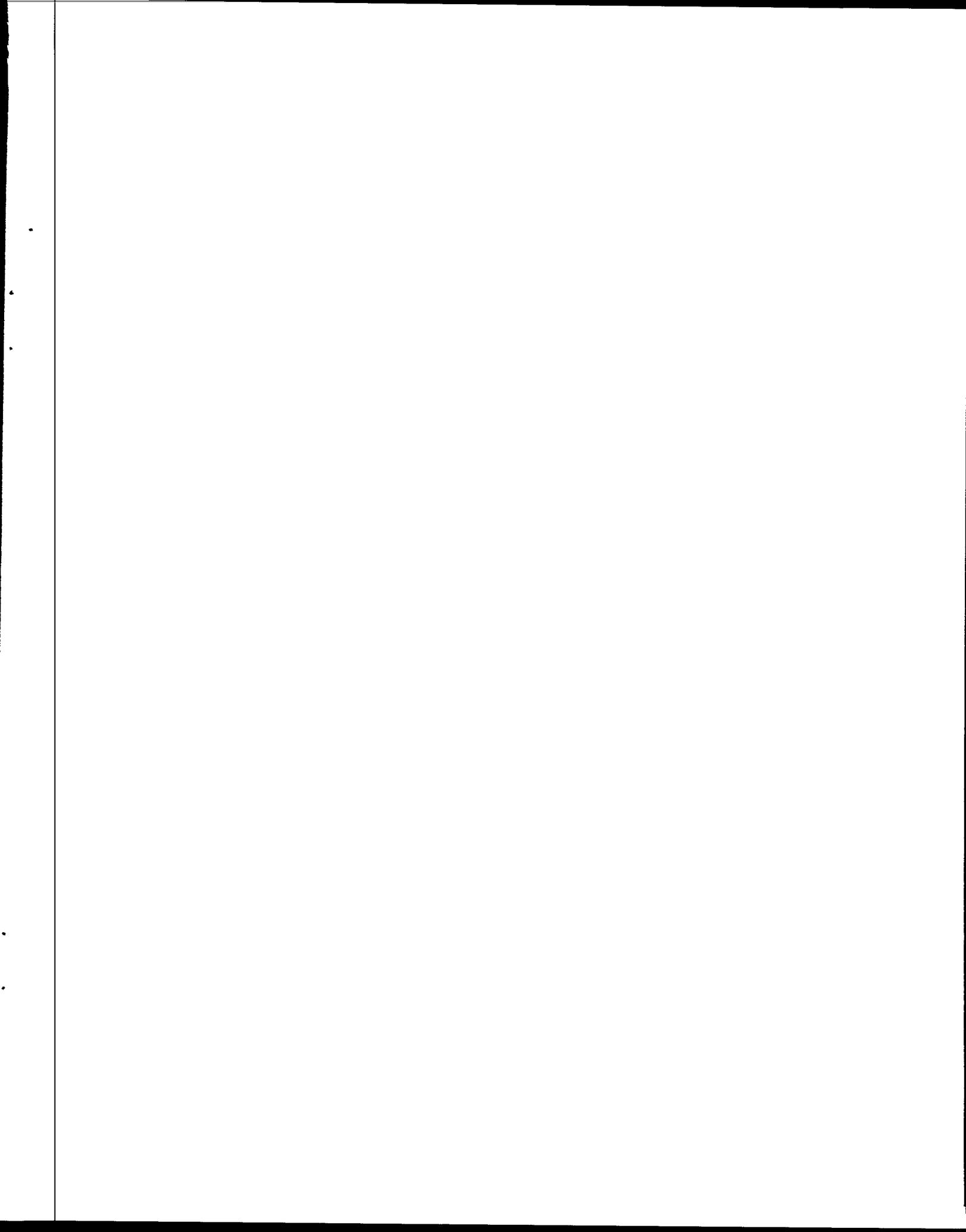
- IRMD-166 Develop and implement an Oracle IT Security Plan that requires mandatory periodic review of the system roles, table privileges, and system privileges to determine if they are appropriately assigned to users, roles, and schemas.

- IRMD-168 Include in the Oracle IT Security Plan required mandatory periodic review to identify and address weak database links.

GLOSSARY

The following defines the terms used in this report.

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



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

You can telephone:

The Inspector General's **HOTLINE**

1-800-303-9737

**For deaf or hard of hearing people, dial FRS
(800)-877-8339 and give the Hotline number to
the agent.**

Or you can write:

**Pension Benefit Guaranty Corporation
Office of Inspector General
P.O. Box 34177**