

PENSION BENEFIT GUARANTY CORPORATION OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

October 1, 2005 to March 31, 2006



“THERE COMES A TIME WHEN ONE MUST TAKE A POSITION THAT IS NEITHER SAFE, NOR POLITIC, NOR POPULAR, BUT ONE MUST TAKE IT BECAUSE ONE’S CONSCIENCE TELLS ONE THAT IT IS RIGHT.” -- martin luther king, jr.

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

May 1, 2006

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 March 31, 2006. 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.

In this report, we highlight work addressing areas we've identified as PBGC's major management challenges. Though our work identified several problems during this reporting period, I am pleased to report that PBGC made considerable progress in addressing these challenges. Our financial audits have identified significant improvements in internal controls and corporate governance; efforts are underway to reassess contracts for field operations; PBGC is working hard to implement a consolidated financial system by yearend; and we have worked closely with the Office of General Counsel to improve oversight of contracts. I am particularly pleased with the Chief Financial Officer's efforts to assign accountability and aggressively oversee corrective actions for audit recommendations.

Despite this progress, management and OIG agree that much will need to be done to address unprecedented financial challenges. PBGC has sufficient resources to pay participants guaranteed benefits for a number of years, but 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.

There is little doubt that the Corporation will continue to deal with dramatic increases in workload and a growing deficit caused by terminations of underfunded plans. Increasingly, PBGC is involved in bankruptcies where stock is received for unfunded pension liabilities. These types of complex financial transactions will require the Corporation to develop strong policies and procedures to protect the interest of participants in trustee plans. In the coming months, we will evaluate the Corporation's process for these types of transactions and make recommendations to improve controls.

We are very proud of our investigative unit's work to obtain indictments of those involved in an identity and pension check theft scheme, aimed at protecting the pension benefits of participants and safeguarding PBGC assets. Aaron Jordan, our new Assistant Inspector General for Investigations, will increase our capability with a wealth of experience in contract and financial investigations. Our investigators will continue to work with management to improve controls and prevent fraud, and we will continue to collaborate with the Office of General Counsel to strengthen the ethical environment.

In closing, I want to express my gratitude for your support of my office as well as the spirit of cooperation from the management. 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.

A handwritten signature in cursive script, reading "Robert L. Emmons".

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	21
Review of Proposed Statutory and Regulatory Changes	
Internal PBGC Activities	
External Activities	
Internal OIG Activities	
Appendix	25
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 ☒	28

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 October 1, 2005, through March 31, 2006. 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 focused on strengthening financial oversight, ethics and communication (see page 5).
- Financial management— we issued the 13th consecutive unqualified financial statement audit opinion and management letter reports for financial and information technology issues, sponsored “lessons learned” survey and discussions sessions along with the Chief Financial Officer (see page 6).
- Information technology — our FISMA report highlighted a concern about systems certification and accreditation, Continuity of Operations became a reportable condition as the result of a major disruption of e-mail and business systems (see page 9).
- Procurement and contracting—we audited PBGC’s procurement process and four large-dollar contracts (see page 11).
- Program performance—we evaluated PBGC’s process for verifying participants’ continued eligibility for disability benefits and earnings limitations (see page 14).

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 23 new cases, and closed 13 cases and 18 inquiries. Significant investigative work this period included:

- uncovering a fraud scheme that spans several states to steal the identity of “missing participants” and obtain pension checks ranging from \$4,000 to \$21,000 (see page 17);
- working a joint investigation with the Social Security Administration to obtain prosecution of a deceased participant’s daughter and restitution of money paid to her (see page 18); and
- multiple briefings and outreach activities focused on fraud prevention and detection (see page 18).

OIG staff participated in many internal and external activities, including active participation in several PBGC mentoring programs as senior mentors, and activities impacting the IG community. The Inspector General was elected as Chairman of the Board of Governors of the newly-formed Inspector General Institute.

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 our mission, the OIG conducts agency audits, inspections, and investigations to provide our stakeholders with information they need to make decisions.

This period saw significant change in OIG personnel: we welcomed a new Assistant IG for Investigations, Aaron Jordan, and a new investigator; we said good-bye to 2 auditors. Of the 22 authorized positions, we are currently recruiting to fill five 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:

Each month, PBGC pays about \$300,000 in pension benefits to about 600,000 retirees.

The OIG is committed to our values of respect, excellence and integrity.

***OIG briefs the Board
of Directors on its
work twice each year.***

- Does PBGC have a governance model that ensures 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 and reviews 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 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 to address financial management, information technology, procurement and contracts, and program performance issues. 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. Equally important is the ethical tone set by PBGC leaders as we conduct our business. Examples of the Board's and the Corporation's demonstrated commitment to effective financial and program oversight include:

Financial Oversight

- Recognizing that PBGC might significantly impact the economy because of its claims in some of the nation's largest bankruptcies, the Board indicated its interest in setting policy to guide PBGC's bankruptcy claims' settlement.
- The Board approved changes to PBGC's investment strategy recommended by management.
- The Chief Financial Officer (CFO) clarified his accountability role and responsibility for financial reporting, 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 Chief Administrative Officer strengthened oversight of procurements, focusing on issuing performance-based contracts.

Ethics

- The General Counsel co-presented training with the Inspector General on ethical leadership.
- The Chief Financial Officer took swift action to notify managers of and correct an improper timekeeping practice.

The PBGC Board of Directors is comprised of the Secretaries of Labor, Commerce and Treasury.

We work closely with the Office of the General Counsel to promote an ethical working environment.

Communication

- The Executive Director continued his commitment to better communication within PBGC through monthly messages to all employees and swift intervention when the OIG raised concerns about management responsiveness to issues.
- The Consolidated Financial Systems Steering Committee, in which the IG participates as a non-voting member, continues to meet regularly to monitor implementation progress and discuss issues and barriers to success.

The Board of Directors, which includes the Secretaries of Labor, Treasury and Commerce, met in February 2006 to discuss critical issues and oversee corporate management and initiatives. The meeting included an executive session with the 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.

2. Financial Management

PBGC is a major government enterprise that manages assets of more than \$57 billion. In FY 2005, the Corporation paid out about \$3.7 billion in benefit payments to retirees.

Additionally, PBGC is suffering severe financial losses as a result of terminated pension plans. For these reasons, strong financial management controls are needed to protect assets and minimize costs. OIG continues to focus much of its work on financial management issues to help PBGC address this challenge.

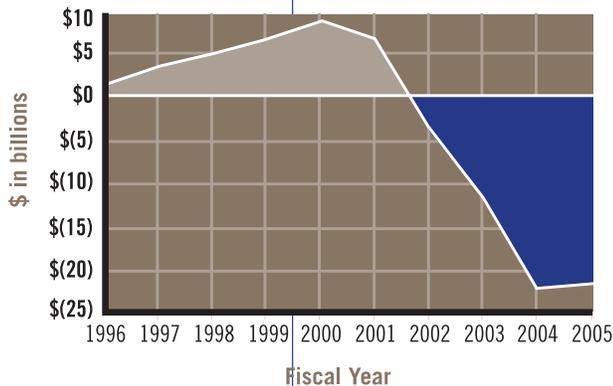
As of September 30, 2005, the single-employer and multiemployer programs reported deficits of about \$22.8 billion and \$335 million, respectively. This was a slight improvement over FY 2004, in which PBGC reported the largest deficit in its 30-year history of more than \$23 billion.

- The single-employer program had assets of nearly \$56.5 billion which is offset by total liabilities of \$79.2

billion. PBGC's liabilities in the single-employer program are primarily comprised of the present value of future benefits it owes to participants in terminated and trusteed pension plans. In FY 2005 the liability for future benefits was approximately \$69.7 billion.

- The multiemployer program had assets of approximately \$1.2 billion offset by liabilities of approximately \$1.5 billion. In this program, plans are not terminated but rather PBGC pays financial assistance to insolvent plans for payment of guaranteed benefits and administrative expenses. Liabilities in the multiemployer program are the present value of non-recoverable future financial assistance.

NET POSITION, SINGLE-EMPLOYER PROGRAM 1996 – 2005



Despite these deficits, the Corporation has sufficient liquidity to meet its obligations for a number of years; however, neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

For the second year, PBGC issued its audited financial statements by the November 15th deadline. This was made possible by a team effort of the Board Representatives, PBGC management, Clifton Gunderson LLP, and the OIG.

PBGC continues to make good progress in improving financial management. This is the 13th consecutive year PBGC has received an unqualified opinion on its financial statements. PBGC also made significant progress in correcting internal control weaknesses. Two reportable conditions that were reported last year were corrected: contingent liabilities for the Single-Employer Program Fund and identifying and classifying probable Multiemployer plans.

[Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2005 and 2004 Financial Statements \(2006-1/FA-0014-1\)](#)

We contracted with the independent public accounting firm of Clifton Gunderson LLP to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2005. The audit was performed in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and the GAO/PCIE Financial Audit Manual.

Clifton Gunderson's financial audit found:

- The financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- PBGC's assertion about internal controls over financial reporting was fairly stated, however, there were four reportable conditions: financial management systems integration, information security, and single-employer premiums, and preparedness for unanticipated incidences and disruptions, which is new this year.
- No instances of noncompliance with tested laws and regulations.

The financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2004 were audited by other auditors whose report expressed an unqualified opinion on those financial statements (November 12, 2004, OIG Report 2005-2/23182-2).

PBGC is working to correct four Reportable Conditions:

- Systems Integration*
- Information Security*
- Single-employer Premiums*
- Planning for Unexpected Systems Outages*

While we are encouraged by the Corporation's efforts to improve financial management, PBGC management understands that further improvement is needed. The Corporation still has three reportable conditions related to its financial reporting that were reported in prior years. Integration of financial systems is the Corporation's biggest challenge because it addresses many of the control weaknesses in the remaining reportable conditions. PBGC plans to implement a new general ledger system as part of PBGC's corrective action plan to correct the systems integration issue. The project is under contract and should be through its major milestones for general ledger consolidation and be into the second round of business process reengineering by mid-FY 2007.

The most important ingredient in correcting the remaining reportable conditions is continued strong commitment on the part of management to implement corrective actions. PBGC management continues to emphasize the importance of correcting all of the reportable conditions. OIG is meeting routinely with the Chief Financial Officer and Department Directors to discuss reportable conditions and review corrective action plans.

[Fiscal Year 2005 Financial Statement - Management Letters Financial \(2006-5/FA-0014-2\) and Information Technology \(2006-6/FA-0014-3\)](#)

During the financial statement audit, Clifton Gunderson identified internal control weaknesses related to financial reporting and information technology that were not included in their audit reports. We issued two management letters to summarize these findings and recommendations—one for financial reporting and one for information technology. Some of the significant recommendations included PBGC's need to:

- Develop and implement procedures to ensure timely monitoring and analysis throughout the year;
- Establish controls to restrict unnecessary access to participant records;
- Ensure errors in the Participant Records Information Systems Management (PRISM) are corrected;
- Enhance reconciliations between status reports and PRISM;
- Develop, document and implement procedures to timely issue statements of account and past due filing notices for premiums owed PBGC;
- Implement corrective actions more timely;
- Improve risk management within the information technology areas, in both infrastructure and systems; and
- Enhance its ability to provide continuity of operations in the event of an unexpected interruption to normal business processes.

Each of the recommendations was thoroughly discussed with PBGC management and they agreed to implement corrective actions.

Lessons Learned from FY 2005 Financial Statement Audit (2006-10/FA-0023)

For the second year, the OIG, in cooperation with the Chief Financial Officer, conducted a survey to identify lessons learned during the FY05 financial statement audit. After survey responses were compiled, key stakeholders met to discuss and provide suggestions for improvement. Our goal is to incorporate best practices into future financial statement audits and improve on those practices and procedures that were not efficient or effective. Best practices identified include:

- The auditors' notice of findings reports notified managers in a written format of identified audit findings and recommendations. This served as an early warning system to management of potential findings, providing an opportunity to respond and discuss them with the auditors before disclosure in a draft report.
- Following the theme of reporting early, the auditors also provided a copy of their internal control report to the Corporation in mid-October, about a month earlier than in past years.
- Regular audit status meetings with key stakeholders were a means to provide information on audit issues, obstacles, and time lines.
- The Chief Financial Officer began conducting quarterly close meetings, and auditors were invited to participate in open discussion about the various financial statement accounts. This was a best practice we identified in last year's lessons learned report, to reduce the pressure to close the records at year-end and help meet the November 15 deadline.

There were also a number of suggestions for improvement in the financial processes and procedures, among them:

- The auditors will look for opportunities to familiarize PBGC managers and staff on the purpose, scope and methodology of the audit to promote a better understanding of the audit process and why the auditors need requested information.
- To promote greater accountability and communications, the Chief Financial Officer will emphasize that he is PBGC's point of contact responsible for coordinating and directing management activities that support the audit.
- There will be a single Provided By Client (PBC) list for all documents and a single Management Letter Report, rather than separate lists and reports for financial and IT documents and findings.

While all of these lessons learned are important, there are two ongoing initiatives that we believe will help make meeting the annual November 15 deadline a more routine business practice:

- continuing to close the financial records quarterly, and
- completing the consolidation of the Corporation's three general ledgers.

Lessons Learned:

- *Early reporting of audit findings*
- *Rigorous quarterly closing process*
- *Regular status meetings*

3. Information Technology

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.

Federal Information Security Management Act (FISMA) Report

PBGC continues to improve its information security infrastructure in compliance with the Federal Information Security Management Act of 2002, as reported to the Office of Management and Budget (OMB). During FY 2005, PBGC took steps to identify levels of security required to control and protect its assets and information, and further improve its security program, including:

- Improving the monitoring and auditing process;
- Performing semi-annual certifications of system servers to ensure implementation of current security updates;
- Improving security awareness training by implementing computer-based training and briefings with awareness videos for annual and newly hired personnel training;
- Improving security awareness for detecting, reporting, and responding to security incidents; and
- Improving overall external access to PBGC systems.

OIG has reported information security internal controls and operational conditions as a reportable condition since 2002. Although progress is being made in some areas related to information security, PBGC needs to enhance its efforts in the areas of organizational responsibility and authority, policy development and implementation, risk assessment and mitigation, and physical security controls.

We are concerned about the lack of progress on the certification and accreditation of major business and general support systems. We previously reported this issue in our FISMA report, and OMB has increased its focus on certification and accreditation. PBGC has developed and implemented a plan to evaluate its major business and general support systems over a three-year period. Although this generally complies with OMB A-130 guidance, PBGC has not fully complied with requirements to formally document the certification and accreditation process and produce letters supporting the accreditation of its business and general support systems. Additionally, PBGC needs to identify and improve its adherence to other requirements and guidance, such as the National Institute of Standards and Technology (NIST) Special Publications 800-37 *Guide for the Security Certification and Accreditation of Federal Information Systems*, 800-53 *Recommended Security Controls for Federal Information Systems* and Federal Information Processing Standards Publication (FIPS) 199 *Standards for Security Categorization of Federal Information and Information Systems*.

We remain concerned about PBGC's progress in systems certification and accreditation.

We are encouraged that management continues its work on another reportable condition: to integrate its financial systems to improve operational efficiency and effectiveness as well as data security. PBGC made significant progress on the Consolidated Financial Systems project in FY 2005. The project is targeted to be through its major milestones for general ledger consolidation and into the second round of business process reengineering by mid-FY 2007.

Preparedness for Unanticipated Systems Disruption

PBGC suffered a major disruption in its e-mail and business systems in September 2005. Although PBGC has developed significant elements of a Continuity of Operations Plan (COOP), service continuity control deficiencies impacted PBGC's ability to respond to a disruption in business operations. Losing the capability to process and protect information maintained on PBGC's computer systems can significantly impact PBGC's ability to accomplish its mission, maintain productivity, and ensure financial integrity. As a result, the need to strengthen its preparedness for unanticipated incidences and disruptions became PBGC's fourth reportable condition in this year's financial statement audit.

PBGC contracted for an independent review of PBGC's information technology infrastructure and its ability to support a recovery of operations. The report concluded that multiple failures occurring in a short period of time contributed to the outage, and recommended that PBGC perform a comprehensive risk assessment of the information technology infrastructure to react to a similar situation and better support the recovery of essential systems. Management provided their corrective action plans, and we will review the effectiveness of their actions during the annual financial audit.

The OIG will continue to monitor COOP testing and provide feedback to help management achieve their goal of having a reliable plan for recovery of operations in an emergency.

ID Badge Management

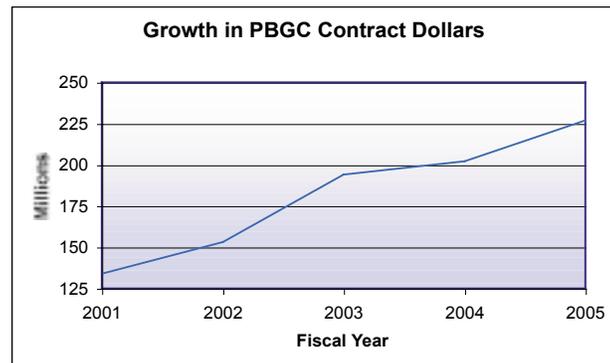
As a result of work performed during the FY 2005 Financial Statement Audit, PBGC has on-going initiatives to strengthen building security by improving ID badge management. Until the Homeland Security Directive HSPD-12/Personnel Identification Verification program is implemented, PBGC is looking for ways to improve its ability to identify and verify employees and contractors. At PBGC's request, the OIG benchmarked PBGC's methods for identifying and verifying staff with nine Federal agencies. PBGC plans to use the benchmarking information to identify best practices.

PBGC needs to minimize risk of unplanned systems disruption.

4. Procurement and Contracting

PBGC contracting activity doubled from 1999 to 2005, and the Corporation reports that it spends about two-thirds of its annual budget through contracts. This volume of expenditures makes contract management a major challenge and we devote a significant portion of our audit resources to overseeing 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.



Procurement Cycle Performance Audit (2006-9/CA-0010)

OIG contracted with an Independent Public Accountant (IPA) to audit whether the Procurement Department's process for acquisitions in excess of \$2,500 complied with specific provisions of PBGC's financial management directives and policies and the Federal Acquisition Regulation (FAR).

Overall, the PBGC procurement process was operating effectively, however, the audit identified instances of noncompliance with PBGC financial management directives and policies. In addition, PBGC lacks comprehensive documentation of the procurement process for originators, Contracting Officer's Technical Representatives (COTRs), and Contract Specialists to use. For example,

- Large purchase contract files maintained by the Procurement Department, General Accounting Branch, and the COTR did not contain all documentation required by PBGC directives, policies and procedures, and the FAR.
- The COTR/contract database maintained by the Procurement Department did not always contain the most up-to-date contract administration information.
- Final invoices certified for payment by the COTR were not always indicated as being the final invoice under the large purchase.
- Large purchases were not always closed-out within the time requirements established by the FAR.

Audit of PBGC Contractor for Actuarial Services (2006-2/CA-0011)

Using an IPA, we conducted an incurred cost audit on a contract for actuarial services for fiscal years ended September 30, 2003 and 2004. The contract was valued at \$12.3 million. The audit objective was to assess whether amounts billed to PBGC by the contractor were allowable, reasonable, supported, and consistent with contractual provisions. The audit resulted in questioned \$2.1 million in costs related to the following issues:

- Adequate support documentation for labor hours was not maintained for three current employees of the contractor.
- Adequate support documentation for labor hours was not maintained for 14 separated employees of the contractor.
- Work hours for non-work activities were not reduced for one employee of the contractor.

Agreed-Upon Procedures Report on PBGC Actuarial Contractor (2006-2/CA-0012)

OIG contracted with an IPA to conduct Agreed-upon Procedures on a contract issued for actuarial services. The contract was valued at \$3.7 million. The audit objective was to assess whether amounts billed to PBGC by the contractor were allowable, reasonable, supported, and consistent with contractual provisions. The audit resulted in questioned \$1.2 million in costs related to the following issues:

- Adequate support documentation for labor hours was not maintained for two current employees of the contractor.
- Adequate support documentation for labor hours was not maintained for 11 separated employees of the contractor.

The report recommends corrective actions including a determination of the allowability of the questioned costs and initiation of necessary collection actions.

Incurred Cost Audit of PBGC Contractor for Systems Development Work (2006-4/CA-0022)

We contracted with the Defense Contract Audit Agency (DCAA) to conduct an audit of incurred costs on two contracts issued to a PBGC contractor: one for systems administration for PBGC's Participant Application Maintenance Team, and another for software development services for the Participant Records Information Systems Management. The contracts were valued at \$7.3 million and \$1.4 million, respectively. The audit objective was to determine the allowability of direct and indirect costs, and to establish audit-determined indirect costs rates for the next contract year. DCAA

***Our contract audits
identified more
than \$3 million in
questioned costs.***

questioned costs of \$42,687 for the fiscal period under their review. These questioned costs are a result of the contractor exceeding the indirect ceiling rate for direct labor that was established by the contract. The contractor concurred with the audit results and we recommended to PBGC's Procurement Director to initiate the necessary collection actions of \$42,687.

Incurring Cost Audit of PBGC Contractor for Actuarial Services

The OIG conducted an audit of incurred costs on two contracts issued for actuarial services to PBGC. The contracts were valued at \$1.5 million and \$18.4 million. Our audit objective was to assess whether amounts billed to PBGC by the contractor were allowable, reasonable, supported, and consistent with the terms and conditions of the contract. We did not identify any questioned costs or audit findings related to the contractor for either contract we audited.

5. Program Performance

Audit of Disability Benefits and Earnings 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 the benefit if the participant is no longer disabled, and reducing the 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 Operating Officer, we conducted an audit 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. Based on our work, we concluded that PBGC needs to:

- establish an overall policy to identify and verify plan participants' continuous eligibility to receive disability benefits,
- identify the universe of participants receiving disability payments, and
- include the controls necessary to identify and monitor participants to verify continuous eligibility to benefits in information systems.

PBGC management agreed with our findings and agreed to implement actions that satisfy the intent of our recommendations.

At PBGC's request, OIG evaluated the process for verifying continued eligibility for disability benefits.

Other Audit Activity

Developed Contract Risk Assessment Tool

When we assumed the contract audit function in September 2004, we selected contracts for audit based primarily on the value of contracts. After benchmarking with other OIGs, we developed a risk assessment model that includes factors such as contract type, prior audits with questioned costs, the contractor's adverse publicity, and the total value of the contracts. We will apply the model to PBGC's contract database semiannually to assess and select contracts for audit.

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.

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 not to 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

Identity Theft in the Missing Participant Program

When a pension plan terminates, some participants who are owed a benefit may not be located. PBGC assumes responsibility for locating and paying these “missing participants” who are in pension plans that PBGC insures. PBGC has a database of more than 26,000 “missing participants” who are owed more than \$75 million dollars.

PBGC referred suspicious activity for 15 different participants who were issued benefit checks ranging from \$4,000 to \$21,000. We have uncovered a fraud scheme that spans several states with:

- Checks redirected through fraudulent address changes to the local DC metropolitan area;
- 15 fraudulent birth certificates from 5 States; and
- 5 banks in 3 States with evidence of money laundering, bank fraud, and forgery.

Conspiracy

Money Laundering

Fraudulent Birth Certificates

Fraudulent Documents

= Pension Fraud

We continuously promote fraud prevention and detection.

We have tracked the majority of the checks to the actual individuals who cashed the pension checks and are working with PBGC to have the checks re-issued to the correct individuals. To date, there has been more than \$174,000 scammed from the Missing Participant Program.

In the Western District of Pennsylvania, we are working with a financial crimes task force in concert with an Assistant United States Attorney. We have one indictment pending with the potential of others to follow. In addition, we noted several internal control weaknesses that enabled the identity thieves to perpetrate their fraud, which we have reported to PBGC. This is an ongoing investigation.

Pension Fraud

We are currently working a joint investigation with the Social Security Administration (SSA) Office of Inspector General involving an over payment of \$15,000 from the PBGC and more than \$6,500 from the SSA. After a participant died, her daughter failed to notify either PBGC or SSA of the death so that monthly payments continued. The daughter then used the funds for personal purposes. Restitution and Federal prosecution is pending.

We closed 8 inquiries that raised issues of fraud relating to pension plans and benefits.

Fraud Prevention and Detection

As part of our strategic plan, we continuously seek to give our stakeholders a better understanding of the roles they and the OIG have in detecting and preventing fraud.

- The AIGI met with the Director of the National Capital Region, Federal Protective Service (FPS) to discuss the viability of the FPS providing coverage for PBGC. As a result, the OIG arranged a subsequent meeting between the FPS and PBGC's Facilities department. The FPS provided a limited physical vulnerability site survey for the PBGC. Further action is pending another meeting between PBGC and the FPS.
- While presenting fraud awareness briefings in agency training on a new time keeping system, we learned of a significant internal control weakness related to managers' certifying their employee's time. We alerted the CFO, who immediately issued guidance to all PBGC managers about their certification responsibilities and warning of possible discipline for violations.
- The investigators are speaking to Federal employees about the OIG mission and fraud prevention in PBGC training on the new e-travel system.

SUMMARY OF INVESTIGATIVE ACTIVITIES

For The Six-month Period Ending March 31, 2006

Investigations

Pending beginning of period	13
Opened	23
Closed	13
Pending end of period	23

Inquiries

Pending beginning of period	9
Opened	19
Closed	18
Pending end of period	10

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	0
Convictions	0

Administrative Actions*

Terminations	0
Suspensions	1
Oral or Written Reprimand	0

Referrals

For Prosecution:	
Department of Justice	3
Declined	0
Various States' Attorney Offices	
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. The Administration had proposed major pension reform to provide simplicity, flexibility, accuracy and stability in the defined benefit pension insurance program that PBGC administers. Both the U.S. Senate and House of Representatives passed pension reform legislation; as a result, a Conference Committee was recently convened to reconcile the various provisions. PBGC, along with the Departments of Labor, Treasury and Commerce, has been working with Congressional staff to maximize the protection of pension plan participants.

Regulations

PBGC continues 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. PBGC issued a final rule on mortality assumptions, and rules relating to liability under ERISA section 4062(e) and mandatory premium electronic filing are under review at the Office of Management and Budget (OMB). We reviewed and commented on these rules in prior reporting periods.

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:

- As part of our on-going effort with executive management to strengthen PBGC's ethical environment, the Inspector General and General Counsel provided ethics training to supervisors and staff that emphasizes ethical leadership and encourage thinking beyond the requirements of ethics regulations.
- The OIG continues to be very involved in PBGC's other structured mentoring programs:
- The Inspector General and Assistant IG for Audit are participating in a nine-month program as one-on-one mentors to two PBGC employees, and
- The Inspector General is again serving as an executive mentor in the "Leaders Growing Leaders" program.

PBGC's goal for regulatory changes is to make pension-related information more accurate, complete and transparent.

External Activities

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

- The Inspector General was an active participant of the Executive Council on Integrity and Efficiency (ECIE), a council of Inspectors General that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. During this reporting period, he continued to participate in several initiatives to improve staff development in the IG community:
 - As a member of the Human Resources Committee, the IG led several initiatives to promote the development of core competencies for auditors, investigators and other professionals. He co-authored an article titled “Core Curricula for Leadership, Management and Team Skills” that was published in the Fall issue of the *Journal of Public Inquiry*, a professional publication for Inspectors General.
 - In December, he was elected as Chairman of the Board of Governors for the newly-formed Inspector General Institute. The Institute combines schools of audit, investigations and management that provide training to over 11,000 professionals in the IG community.
 - He serves as a member Executive Committee of the President’s Council on Integrity and Efficiency (PCIE) representing the Inspector General Institute.
- Our office completed its participation in the PCIE/ECIE e-learning initiative with Skillsoft entitled *Inspector General e-Learning (IGEL)*. One hundred percent of our staff participated and provided some valuable feedback to the leaders of this pilot project. This innovative approach to training is a significant step in providing staff cost-effective educational offerings.
- 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.
- The Assistant IG for Audit is a member of the Federal Audit Executive Council (FAEC). The FAEC’s purpose is to discuss and coordinate issues affecting the federal audit community, with special emphasis on audit policy and operations of common interest to FAEC members. The AIGA serves on the FAEC’s Audit Committee which is sponsoring training in April on the new peer review guidance.

Our Inspector General was elected as Chairman of the Board of Directors of the newly-formed IG Institute.

- The IT Audit Manager serves on the Board of Directors of the Baltimore Chapter of the Information Systems Audit and Control Association (ISACA). In his position as Program Chair, he schedules meeting speakers and topics for the members' professional development. He also works with the Institute of Internal Auditors, Information Systems Security Association, Association of Government Accountants, and the Certified Fraud Examiners in developing joint chapter programs.
- An OIG Auditor serves as president of PBGC's local chapter of the Federal Manager's Association, which meets monthly for lunch to hear speakers on various management topics, discuss PBGC issues and network.

Internal OIG Initiatives

OIG COOP Support to Alternate Site

The OIG completed a move and upgrade of its backup equipment, including all servers to support access to applications and e-mail, to Wilmington, Delaware as part of its Continuity of Operations Plan. With this move, the OIG has joined PBGC in locating its backup support to a hot-site outside of the immediate Washington, DC area. This move enables the OIG to provide continued support to its staff in the event its headquarters offices are not available. Testing of the installed equipment and restoration process will begin in June 2006. Once we are comfortable with the functionality of the backup equipment and its ability to provide ongoing timely support for the OIG processes, the OIG will join PBGC in its COOP testing at least twice a year.

Improving Section 508 Compliance

The OIG has been working to identify and develop a method to easily convert its documents, such as reports, to allow the disabled to access this information on our Web site in accordance with 508 rules. We have begun developing templates for both creating reports and receiving responses from the Corporation in electronic form to simplify the conversion process for Web posting and improve compliance with 508 requirements.

***OIG's backup offsite
information systems
will be implemented
by June 2006.***

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, 17-18
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-14, 17-18
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.	17-18
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, 17-18
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	23
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	26
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.	15
Section 5(a)(11)	Significant revised management decisions.	15
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 March 31, 2006

	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.	9	\$2,166,212	\$1,377,154	-0-
B. Which were issued during the reporting period	4	\$3,616,936	\$3,466,668	-0-
Subtotal (Add A. & B.)	13	\$5,783,148	\$4,843,822	-0-
C. For which a management decision was made during the reporting period.	-0-	-0-	-0-	-0-
(i) dollar value of disallowed costs	-0-	-0-	-0-	-0-
(ii) dollar value of costs not disallowed	-0-	-0-	-0-	-0-
D. For which no management decision had been made by the end of the reporting period.	13	\$5,783,148	\$4,843,822	-0-
E. For which no management decision was made within six months of issuance.	9	\$2,166,212	\$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 PBGC's Contracts and Control Review Department (CCRD), unsupported costs are a subset of questioned costs.

SIGNIFICANT PROBLEMS, DEFICIENCIES AND RECOMMENDATIONS

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
96-4/23093-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996	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 2002 - 2001 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.
2004-2/23176-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2003 - 2004 Financial Statements 1/15/2004	5	Reportable Condition: Improving Single-Employer Premium Accounting System	PBGC needs to improve controls related to single-employer premiums.
2006-1/FA-0014-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2005 - 2004 Financial Statements 11/15/2005	3	Reportable Condition: Strengthening Preparedness for Unanticipated Incidences & Disruptions	PBGC needs to strengthen its preparedness for unanticipated incidences and disruptions.

* 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, regulation, 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