

"Let us have faith that right makes might, and in that faith, let us, to the end, dare to do our duty as we understand it."

Pension Benefit Guaranty Corporation
Office of Inspector General
Semiannual Report to Congress
October 1, 2005 - March 31, 2006



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

Integrity

We will be a role model of ethical behavior

Excellence

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



Pension Benefit Guaranty Corporation

Office of Inspector General

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

October 31, 2005

The Honorable Elaine Chao
Chairman, PBGC Board of Directors

On behalf of the Office of Inspector General for the Pension Benefit Guaranty Corporation, I am pleased to submit this Semiannual Report to the U.S. Congress, summarizing OIG activities for the six-month period ending September 30, 2005. It details our efforts to improve the economy and efficiency of PBGC operations, our efforts to prevent fraud, waste and misconduct, and fulfills our reporting requirements under the Inspector General Act.

This was a period of major change at PBGC. The Executive Director hired a new Chief Financial Officer, Chief Administrative Officer and General Counsel, and is recruiting for a senior vice president of benefits administration. Along with these changes in the executive ranks, the Corporation is reexamining longstanding operating policies. Major initiatives in risk management, internal controls, contracting, financial reporting and ethics fostered a new spirit of transparency and accountability.

A priority of my office during the period was helping new executives transition to PBGC. The OIG prepared briefing books, and I met with each of the executives in their first days on board. Both the audit and investigative units briefed them on their work and discussed ways that we could work together to improve controls. We also worked closely with the General Counsel and her staff to identify ways to strengthen the ethical environment.

This was also a period of change in OIG. We made major strides at enhancing our capability by staff with expertise in the contract and information systems areas. I am proud to say that we have fully assumed contract audit responsibilities from management, and we made numerous recommendations to improve contracting controls. We are also very proud of our investigative unit's success in obtaining indictments and convictions aimed at protecting the pension benefits of participants and safeguarding PBGC assets.

PBGC continues to report the largest losses in its history. While PBGC has sufficient resources to pay participants guaranteed benefits for a number of years, I remain concerned that PBGC lacks the funds it needs to pay future benefits for which it is obligated. Comprehensive reform is needed to protect the pensions of workers and retirees, and the viability of the pension insurance system.

We were impressed with PBGC's response to the recent hurricane victims. After hurricane Katrina, PBGC quickly identified 3,500 participants in the region who had no mail service, and then narrowed it down to about 1,400 who receive monthly paper checks. Demonstrating their commitment to ensuring these hard-hit people received their payments, PBGC pledged next-day direct deposit

transfers for beneficiaries in Louisiana, Mississippi and Alabama who did not receive their September checks. PBGC was also willing to accommodate special requests for those who preferred to receive a check, rather than direct deposit. The OIG coordinated with the United States Postal Service OIG investigative team that was on-site in Louisiana, resulting in PBGC getting answers to specific questions. From these efforts, PBGC was able to respond immediately to participants and pension plan sponsors affected by hurricane Rita.

I'm fortunate to have the unwavering support of you and the Board. I also appreciate PBGC management's cooperation and responsiveness to our work. We are proud to be part of an organization that protects the pensions of over 44 million Americans, and will constantly strive to keep its programs efficient, effective and free from fraud waste and abuse.



Robert L. Emmons
Inspector General

Table of Contents

Letter to the Chairman

Executive Summary 1

Introduction 3

The Pension Benefit Guaranty Corporation

The Office of Inspector General

Audits .. ☒ 5

Overview

Audit Activity

 Governance

 Financial Management

 Information Technology

 Procurement and Contracting

 Program Performance

Other Audit Activity

Access to Information

Management Decisions

Investigations 17

Overview

Activity This Period

 Significant Investigations

 Fraud and Awareness Alert

 Follow-up on Agency Administrative Action

 Summary of Investigative Activities

Other Office of Inspector General Activities 20

Review of Proposed Statutory and Regulatory Changes

Internal PBGC Activities

External Activities

Internal OIG Activities

Appendix 24

Cross-Reference to Reporting Requirements of the Inspector General Act

Reports Issued with Questioned Costs and Funds Put to Better Use

Significant Problems, Deficiencies and Recommendations

Glossary☒ 30

Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period April 1, 2005, through September 30, 2005. When accomplishing audit and investigative work, we 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 for the organization. We will accomplish our work demonstrating our values of respect, excellence, and integrity.

During this period, we conducted work in all areas designated as Management Challenges, focusing much of our audit effort on the financial statement audit and its related reports, and contract audits.

- Governance— the Board of Directors and PBGC Executives show strong commitment to good governance (see page 5).
- Financial management—rigorous third-quarter close implemented, new financial statement audit contract awarded, financial statement audit underway (see page 6).
- Information technology — we issued a report on management’s request to review the development of PBGC’s new Premium and Practitioner system (see page 7).
- Procurement and contracting—we audited PBGC’s award and monitoring of contracts awarded to a Canadian firm to provide actuarial software (see page 9).
- Program performance—we completed field work and briefed PBGC on its request to review required adjustments to participants’ benefits, and issued evaluations of the purchase card program and accounts payable (see page 13).

In the investigative area, we received a large number of allegations, many of which we were able to close during the inquiry stage. We opened 9 new cases, and closed 31 cases and 28 inquiries. Significant investigative work this period, included:

- a PBGC manager engaged in ethical misconduct by soliciting and receiving a loan from a subordinate (see page 17);
- determined that PBGC employees had not fraudulently used rewards program resulting from government credit card purchases, but found internal control weaknesses (see page 17);
- worked with PBGC to prevent and detect fraud in its “missing participants” program (see page 18);
- the Assistant IG for Investigations testified in a pension fraud case, resulting in conviction (see page 18): and
- PBGC employees were disciplined for misusing PBGC computers to view and share offensive material (see page 19).

OIG staff participated in many internal and external activities, including active participation in several PBGC mentoring programs as senior mentors and mentorees, and activities impacting the IG community.

Introduction

The Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC, or the Corporation) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended (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, PBGC provides assurance that their retirement benefits will be paid, up to a statutory limit. PBGC protects the pensions of participants in certain defined benefit pension plans (i.e., plans that promise to pay definitely determinable retirement benefits). Such defined benefit pension plans may be sponsored individually or jointly by employers and unions. PBGC is now responsible for the pensions of about 1.3 million people, including about 700,000 who will receive benefits when they retire in the future. PBGC pays about \$300 million a month to about 600,000 current retirees.

The Office of Inspector General

The mission of the Office of Inspector General (OIG) is to be an independent and objective voice that helps the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers by promoting positive change, accountability, and integrity. To accomplish this goal, the OIG conducts agency audits, inspections, and investigations to provide our stakeholders with information they need to make decisions. OIG is authorized 20 positions, of which three are investigators. We are currently recruiting to fill three vacant positions.

To provide value, OIG focuses work on 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 in working groups. We are committed to our values of respect, excellence, and integrity in all we do.

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 management. Each year, we assess risk in terms of materiality, impact on operations and potential for adverse publicity for the Corporation. Based on this risk assessment, we identify the most important challenges on which to focus our work. The final step is to plan and conduct audits that address those challenges. We continue to focus on these major questions:

PBGC protects pensions of about 44 million people.

We have enhanced our capability by hiring staff with contract and information systems experience.

- Does PBGC have a governance model that ensure reliable and complete financial reporting, effective customer service, and ethical business dealings?
- Does PBGC have strong financial controls that are needed to protect assets and minimize costs?
- Does PBGC effectively balance operational efficiency with optimal customer service?
- Do PBGC contractors provide quality products and services at a reasonable price?
- Do PBGC's information systems maximize customer service while protecting the privacy and integrity of information?

We have scheduled audits in 2006 to address each of these challenges.

As required by the Chief Financial Officers Act, we continue to audit PBGC's financial statements. The OIG contracts with an independent public accountant (IPA) to perform this work.

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, the potential for negative publicity for PBGC, and the total assets involved. This allows us to concentrate on investigative issues that are most important 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). These standards require audits to be conducted in accordance with Government Auditing Standards, issued by the Government Accountability Office. Our investigations comply with *Quality Standards for Investigations*, which have been accepted by the PCIE and ECIE.

Audits

Overview

Our audit approach is to focus our work on areas that present significant management challenges to PBGC. Using our past work and input from the Board of Directors and management, we conducted work this semi-annual period primarily financial management, information technology, procurement and contracts, and overall program performance. We consulted with PBGC leadership on various governance issues. The OIG staff participated on corporate-wide teams addressing various issues of joint concern. Our goal is to have a positive impact on the decision-making process of the Board of Directors and PBGC management. The following paragraphs summarize the work of our auditors for each major management challenge.

1. Governance

Governance is a major challenge of the Corporation, particularly as it struggles with a growing deficit and record numbers of terminated pension plans and participants. Oversight of the financial operations and financial reporting by the Board of Directors, PBGC management and the OIG is critical to effective corporate governance. Several changes occurred that demonstrate the Corporation's commitment to effective financial and program oversight. During the period, PBGC:

- Hired a new Chief Financial Officer (CFO) with significant private sector financial experience, who has initiated numerous initiatives to improve financial reporting and accountability;
- Hired a new General Counsel with significant government enforcement experience, who is focused on maintaining high ethical standards and protecting the Corporation's interests in contracts;
- Hired a new Chief Administrative Officer with significant government experience in information technology and resources management, who will oversee the Corporation's initiatives to improve economy and efficiency;
- Established an internal control committee chaired by the CFO to improve senior management's oversight of the control environment; and
- Continued efforts to comprehensively identify, document, test and report on significant controls. PBGC is one of a handful of Federal agencies that receives an audit opinion on internal controls each year.

The Board of Directors, which includes the Secretaries of Labor, Treasury and Commerce, met in July 2005 to discuss critical issues and oversee corporate management and initiatives. The meeting included executive sessions with the Executive Director and Inspector General.

OIG will continue to work with the Board and management for a governance model that ensures reliable and complete financial reporting, effective customer service, and ethical business dealings.

***PBGC established
an Internal
Control
Committee to
improve senior
management's
oversight of
the control
environment***

2. Financial Management

PBGC is a major government enterprise that manages over \$55 billion in assets. During FY 2005, the Corporation paid more than \$3 billion in benefit payments to retirees in terminated pension plans.

In FY 2005, PBGC again sustained severe financial losses from plan terminations. Previously, in FY 2004, PBGC reported a deficit of more than \$23 billion, the largest in its 30-year history. As a result, the single-employer insurance program's financial position continued to erode as its deficit worsened. The multiemployer program also reported a significant loss for the year and a larger year-end deficit. PBGC has sufficient assets to pay participants guaranteed benefits for a number of years, but neither of its insurance program has sufficient assets to satisfy the benefit obligations already incurred, much less future obligations likely to be assumed in the future.

For these reasons, strong financial management controls are needed to protect assets, mitigate risk and minimize cost. To help management address this challenge, OIG continues to focus a large portion of its work on financial management issues.

Financial Reporting

In our report on Lessons Learned from the FY 2004 Financial Statement Audit, we reported several challenges that were identified by management and OIG to meeting the November 15 financial reporting deadline. Both management and the OIG are applying these lessons to make accelerated financial reporting a routine business practice rather than an extraordinary task each year. The biggest challenge is closing the financial records more frequently during the year, including conducting the processes that support the financial statements. This will reduce the pressure on management and the auditors at year-end.

The new CFO implemented a vigorous review of the third quarter closing process and invited the OIG and its contracted auditors to attend. This all-day session and a follow-up meeting covered the first 9 months of FY 2005. Through a detailed review of documentation and processes, the CFO and auditors gained an understanding of the "pressure points" of PBGC's financial reporting, the internal controls, and the interdependence of operations. This early review enabled the CFO and financial operations department to identify areas of concern and focus on corrective actions. We anticipate this will avoid potential problems with the year-end close.

Closing financial records more often will reduce pressure at year-end

New Financial Statement Audit Contract Awarded

FY 2004 was the final year of a multi-year financial statement audit contract. In early 2005, we competitively solicited bids for a fixed price multi-year audit contract. In March, we awarded a fixed price contract to Clifton Gunderson, LLP. This firm's largest industry specialty is government services. They have a wealth of experience in all aspects of governmental auditing and accounting, and have conducted major engagements for four cabinet level agencies.

To kick off this year's audit, Clifton Gunderson held an entrance conference with PBGC in May. Under OIG's general guidance, the firm has worked closely with the CFO to coordinate the financial statement work. The CFO's third quarter review meeting provided Clifton Gunderson with an early opportunity to review financial results and processes through June 30, 2005 and identify issues early.

FY 2005 Financial Statement Audit

The OIG's financial statement auditors, Clifton Gunderson, are in the midst of the audit. PBGC continues to progress in addressing the five reportable conditions identified in the FY 2004 report on internal controls. Clifton Gunderson is in the process of examining corrective actions for the reportable conditions, but it is too early to determine whether the reportable conditions will be fully corrected in FY 2005.

On November 15, 2005, Clifton Gunderson, under OIG's general guidance, will issue three reports related to the audit of PBGC's financial statements:

- (1) an opinion on the financial statements,
- (2) an opinion on management's assertion on internal controls over financial statement reporting; and
- (3) results of tests on compliance with applicable laws and regulations.

Additionally, OIG will issue two separate management letter reports – one with findings and recommendations concerning the PBGC's program and financial operations, and the second for the information technology environment, including general computer controls and application controls related to financially significant systems. All of these reports will be issued in the next period.

3. Information Technology

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. The OIG continues to perform work to assist the Corporation in meeting this challenge.

Premium and Practitioner System Pre-Implementation Review (2005-16/PA0012)

PBGC is developing a new system, Premium and Practitioner System (PPS), to address significant control weaknesses in the premium accounting process and improve the quality and integrity of reported premium revenues. In March 2005, the Executive Director expressed concerns with progress in developing PPS and asked the OIG to evaluate the status of the application development project:

- Evaluate compliance with PBGC's System Life Cycle Methodology (SLCM)
- Determine the flexibility of the application to adapt for future statutory and regulatory changes, such as those proposed to Congress for pension reform
- Provide suggestions as to the next steps PBGC should pursue based on the results of this evaluation

Although PBGC cancelled the contract for developing the PPS during the our review, we continued the work because premium accounting has been a long-standing issue for PBGC. Based on our work, we stated that continuing the redesign effort was high-risk because a common set of financial requirements for all financial systems had not been defined. Problems with the design of PPS are indicative of a broader problem that we have reported repeatedly in our annual financial audit and in our 2003 report on the premium accounting system – the need to integrate financial systems. Both the OIG and PBGC concluded that a common framework of financial controls needs to be developed for all systems that impact the general ledger, not just PPS. For this and other reasons, PBGC has delayed the implementation of PPS and has now included it as part of the consolidated financial system solution to establish a single general ledger. The OIG supports this decision.

To address the issues we identified during the review, we provided PBGC with a number of observations and suggestions where we noted deviations from established requirements, inconsistencies in documentation, and improvements needed in both project management and contractor oversight.

The OIG will continue to assess management's development progress as they work to enhance the financial systems operations at PBGC, including the implementation of the new Premium and Practitioner System.

Continuity of Operations

PBGC experienced a major systems failure in September 2005. As a result of the failure, applications and files were not available and users were unable to send or receive emails for an extended period of time. Management has hired an internal audit firm to conduct an analysis of the computer system outage and develop a risk mitigation strategy to prevent future system outages.

A common framework of financial controls is needed for all systems that impact the general ledger.

During fiscal year 2005, PBGC conducted two major tests of its Continuity of Operations Plan (COOP) before the systems failure to prepare for unexpected interruptions to its normal business activities. Prior to these tests, significant advanced preparation occurred. Then, employees and management assembled at a backup operations site and connected to the backup computer systems located in another part of the country. Although these tests verified the Corporation's access to applications, they did not verify the physical recovery of data. Nor was it a true test of a failover to the alternate site because of the advanced preparation. The systems failure that occurred in September raises concerns about the ability of the Corporation to carry out mission activities and continue operations when primary systems fail.

OIG auditors will consider management's analysis of the systems failure and independently evaluate the impact of system failures on the integrity of financial data during the financial statement audit. We will also monitor PBGC's continuity of operations testing in the future and report on the ability of the Corporation to continue operations during unexpected interruptions to its normal business activities.

4. Procurement and Contracting

PBGC reported to the Board of Directors in July 2005 that it spends about two-thirds of its annual budget through contracts. This volume of expenditures makes contract management a major management challenge. We note PBGC has taken action this period to strengthen contract management, including planning and awarding more fixed price contracts. In August 2005, PBGC issued a policy that the Office of the General Counsel will review proposed solicitations and contracts exceeding \$200,000.

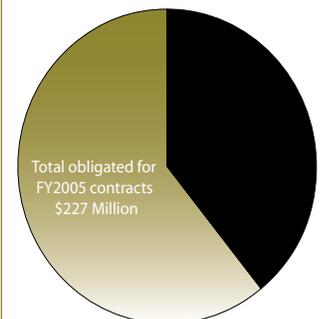
We devoted a significant portion of our audit resources to evaluating procurement and contracting activities. Our audits have focused on two areas:

- Identifying improvements to PBGC's procurement process, and
- Verifying that contractor billings were allowable, reasonable, supported and consistent with the terms of contracts.

Audit of PBGC's Procurement Process

We contracted with an Independent Public Accountant (IPA) to perform an audit of PBGC's procurement process in two phases:

- To understand PBGC's procurement process and identify those areas that had inherent and control risks; and
- To determine whether PBGC is complying with its policies and procedures and related laws and regulations, in particular the Federal Acquisition Regulations.



Total FY2005 budget \$351 Million

*We audited
PBGC's
contracting
activities for a
major systems
initiative
procured through
a sole source
contract*

We briefed PBGC management on the results of phase one in December 2004 (reported this in our last Semiannual Report). We completed the audit work on phase two and provided PBGC management a draft report for comment. A summary of the report's findings, recommendations and management's response will be included in our next semiannual report.

Contract Performance Audits

We conducted two audits (described below) related to PBGC's sole source contracts with a Canadian firm that provides actuarial consulting services relating to pension benefits. PBGC contracted with the Canadian firm to provide parameter-driven benefit calculation software that can value pension plans and calculate individual participant benefits in accordance with ERISA and PBGC regulations. This software, called Ariel, will replace PBGC's current actuarial valuation system.

PBGC awarded two contracts for Ariel:

- The first to develop a plan for identifying system modifications needed for PBGC to use the Canadian firm's existing software, produce the specific modifications, and a plan for constructing, testing and reviewing the modified software.
- The second to implement the system modifications, make the modified system available to PBGC, and assist in initial production implementation.

Both contracts were incrementally funded for each phase of the work and have been modified a number of times to either extend the period of performance, expand the scope, and increase funding. Through October 2004, the total amount of both contracts increased from \$2.7 million to nearly \$15 million.

Audit of Procurement Activities Related to the Award of Ariel Contracts (2005-18/CA-0008-1)

We contracted with an IPA to assess whether PBGC complied with applicable federal laws and regulations, and internal policies and directives in its procurement activities related to the award of two contracts for Ariel.

We found that PBGC could not provide advanced planning documentation, such as the Individual Procurement Plan and the cost-benefit documentation dated before commencement of the initial contract. Additionally, PBGC did not document communications with a potentially qualified contractor before deciding to award a sole source contract to the Canadian firm.

We also noted the Procurement Department did not have documented departmental policies and procedures ensuring consistent and timely performance of its daily and monthly procurement duties.

We recommended and management agreed to:

- Establish and document procedures requiring retention of all documents supporting the advanced planning process in accordance with Federal Acquisition Regulations and PBGC requirements; and
- Establish and document detailed policies and procedures for PBGC's procurement activities, including duties performed by the Contracting Officer, Contract Specialists, and the Competition Advocate.

Audit of Monitoring Activities Related to Ariel Contracts (2005-19/CA-0008-2)

Using an IPA, we conducted another audit of the Ariel contracts to evaluate PBGC's contract oversight. We found that PBGC generally complied with applicable Federal Acquisition Regulations and PBGC directives, policies, and procedures. In addition, these contracts were subject to management oversight by PBGC's Operations Integration Board, a project steering group and the Information Technology Investment Review Committee. Thus, critical decisions were made or reviewed by PBGC management rather than an individual COTR, providing an added control.

The report does, however, note some issues of noncompliance with contract or PBGC requirements and opportunities for improving the monitoring process, including:

- The COTRs did not maintain evidence of performing required reviews of all invoices submitted by the contractor; create all required status reports in the COTR Status Report System and, for those created, did not always create them in a timely manner; and document the acceptance and receipt of contract deliverables in writing.
- The Contract Specialist did not obtain required yearly invoice summaries from the Contractor.
- One of the contracts requires annual SAS 70 audits, as needed, beginning with the 12-month period ending June 30, 2004. This audit was not performed and no documentation was available to explain why this SAS 70 audit was not deemed necessary for the period.

PBGC needs policies and procedures to ensure effective procurement activities

To address the above conditions, our recommendations included:

- COTRs ensure that all required invoice reviews are performed and documented, and that acceptance and receipt of all contract deliverables are documented in writing;
- The Procurement Department establish written operating procedures, including establishing due dates for contract monitoring duties;
- The Procurement Department formalize procedures for Contract Specialist review of invoices, including determining compliance with contract terms, such as labor rates, other direct costs, and subcontracting.

Cost-Incurred Contract Audits

We initiated seven audits of PBGC contracts totaling nearly \$80 million. The objectives of these audits were to:

- Determine if costs charged are allowable, allocable, and reasonable in accordance with the contract terms and applicable government acquisition regulations;
- Determine the contractor's compliance with its timekeeping internal controls and procedures: and
- Verify that contractor's employees are performing in job classifications established by the contract and to determine the reliability of employee time records.

During this reporting period one of the audits was completed and we concluded that costs billed by the contractor were fairly stated. The remaining six audits will be completed in the upcoming months and their reports issued during the next reporting period.

5. Program Performance

Review of Adjustments to Participants' Disability Benefits and Benefits Subject to Earning Limitations (2005-PA-0016)

When PBGC terminates a pension plan, it pays benefits to the plan participants according to that plan's provisions. Each plan specifies restrictions on benefit payments. These may include terminating a disability benefit if the participant is no longer disabled, and reducing a benefit based on earned income or receipt of social security. If PBGC does not adjust the benefits according to the plan provisions, then it pays benefits to participants who are no longer eligible.

At the request of the Chief Operations Officer, we conducted a review of PBGC's ability to identify, monitor, and process required plan adjustments to participants who (1) receive disability retirement payments, or (2) are subject to earning limitations.

We have recently completed our review and met with management to discuss our findings. We will issue the final report in the 1st quarter of FY06.

Accounts Payable Review (2005-15/23189)

The OIG completed an evaluation of PBGC's Accounts Payable (A/P) process and issued our final report. We determined that PBGC has an adequate system of controls to reduce or mitigate significant risks. However, we noted potential improvements that would promote accountability and improve controls over disbursement. Consequently, we suggested that PBGC consider improving controls in several areas when designing and implementing the new A/P system:

- Document the data dictionary used to identify the types and use of data for the A/P process.
- Create a well documented audit trail for the A/P process.
- Streamline the payment certification process to make it less cumbersome.

Controls Related to the Purchase Card Program (2005-14/PA0007)

As a follow-up to a prior OIG report, we reviewed PBGC's purchase card program. As recognized throughout the government, the purchase card program is high-risk, not due to its materiality in dollars, but in its potential for fraud or abuse, high-profile public interest, and heightened congressional scrutiny. For the twelve month period reviewed, there were 53 cardholders with a combined authority to purchase about \$15 million of goods and services. Actual card expenditures for this period were about \$2.2 million.

***Some benefits
require
continuous
verification.***

Using a risk-based approach to evaluate the controls, we examined PBGC's management of the purchase card program and the employees' use of the Card. We identified two broad areas for improvement:

- Oversight of the program at all levels of participation to better monitor departments' expenditures and maintain documentation; and
- Training for individuals in the use and the approval of purchase card transactions.

We recommended that PBGC reassess the policies and procedures governing card use and strengthen its training and oversight related to the program to reduce the risk of fraud or misuse. Management agreed with our recommendations and provided a timeline for implementing their corrective actions.

Other Audit Activity

Peer Review of the Federal Reserve Board's Office of Inspector General

We conducted a quality control review of the audit operations of the Office of Inspector General of the Board of Governors of the Federal Reserve System. External peer reviews are conducted within the OIG community to evaluate the audit organization's system of internal quality control and to ensure that it complies with generally accepted government auditing standards. The peer review encompassed the elements of staff qualifications, independence, audit performance, and quality assurance. The Federal Reserve OIG officials appreciated our recognition of their recent efforts to revise policies and procedures, and to implement new audit management software which allows them to address prior peer review recommendations and strengthen their compliance with generally accepted government auditing standards.

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.

Management Decisions

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

- There were no audit reports for which there was not a management decision.
- There were no significant revised management decisions.
- There were no management decisions with which the Inspector General disagreed.

*Who "watches the watchdog"?
The Integrity Committee of the IG community receives complaints of OIG wrong-doing.*

Investigations

Overview

A major responsibility of the Inspector General is 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 protects the legal rights of whistle-blowers and complainants and takes great care to not disclose their identity without their consent.

OIG Hotline

The OIG operates a separate toll-free Hotline telephone number and a confidential Hotline post office box. The OIG Hotline telephone is answered by an investigative staff assistant for a two-hour period, Monday through Friday. At all other times, a recorded message provides information about the Hotline service and refers callers to our main telephone number.

Activity This Period

Significant Investigations

Ethical Misconduct

In a Report of Investigation, we found a PBGC manager had engaged in ethical misconduct, including soliciting and receiving a loan from an employee who was under the manager's direct supervision, and failing to list financial matters that are required on the annual Federal financial disclosure forms. PBGC management is currently considering the actions they will take.

Rewards Programs for Government Credit Card Purchases

Based on an audit referral and recent convictions in other federal agencies, we initiated an investigation into whether PBGC purchase cardholders personally used rewards and rebates offered by vendors based on government purchases. We found that, of the fifty-three PBGC government purchase cardholders, more than half participated in rewards programs offered by vendors.

OIG HOTLINE

When in doubt --

CALL!!

Significant

Investigations:

- ***Ethical
Misconduct***
- ***Purchase Card
Rewards and
Rebates***
- ***Suspicious
Package***
- ***Pension Fraud***

We found that none of the employees had received awards or personally benefited from purchases they made on behalf of the government. However, we suggested several controls to the Corporation's Internal Control Committee to prevent potential fraud and abuse.

Suspicious Package at Customer Call Center

At the request of management, OIG investigators responded to an incident at a PBGC offsite facility where a PBGC employee discovered a suspicious white powder when opening mail. The local fire department responded to the scene and declared the area safe, however, the staff remained concerned about their safety. The investigators' actions allayed the concerns. As a result of this incident, the OIG:

- consulted with management to refine PBGC policies and procedures for suspicious mail handling by PBGC employees and contractors;
- participated in a meeting with the Postal Inspection Service to discuss handling suspicious mail and set up points of contact in case of future incidents; and
- issued an Advisory Alert to PBGC employees and contractors with information about identifying and handling suspicious mail.

Pension Fraud

- The Assistant IG for Investigation worked with a Florida state's attorney to indict and prosecute an individual who created false PBGC participant checks and deposited them into a credit union. The AIGI testified in a Florida state court, resulting in the individual being convicted of uttering a forged instrument and grand theft, and receiving a 6 year sentence.
- PBGC has a "missing participants" program in which they attempt to locate thousands of participants in pension plans who are owed money by PBGC. Based on a fraud referral from two PBGC employees who noted suspicious activity, we investigated identity theft of a participant who had not received an \$11,000 pension payment. and prevented another \$21,000 payment from being issued to an identity thief. As a result, PBGC is processing the \$11,000 payment to the correct participant and is still attempting to locate the second. During our investigation, we suggested that PBGC implement several control to prevent identity theft. The investigation is on-going to identify the individual who fraudulently obtained the \$11,000 and seek prosecution.

A man was sentenced to 6 years in a Florida prison for stealing and forging a participant's check.

- We also closed 6 cases and/or inquiries that raised issues of fraud relating to pension plans and benefits, including:
 - An inquiry in response to several participants' complaints that a firm from Ohio fraudulently stated that the PBGC was terminating their pension plan and that they needed to call the firm to discuss options. We contacted the Ohio firm, reviewed their mail and telephone contact information and found no reference to the PBGC at all. We then tracked the source of the alleged fraud to a local union's web site that had posted an e-mail from one of their members. When we contacted the local union with the correct information, they agreed to notify their membership through the local union meeting and by posting a retraction to their website. Our efforts stabilized a sensitive situation by correcting misinformation and relieving the anxiety of some PBGC participants.
 - An inquiry that substantiated an elderly participant's claim that she did not receive a pension check of \$1,574.00, and the check was re-issued.

Fraud and Advisory Alerts

As part of our strategic plan, we continuously seek to give our stakeholders a better understanding of OIG efforts to detect and prevent fraud. We periodically issue e-mail "Alerts" to all PBGC employees and contractors that provide practical advice to protect themselves from fraud and other harm. This period we issued Alerts concerning:

- Cell phone phishing, which is a method to steal confidential information such as passwords, credit card numbers, and other financial information from your cell phone through various scams. For example a bogus text message may ask you to call an 800 number. When you call the number, the scammer extracts your phone number, which is then used to make unauthorized calls (perhaps for nuisance purposes) or sold to others for criminal use.
- How to identify suspicious mail at home and work, and steps to protect themselves when handling such mail.

Follow-up on Agency's Administrative Action

PBGC's E-systems Uses for Offensive Material

In a prior reporting period, we issued Reports of Investigation involving 30 federal employees and contractors who were using U.S. Government computers and the PBGC e-mail system to view, share, and store pornographic and other inappropriate material. Based on the investigation, PBGC contractors terminated 8 employees and counseled 3 others. PBGC suspended one federal employee and issued letters of reprimand/counseling to 15 others.

Alerts provide employees and contractors fraud and consumer awareness tips.

SUMMARY OF INVESTIGATIVE ACTIVITIES

For The Six-month Period Ending September 30, 2005

Investigations

Pending beginning of period	35
Opened	9
Closed	31
Pending end of period	13

Inquiries

Pending beginning of period	14
Opened	23
Closed	28
Pending end of period	9

Financial Recoveries*

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

Criminal Actions*

Arrests	0
Indictments	1
Convictions	1

Administrative Actions*

Terminations	0
Suspensions	1
Oral or Written Reprimand	15

Referrals

For Prosecution:	
Department of Justice	1
Declined	1
Various States' Attorney Offices	0
Declined	0
For Other Action:	
PBGC Management for Corrective Action	1

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

Other Office of Inspector General Activities

Review of Proposed Statutory and Regulatory Changes

Statutes

A major responsibility of the OIG under the IG Act is to independently review changes to laws and regulations that are proposed by PBGC. PBGC continued to work with the Departments of Labor, Treasury and Commerce to support the Administration's major pension law reform proposals to provide simplicity, flexibility, accuracy and stability in the defined benefit pension insurance program that PBGC administers.

Regulations

PBGC has engaged in a major effort to streamline its regulations and to improve administration of the pension insurance program, with a focus on making pension-related information more accurate, complete and transparent. The Corporation issued proposed and final rules in a number of areas, including a mandatory e-filing rule, adopting more current mortality assumptions for valuing pension benefits, and revised employer liability calculations when there is a substantial cessation of operations. Upon review, we believe the regulatory changes are reasonable.

Internal PBGC Activities

OIG staff members have engaged in several activities within PBGC to promote fraud prevention, improve relationships between the OIG and PBGC, and provide consultations to managers to improve agency operations. Among these activities are the following:

- The OIG prepared briefing books and the Inspector General met with the new executives – Chief Financial Officer, General Counsel, and Chief Administrative Officer - in their first days at PBGC. Both the audit and investigative units have met with these executives to brief them on their work, and inquire about concerns and ways we might work together to strengthen internal controls.
- We continued to work with executive management to strengthen PBGC's ethical environment, including discussions with the General Counsel about specific issues for training, reviewing proposed ethics policies and messages to employees, and talking about ethics to senior leaders.
- Two OIG auditors culminated their participation in a special leadership mentoring program, "Building Your Leadership Toolbox." This nine-month program gave a small group of employees the opportunity to work directly with senior PBGC managers, discussing best practices

We worked with management to strengthen PBGC's ethical environment

OIG has been active in mentoring programs, as senior mentors and mentorees

and completing developmental assignments. Both the Deputy IG and the Assistant IG for Audit were senior mentors, leading sessions in Oral Communications and Leadership. The mentorees were challenged to use the skills they learned in a final group project: develop a comprehensive communication package for PBGC's facilities department to prepare employees for upcoming major building renovations. The group designed a program that uses technology to deliver information to employees, which includes checklists, timelines and suggested communications to employees to ease the stress of dealing with renovations and moving. They presented their project to the facilities department, the senior mentors and their supervisors and delivered a comprehensive project notebook to the department.

- The OIG continues to be very involved in PBGC's other structured mentoring programs:
 - The Inspector General and Deputy IG completed a nine-month program as one-on-one mentors to two PBGC employees who are not in the OIG,
 - The Assistant IG for Audits will join the Inspector General as a mentor in another nine-month one-on-one mentoring program, and
 - The Inspector General is again serving as an executive mentor in the "Leaders Growing Leaders" program.
- To assist PBGC in issuing benefits to those displaced by Hurricane Katrina, we coordinated with the United States Postal Service OIG investigative team that was on-site in Louisiana to get answers to PBGC's specific questions. After hurricane Katrina, PBGC quickly identified 3,500 participants in the region who had no mail service, and then narrowed it down to about 1,400 who receive monthly paper checks. Demonstrating their commitment to ensuring these hard-hit people received their payments, PBGC pledged next-day direct deposit transfers for beneficiaries in Louisiana, Mississippi and Alabama who did not receive their September checks. PBGC was also willing to accommodate special requests for those who preferred to receive a check, rather than direct deposit.
- OIG staff participated as observers and evaluators in the April 2005 all-agency COOP test and the August 2005 information technology systems COOP test.

External Activities

Various staff members participated in external professional activities, including the following:

- The Inspector General represents the Executive Council on Integrity and Efficiency on IG Community's Human Recourses Committee. He also chairs

the Committee's "Core Competency" Working Group, which completed two major projects during the period that will help the Inspector General community improve professional staff development:

- The first project resulted in a training compendium of competencies that are common to all occupations in an Office of Inspector General regardless of level—leadership, management and team skills. Looking at best practices in the private and public sectors, the Working Group identified training curricula for auditors, inspectors, criminal investigators, attorneys, and other professionals. The compendium will allow the IG community to readily identify vendors and courses that provide core competency training at the entry, intermediate and advanced levels.
- The second project resulted in a report that assessed the ability of IG schools (the IG Management Institute, IG Criminal Investigator Academy, and the IG Auditor Training Institute) to support the training needs of the IG Community. The Working Group concluded that the governance and business models for the schools could be improved to better support the training needs of the entire community. The report's recommendations called for consolidating the schools, establishing an overarching governance mechanism, and developing a more integrated approach to training. Based on the report, the IG Community is considering a proposal to consolidate the schools under a single Board of Directors.
- Along with 34 other OIGs, we are participating in a pilot IG Community E-Learning project using Skillsoft, Inc. to develop, maintain, and operate online training courses to measure the competency and skill level of the IG staff in the audit, investigation, and administration disciplines. At the completion of each course, the participant receives continuing education credits and a certificate of completion. In addition, Books 24x7 provides over 7,000 reference books that can be searched by keywords. If successful, this would assure that OIG staff member have consistent training and should reduce the dependence on outside training.
- An OIG Auditor continues to work on a government-wide working group to improve the overall efficiency and effectiveness of FISMA reporting for all agencies, both large and small. The working group is comprised of members from the OIG community, the Government Accountability Office and the Office of Management and Budget.
- The IG serves on the International Conference Committee of the Institute of Internal Auditors. The Committee focuses on identifying trends in internal auditing and organizing and hosting international professional development conferences.

PBGC's IG played a key role on two projects to improve staff development in the IG community

Did you know... the OIG community is piloting online learning for core curriculum?

*OIG has identified
and corrected
vulnerabilities in its
systems*

- The IT Audit Manager serves as the Program Committee Chair for a chapter of the Information Systems Audit and Control Association (ISACA). This committee is responsible for setting the program for the membership's monthly meetings including topics and speakers to further the knowledge and skill level of its membership. All programs provide members an opportunity to receive continuing professional education credits to meet their certification requirements in the fields of audit, technology, security, controls, and management for both the private and public sectors.
- To better understand PBGC issues and congressional concerns, each OIG staff member attended a congressional hearing related to PBGC.

Internal OIG Initiatives

Certification and Accreditation of OIG Local Area Network (LAN)

In June 2004, the OIG began to evaluate its compliance with the National Institute of Standards and Technology (NIST) Special Publication 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems. We determined that the network system used for all of the OIG communication and access to PBGC applications was a significant system warranting compliance.

Of the 43 items requiring corrective action, all but two have been corrected and full accreditation will be granted (currently acceptable for 3 years) by the end of October 2005.

OIG COOP Support to Alternate Site

The OIG continues to implement a move of its backup equipment, including all servers to support access to applications and e-mail to a remote Continuity of Operations site. With this move, the OIG will join PBGC in relocating its backup support to a hot-site outside of the immediate Washington, DC area. This move will enable the OIG to provide continued support to its staff in the event its headquarters offices are not available. Once all equipment is in place and functional, the OIG will join PBGC in testing the COOP at least twice a year.

OIG Strategic Plan

We completed a Strategic Plan that is a roadmap for where we are today, where we want to be tomorrow, and how we will get there. We believe the strategic planning is a critical aspect of managing for results and continuously improving performance. The entire staff participated in developing the goals and performance measures, and we want to hold ourselves accountable for results.

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.	21
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-14,17-19
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-14,17-19
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	27
Section 5(a)(4)	Matters referred to prosecutorial authorities.	17-19
Section 5(a)(5)	Summary of instances in which information was refused.	15
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use.	26
Section 5(a)(7)	Summary of each particularly significant report.	5-14,17-19
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	24
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	24
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.	15

REPORTS ISSUED WITH QUESTIONED COSTS* AND FUNDS PUT TO BETTER USE

For the Six-Month Period Ending September 30, 2005

	Number of Reports	Questioned Costs	Unsupported Costs**	Funds put to Better Use
A. For which no management decision had been made by the commencement of the reporting period.***	7	\$16,688,747	\$1,377,154	-0-
B. Which were issued during the reporting period	1	\$16,965	-0-	-0-
Subtotal (Add A. & B.)	8	\$1,466,748	\$1,377,154	-0-
C. For which a management decision was made during the reporting period.	1	\$15,353,425	-0-	-0-
(i) dollar value of disallowed costs		\$2,417,073	-0-	-0-
(ii) dollar value of costs not disallowed		\$12,936,352	-0-	-0-
D. For which no management decision had been made by the end of the reporting period.	7	\$1,352,287	\$1,377,154	-0-
E. For which no management decision was made within six months of issuance.	6	\$1,335,322	\$1,377,154	-0-

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

**For some reports issued by the Contracts and Control Review Department(CCRD), unsupported costs are a subset of questioned costs.

*** Includes multiple CCRD reports of a contractor with \$15,238,964 of questioned costs issued in prior years for which the Contracting Officer negotiated a settlement of \$2,381,208 in this period.

SIGNIFICANT PROBLEMS, DEFICIENCIES AND RECOMMENDATIONS

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
98-3/23126-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 1997 - 1996 Financial Statements 03/23/1998	1**	Reportable Condition: Integrating Financial Management Systems	PBGC needs to complete the integration of its financial management systems.
2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2001 - 2000 Financial Statements 01/30/2003	2**	Reportable Condition: Implementing & Enforcing Information Security Program	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2005-2/23182-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2004 - 2003 Financial Statements 11/15/2004	5	Reportable Condition: Improving Single-Employer Premium Accounting System	PBGC needs to improve controls related to single-employer premiums.
2005-2/23182-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2004 - 2003 Financial Statements 11/15/2004	7	Reportable Condition: Identifying & Classifying Contingent Liabilities for Single-Employer Program	PBGC needs to continue to improve its controls over the identification and measurement of the single-employer contingent liabilities.
2004-2/23176-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2003 - 2002 Financial Statements 1/15/2004	6**	Reportable Condition: Identifying & Classifying Probable Multi-Employer Plans	PBGC needs to strengthen controls over the identification and classification of multiemployer plans probable of receiving financial assistance.
2005-2/23182-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2004 - 2003 Financial Statements 11/15/2004			

* This chart complies with Section 5(a)(1)(2)(3) and (6) of the Inspector General Act of 1978, as Amended.

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

Glossary

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; because such cost is not supported by adequate documentation; or because 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 the 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 described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.

Misconduct

Action of employees or contractors that violates laws, rules, or regulations and 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.

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 write:

Pension Benefit Guaranty Corporation
Office of Inspector General
PO Box 34177
Washington, DC 20043-4177