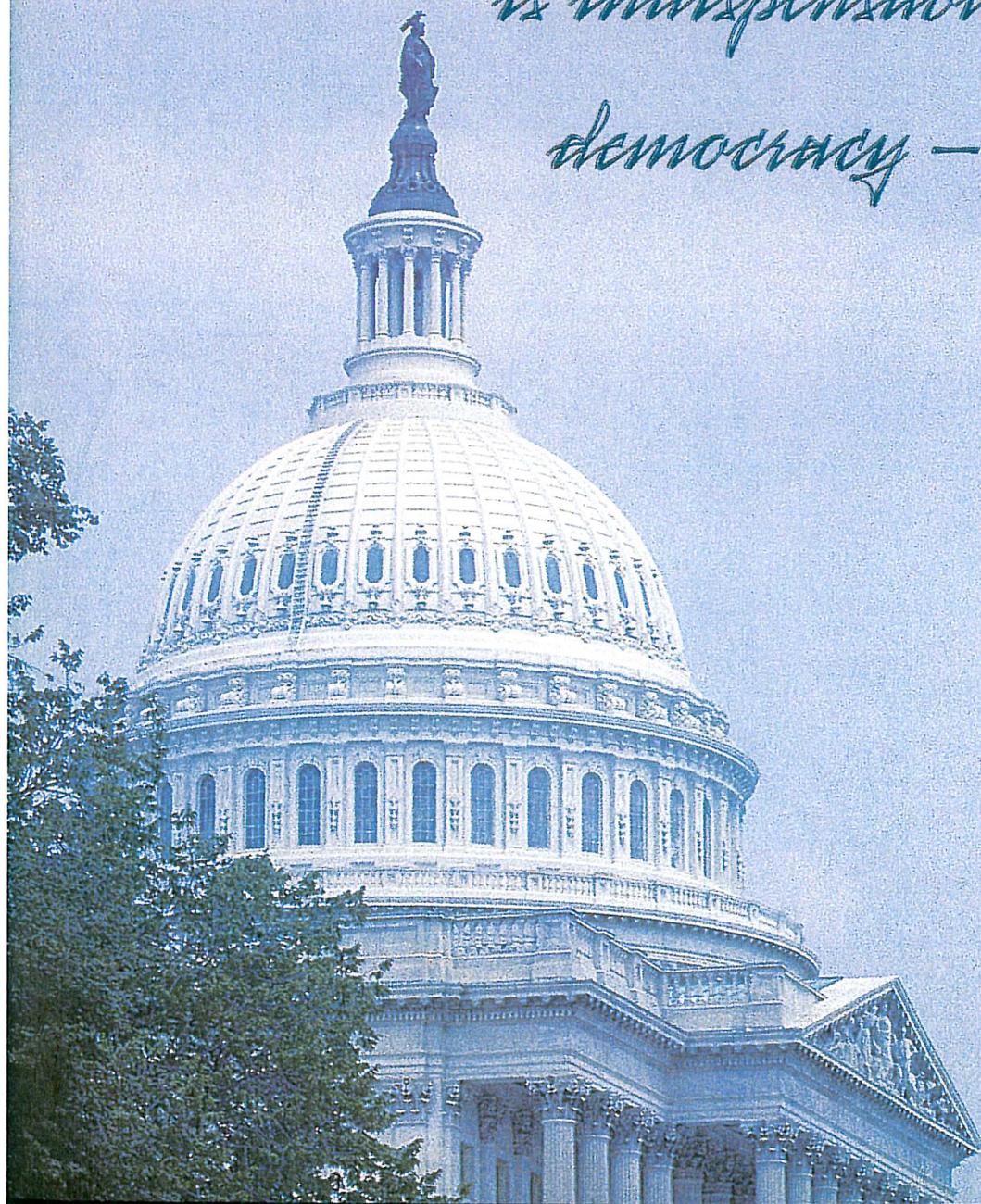


*Public confidence in the  
integrity of the Government  
is indispensable to faith in  
democracy — Adlai Stevenson*



Pension Benefit Guaranty Corporation  
Office of Inspector General  
Semiannual Report to Congress  
October 1, 2006 to March 31, 2007

## 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

April 30, 2007

The Board of Directors  
Pension Benefit Guaranty Corporation

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 for the 6-month period ending March 31, 2007. 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.

I am pleased to report that our office issued the fourteenth straight unqualified opinion on PBGC's financial statements for FY2006. My office continues to work closely with management in addressing conditions reported in previous financial audits. We have formed a joint working group with key leaders in the Corporation to assign accountability and aggressively oversee corrective actions for audit recommendations. I am very encouraged that PBGC implemented a consolidated financial system in FY2007 that will be used to prepare next year's financial statements. This initiative, as well as an unwavering commitment by management to resolve reportable conditions, should help the Corporation address issues reported in audit reports for several years.

During this semiannual period, we reevaluated the management and performance challenges faced by PBGC and three challenges remained the same - Governance, Contracting and Information Technology. We did, however, identify two new management challenges - Stewardship and Business Process. The Stewardship challenge mirrors a strategic goal of the Corporation and relates to effectively managing resources to protect trust fund assets. The Business Model challenge deals with examining business processes and adapting to a changing environment to provide superior service and generate cost-savings. We plan to focus our work on these challenges in the coming period to provide independent and objective information that the Board and management need to make decisions.

The Pension Protection Act of 2006, signed into law in August 2006, is the most comprehensive legislation enacted since PBGC was established in 1974. A major provision of the bill is a Presidentially-appointed and Senate-confirmed Director to administer PBGC. The Board will continue to set policy and oversee PBGC, but the Director is now the administrator of PBGC, a role that was assigned by statute to the Chair of the Board in the past. The impact of this legislative change on the pre-existing administrative processes between PBGC and the Department of Labor is unclear. The Senate Finance Committee asked the Government Accountability Office to evaluate PBGC's governance model. We will closely monitor their work and the impact of the legislation on PBGC's governance.

In addition to financial statement audits, we issued several significant audit reports. In our audit of multiemployer administrative costs, we recommended that PBGC purchase annuities or pay lump sums to participants in small insolvent multiemployer plans to avoid more than \$1.9 million in administrative costs. In another audit, our contract auditors questioned over \$475,000 in costs and made recommendations to improve the Corporation's ability to verify the reasonableness and supportability of contractor billings.

Our investigative unit's work continues to focus work on deterring fraudulent claims, protecting the pension benefits of participants and safeguarding PBGC assets. During the reporting period, we aggressively pursued individuals who fraudulently obtained participants' pension benefits. While the amount of recoveries is not large, these cases are important for deterrence impact and to identify control weaknesses in the programs.

I want to acknowledge the extraordinary efforts of our staff and thank them for their dedication to duty and accomplishments. I am gratified by the continued support of our work and the spirit of cooperation with the Board and PBGC. 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

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# 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, 2006, through March 31, 2007. 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.

This period we re-examined the areas we previously designated as management challenges, using information from discussions with internal and external stakeholders and work we’ve conducted. We determined that three management challenges still remain - Governance, Procurement and Contracting, and Information Technology. Two new management challenges, however, arose: Stewardship and PBGC’s Business Model. The new “Stewardship” challenge is similar to one of PBGC’s strategic areas and subsumes our prior “Financial Management” challenge. The new “Business Model” challenge relates to how PBGC programs can adapt to a changing environment to provide superior service and generate cost-savings.

We have changed the format of our report to describe significant audit and investigative work we’ve conducted to address each challenge. This work includes:

- **Governance**— PBGC took significant actions to implement our recommendations to establish investment and asset-sale policies, strengthened corporate governance, and improved documentation relating to sale of large stock claims; the Board of Director’s oversight role was a focus area (see pages 5-7).
- **Stewardship**— for the 14th consecutive year, PBGC received an unqualified opinion on its financial statements and made progress in correcting internal control weaknesses, however, the four reportable conditions reported in FY 2005 have not been fully corrected; the Management Letter noted areas that need correction, while the financial statement Lessons Learned report identified best practices and areas for improvement; investigations aggressively pursued conviction of and recovery from individuals who fraudulently obtained pension benefits (see pages 8-12).
- **PBGC Business Model**— we identified an opportunity for PBGC to save \$1.9 million in the program that pays financial assistance to insolvent multiemployer plans by funding the purchase of annuities to close-out the plans or consolidating the plans’ administration (see page 13-14).
- **Information Technology** — we are conducting a post-implementation review and performance audit of a significant actuarial valuation system; we investigated whether an employee’s inappropriate internet use included viewing child pornography, found it did not and referred the matter to PBGC for appropriate action (see pages 15-17).
- **Procurement and Contracting**— we questioned incurred costs of \$476,000 of a contractor who provides plan termination support services; audit and investigative staff met with the new Procurement Director to brief our work and procurement concerns (see pages 17-18).

Among the OIG’s other activities, we began visiting PBGC’s Field Benefit Administration offices to educate about OIG’s mission and fraud awareness, participated in IG community initiatives and external professional organizations, and implemented several OIG strategic initiatives relating to our stakeholders.

*We identified Stewardship and PBGC’s Business Model as new major management challenges.*



# 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 (29 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; it pays about \$360 million a month to about 600,000 current retirees.

PBGC is a significant government entity that managed over \$60 billion in assets and paid approximately \$4.1 billion in benefit payments to retirees during FY2006. As of September 30, 2006, the single-employer and multiemployer programs reported deficits of \$18.1 billion and \$739 million, respectively.

- The single-employer program had assets of nearly \$60 billion, which is offset by total liabilities of \$78.1 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 trusted pension plans. In FY2006 the liability for future benefits was approximately \$69.1 billion.
- The multiemployer program had assets of approximately \$1.2 billion offset by liabilities of approximately \$1.9 billion. In this program, plans are not trusted, but rather PBGC pays financial assistance to the plans for guaranteed benefits and administrative expenses. Liabilities in the multiemployer program are the present value of non-recoverable future financial assistance.

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 satisfy all of the benefit obligations already incurred, much less future obligations likely to be assumed.

## The Office of Inspector General

Our Office of Inspector General (OIG) was created under the 1988 amendments to the Inspector General Act of 1978. Our mission 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. With twenty-two staff, the OIG conducts agency audits, inspections and investigations,

*PBGC has more than  
\$60 billion in assets.*

*OIG uses risk assessments to identify management challenges.*

participates in agency-wide working groups, and provides consultations to provide our stakeholders with information they need to make decisions.

To provide value, we focus our work on the challenges that PBGC is facing, whether we are issuing audits, evaluations 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 on identifying issues important to PBGC. We maintain an inventory of suggested audits 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:

- Does PBGC have a governance model that ensures reliable and complete financial reporting, effective customer service, and ethical business dealings?
- Does PBGC have strong controls that are needed to protect assets and minimize costs?
- Does PBGC continuously adapt to a changing environment to provide optimal customer service and generate cost savings?
- 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?

Further, 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.

For investigations, we maximize our limited resources by applying strict criteria in evaluating the quality of the allegations received. For example, we evaluate allegations against the potential criminal and civil violations, the statute of limitations, potential for negative publicity for PBGC, and total assets involved. This allows us to concentrate on investigative issues that are most important to PBGC. We also have pro-active initiatives in the Stewardship and Procurement management challenge areas.

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 Generally Accepted Government Auditing Standards, issued by the Government Accountability Office. Our investigations comply with PCIE and ECIE *Quality Standards for Investigations*.

# Management Challenges

In 2006, PBGC experienced a substantial decline in the number of pension plans it trusted and participants it assumed responsibility for paying future benefits. PBGC expects this trend will continue for the next several years. PBGC is also implementing major statutory amendments as a result of the Pension Protection Act of 2006, including higher premium rates and more strict pension plan funding requirements. These external factors create new challenges and opportunities for PBGC.

In light of PBGC's changing environment, this semiannual period, the OIG re-evaluated PBGC's most significant challenges. Using information from internal and external stakeholders and our work, we determined that 3 management challenge areas remained the same - Governance, Procurement and Contracting, and Information Technology. Two new management challenges, however, arose: Stewardship and PBGC's Business Model. The new "Stewardship" subsumes, but is broader than, our prior "Financial Management" challenge. Its focus is protecting entrusted resources, to include risk and financial management. The new "Business Model" challenge relates to how PBGC programs can adapt to a changing environment and manage human capital, while providing superior service and generating cost-savings. The Inspector General briefed these management challenges to PBGC's senior leaders at their strategic planning off-site in January 2007.

Our goal is to conduct work in all management challenge areas and have a positive impact on the decision-making process of the Board of Directors and PBGC management. Rather than reporting audits and investigations separately, we are now reporting them under the Management Challenges.

## 1. Governance

For PBGC, governance has external and internal aspects:

- Externally, in addition to Congressional oversight, PBGC has a Board of Directors comprised of the Secretaries of the Departments of Labor, Treasury and Commerce who provide policy direction and oversight of the financial operations and financial reporting.
- Internally, governance is a major challenge of the Corporation as it struggles with a significant long-term deficit and projections in the next several years of fewer terminated pension plans and participants, likely to result in a reduced or flat budget.

Effective oversight by the Board, 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.

### Management Action on Claims Sale Report (2006-11/PA-0029)

Last period, we evaluated PBGC's actions in marketing and selling a significant equity interest in a reorganizing private sector business prior to its emergence from bankruptcy. Our review resulted in recommendations to establish policy, internal guidance regarding

*Oversight by Congress, the Board, Management and the OIG are critical to effective corporate governance.*

responsibilities, and standard documentation for such dispositions. PBGC agreed with our findings and recommendations. In December 2006, we briefed the report to the Board of Director's Representatives.

PBGC management took action to implement the report's recommendations in three areas: investment and other asset-sale related policies; corporate governance, and documentation. Among them, PBGC:

- Drafted a protocol to govern communications with the Board Representatives about potential settlements and transmitted it to them for comment in December 2006.
- Increased the frequency of detailed case updates to the Board Representatives.
- Crafted an integrated, multi-disciplinary process for the program and financial staff to evaluate potential pre-emergence transactions, with regular meetings to keep all staff current on arising issues.
- Established biweekly briefings on major cases, which include the heads of the operations, legal, financial, policy, legislative and public affairs departments. PBGC reported that this was an effective forum to solicit comments on claim settlement documents and incorporate them into PBGC positions during the settlement negotiation process in a recent case.
- Offered training on the bankruptcy process to the Board Representatives and their staff.
- Obtained standard forms to document various aspects of claims sales.

### The Board of Directors Oversight

During this six-month period, the role of the Board of Directors was raised in a variety of contexts. For example:

- The Pension Protection Act of 2006 amended Title IV of ERISA to add a Presidentially-appointed and Senate confirmed "Director" responsible for administering PBGC and clarified the Board's policy-making role. The PBGC General Counsel, as Secretary to the Board of Directors, drafted revised Board By-laws to implement these changes, which are now being considered by the Board Representatives. These draft By-laws recognize the OIG's reporting relationship to the Board of Directors, which provides a critical role in setting policy and overseeing PBGC.
- In our Congressional briefings this period with the Senate and House appropriations committees and PBGC's oversight committees - Senate Health, Education, Labor and Pensions, and House Education and Labor - one important topic was the Board's governance role. One aspect of governance is PBGC's relationship with the Department of Labor (DOL) through the Secretary's role as Chairman of PBGC's Board and the existence of potential conflicts of interest.

*The Pension Protection Act created a Presidentially-appointed Director to administer PBGC.*

- When Congress established PBGC as a government corporation, what role did it envision for DOL in overseeing and directing expenditures of PBGC trust funds? This issue was raised in our report last period, where we examined DOL's direction to PBGC to request \$7 million in its FY2007 budget request to pay for about half of the development costs of EFAST2, an electronic filing system for Form 5500s being developed by DOL. We found that \$7 million was a disproportionate amount of EFAST2's development costs.
- We also raised a concern that earmarking PBGC's budget for a particular expenditure would set a precedent for using PBGC trust funds to supplement the appropriations of other federal agencies.
- The Senate Finance Committee asked the Government Accountability Office (GAO) to conduct work in seven areas of PBGC management. The first two areas that GAO initiated work are a recent reorganization that divided the Office of the General Counsel into two organizations, and the governance relationship between PBGC and the Board of Directors.

We 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.

### OIG Member of PBGC Internal Control Committee

The Assistant Inspector General for Investigations (AIGI) serves as a non-voting member of the PBGC Internal Control Committee. This committee is responsible for oversight and accountability regarding PBGC internal controls over financial reporting and its operations consistent with the Standards for Internal Control for the Federal Government (GAO Green Book), OMB Circular A-123, and Federal Managers' Financial Integrity Act requirements. During this period, the committee addressed recent changes in procedures and controls to verify participants' identities and address change requests. The AIGI provided information regarding a previous investigation which uncovered weaknesses that led to identity theft and fraudulent benefit payments. That information will be used by the committee to evaluate proposed procedural changes.

*OIG's top investigator is a non-voting member of PBGC's internal control committee.*

## 2. Stewardship

PBGC has designated "Stewardship" as one its strategic areas, which it defines as the management of its program processes, systems and people, with the goal to be "an exemplar of integrity, efficient stewardship, and performance excellence." PBGC includes "corporate governance processes" to manage operations of finance, human capital and PBGC resources, information technology, competitive outsourcing, and budget and performance in its Stewardship strategic area.

The OIG's work in the "Stewardship" area focuses primarily on PBGC's stewardship of entrusted resources, which includes fraud prevention, detection of improper payments, protecting participant data, and safeguarding plan assets close to plan

termination, as well as the Corporations' overall financial management. Several aspects of PBGC's Stewardship goal are covered separately in OIG's management challenge areas - i.e., corporate governance, information technology, and procurement and contracting - but our goals are similar: improving the Corporation's stewardship of trust funds.

Significant OIG resources were devoted to work in the Stewardship challenge:

- In audit, the primary focus was auditing PBGC's financial statements and conducting associated work.
- In investigations we identified, assisted with prosecuting, and obtained recoveries from those who fraudulently received pension benefits. We also identified weaknesses in particular pension benefit payment processes to prevent future fraud.
- The Inspector General was one of the executive sponsors of the team conducting PBGC's PART assessment, and several OIG staff members participated in an advisory non-voting role.

#### Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2006 and 2005 Financial Statements (2007-1/FA-0024-1)

For the third year, PBGC issued its audited FY2006 financial statements by the November 15th deadline. This was made possible by the team effort of the Board Representatives, PBGC management, Clifton Gunderson LLP, and the OIG. For the 14th consecutive year, PBGC received an unqualified audit opinion.

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 and for the years ended September 30, 2006 and 2005. The audit was performed in accordance with auditing standards generally accepted in the United States of America, Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, OMB's Bulletin No. 06-03, and the GAO/PCIE Financial Audit Manual.

The financial audit of the Single-Employer and Multiemployer Program Funds administered by PBGC 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 (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2006, was fairly stated in all material respects. However, four reportable conditions were repeated from FY 2005 regarding the lack of integrated financial management systems, improvements needed in PBGC's information security program, weaknesses related to single-employer premiums, and PBGC's need to strengthen its preparedness for unanticipated incidences and disruptions.
- No instances of noncompliance with tested laws and regulations.

***PBGC received its  
14th consecutive  
unqualified audit  
opinion.***

We are encouraged by the Corporation's efforts to improve financial management, and 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. While all of the issues are important, lack of integrated financial management systems is the biggest challenge facing the Corporation because it addresses many of the control weaknesses in the remaining reportable conditions. PBGC implemented a new general ledger system at the beginning of FY2007 as part of PBGC's corrective action plan to correct the systems integration issue.

The most important ingredient to 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 meets regularly with the Acting Chief Financial Officer and Department Directors to discuss reportable conditions and assist in developing corrective action plans.

#### Fiscal Year 2006 Financial Statement - Management Letter (2007-3/FA-0024-2)

During the financial statement audit, Clifton Gunderson identified certain matters related to PBGC's internal controls and operations that were not included in their report on internal control. The management letter report summarizes their findings and recommendations for FY2006 and includes the status of prior year recommendations. As a change from prior years, we issued a single Management Letter report that includes both financial and information technology issues. While these findings do not require reporting in the financial statement audit, we inform PBGC management of these issues so they do not become significant deficiencies.

For example, we reported in the Management Letter that PBGC should:

- Ensure that the Information System Security Officer is independent and reports directly to the Chief Information Officer on all aspects of PBGC's information security program.
- Ensure that PBGC's certification and accreditation process follows the requirements set forth in applicable National Institute of Standards and Technology publications, and hold authorizing officials accountable for their decisions to accredit information systems for operation.
- Implement various information technology security processes, including restricting access to directories, sub-directories, and files, removing those that are no longer necessary, and segregating duties and granting rights commensurate with job functions and responsibilities for Server and Security Administrators.
- Ensure that financial reconciliations are completed, documented and reviewed in accordance with PBGC's operating manuals.
- Routinely test throughout the year the procedures for verifying benefit payments to determine that payments are proper.

We discussed the recommendations with PBGC management and they agreed to implement corrective actions.

*PBGC is committed  
to correcting its  
reportable conditions.*

## Lessons Learned from the FY2006 Financial Statement Audit (2007-3/FA-0032)

For the third year, the OIG, in cooperation with the Chief Financial Officer, conducted a survey to identify lessons learned during the audit of the FY2006 financial statements. After the OIG compiled the survey responses, key stakeholders met to discuss the results and provide suggestions for improvement. Our goal was to incorporate best practices into future audits of the financial statements and improve on those practices and procedures that were not efficient or effective.

Best practices identified included:

- Regular audit status meetings between the auditors and key stakeholders to help provide timely information on audit issues, obstacles, and timelines.
- Weekly audit protocol meetings to discuss the status of outstanding documents requested by the auditors.
- A strong commitment to the audit process on the part of the PBGC senior executives, management and staff, contractors, OIG staff, and the external auditors.

Suggestions for improvements included a need for more frequent and open communications between and among the auditors, PBGC senior executives, and management, including:

- More timely notification of potential findings and recommendations, and
- Improvement of the audit follow-up process to close outstanding prior audit recommendations. This process requires more frequent and timely communications between the auditors and management regarding the status of outstanding recommendations, even when the financial statement auditors are not physically on-site (i.e., during the "off season").

### Looking Ahead - Change in Internal Control Reporting

Effective for the FY07 financial statement audit period, there is a significant change for reporting on internal control. The American Institute of Certified Public Accountants issued new *Statement on Auditing Standard* 112, that governs how the auditor communicates internal control matters it identifies in the financial statement audit. The most significant impacts are the auditors' reporting of control deficiencies that:

- can have an adverse effect on the entity's ability to initiate, record, process, or report financial data reliably, and
- have the potential for a material misstatement in the financial statements that is not timely prevented or detected.

In the past, the auditors classified these weaknesses as material weaknesses (the highest level of significance), reportable conditions, or lesser significant management letter comments. Under the new standard, reportable conditions will be called "significant deficiencies." In addition, the threshold for reporting weaknesses in the Report on Internal Control has been lowered.

*By incorporating best practices into future audits we improve efficiency and effectiveness.*

During the FY07 financial statement audit, using the new standard, the external auditors will reevaluate open recommendations reported in prior management letters taking into account the new standard. As a result, the auditor may need to report former management letter comments (individually or in the aggregate) as significant deficiencies in the Report on Internal Control.

### Preparing for OMB's Program Assessment Rating Tool

OIG audit staff served in an advisory capacity with an agency team that was formed to respond to the Office of Management and Budget's (OMB) 2007 reassessment using its Program Assessment Rating Tool (PART). PBGC was first assessed under PART in 2004.

The PART is a diagnostic tool intended to systematically and consistently assess the performance of program activities across the Federal Government. The PART assists OMB and Congress to make funding decisions and address the President's Management Agenda initiative to integrate budget, performance and the Government Performance and Results Act requirements.

OIG provided the PART team with comments on PBGC's proposed responses to the PART questionnaire and assessed supporting documentation. The new PART and reassessments are expected to be published in mid-August 2007.

### Investigations

Since one of PBGC's primary missions is to pay pension benefits to participants whose plans can no longer do so, a major emphasis of investigations is fraud deterrence. We accomplish that by aggressively identifying the perpetrators, seeking federal or local prosecution, obtaining agreements to repay stolen money to PBGC, or providing sufficient evidence to PBGC for administrative collection efforts. We also deter fraud by educating PBGC employees and contractors about fraud indicators and identifying program weaknesses that can be exploited for fraud. While the amount of recoveries is not large, OIG aggressively pursues these cases to deter fraud. Some of the cases we concluded this period include:

- **Prosecution and Recovery of \$23,000.** We conducted a joint investigation with the Massachusetts State Police into a complaint that the son of a deceased pension participant committed theft of pension benefits by withdrawing money deposited into the deceased participant's bank account. Almost \$23,000 was withdrawn before PBGC was notified of the participant's death and stopped the benefit payments.

The participant died on September 26, 1999, and direct deposit payments continued after his death through January 2005. With the assistance of the Massachusetts State Police, we located and interviewed the son, who admitted he took the money from the account using his deceased father's bank card.

*Investigations of pension benefit thefts resulted in a prosecution and multiple recoveries to the trust fund.*

On March 27, 2007, the son was arraigned in Hamden District Court in Springfield, Massachusetts, entered a guilty plea to larceny, and agreed to reimburse PBGC for the stolen pension benefits. The presiding judge ordered five years' probation with the stipulation that he reimburse PBGC the total amount stolen (\$22,942.50).

- **Recovery of \$5,800.** PBGC referred a matter involving an unknown individual who received a participant's pension into their bank account. Upon investigation, we identified and contacted the individual, who admitted receiving the funds to which she was not entitled. After a declination from the U.S. Attorney's Office, we coordinated the recovery of almost \$5,800 to PBGC.
- **Recovery of \$11,000.** A plan participant died in 2002, but his pension checks continued to be mailed and posted to an account at a credit union until 2004, resulting in more than \$11,000 overpaid pension benefits. The account was held jointly with the participant's daughter who failed to notify PBGC of her father's death. The credit union became suspicious while reviewing the account activity and notified PBGC, who referred the matter to OIG. After the U.S. Attorney's Office declined prosecution, we located the daughter and, in lieu of local prosecution, she signed an agreement to repay PBGC more than \$11,000 she fraudulently received.
- **Theft of \$15,000.** A participant's daughter failed to report her father's death to the PBGC, resulting in \$15,000 of overpaid pension benefits into the decedent's bank account. The daughter admitted she accessed the account and took the money, and agreed to pay the \$15,000 back to PBGC. Since that admission, however, she has not done so. Upon referral to the U.S. Attorney's Office which declined prosecution and pretrial diversion action, we referred this matter to the Michigan State Police and are conducting a joint investigation.

### PBGC Manager Suspended for Unethical Conduct

In a previous semiannual report, we reported that a PBGC manager had engaged in ethical misconduct by using PBGC government resources while on official time to operate a travel agency service. The manager used PBGC e-mail, telephone, and fax to solicit, arrange and book travel for federal employees and contractors, and others while at work. Upon a prosecution declination, we issued a report of investigation. PBGC management suspended the manager for two weeks as a result of our investigation.

## 3. PBGC's Business Model

PBGC's business environment is changing. For example, PBGC expects the current decline of pension plan terminations and fewer participants will continue over the next few years, and it will receive more premium income as a result of the Pension Protection Act. One of PBGC's significant management challenges is to adapt how it conducts business in its changing environment — to have the right staff and resources in the right place when it is needed. In this new "Business Model" challenge, OIG will conduct work to evaluate PBGC programs and identify options for adapting to its changing environment while providing superior service and generating cost-savings.

**Business Model challenge: how can PBGC adapt to its changing environment while providing superior service and generating cost-savings.**

## PBGC Has Opportunities to Reduce Multiemployer Administrative Costs (2007-4/PA-0031)

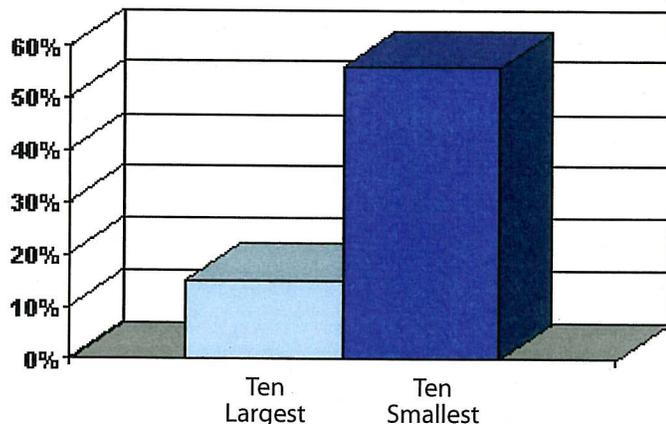
In November 2006, at the request of PBGC, we initiated an audit to examine the amount PBGC pays to certain insolvent multiemployer plans for their administrative costs. PBGC expressed concern that the administrative costs for the smallest plans were high when compared to the amount paid as pension benefits. Our audit concluded that, for the ten small insolvent multiemployer plans we reviewed, the plans' administrative costs were disproportionate when compared to the benefits paid to participants. We identified two options for reducing the overall cost of administering these plans by as much as \$1.9 million.

Multiemployer plans are defined benefit plans that are maintained by two or more employers and are collectively bargained. They are usually within the same or related industries. Participants in a typical multiemployer plan receive benefits based on a flat dollar amount for each year of service covered by the plan. Unlike single-employer plans, PBGC does not trustee these plans and directly pay the participants their pension benefits. Rather, PBGC's statute provides that insolvent multiemployer plans request financial assistance from PBGC to continue administering the plan and paying guaranteed benefits. PBGC pays financial assistance to these plans from its multiemployer trust fund.

For most of the 10 plans we reviewed, the administrative costs represented a significant amount of the financial assistance PBGC paid to the plan. For example:

- In 3 of the 10 plans, the cost of administering the plan far exceeds the amount paid to retirees. For one plan, PBGC paid \$83,934 in administrative costs for \$32,897 of benefits, which is 2 ½ times the pension benefits paid to retirees.
- In another 4 plans, the administrative costs ranged from 27% to 63% of the retirees' benefit payments.
- In 2005, for these 10 smallest plans, PBGC paid a total of \$425,658 in benefits and \$240,162 in administrative expenses. This means that plan administration expenses were approximately 56% of the benefits costs.

**Administrative Costs as Percent of Benefits Paid  
Insolvent Multiemployer Plans**



As a result of our audit, we determined that administrative costs for small insolvent multiemployer plans that receive financial assistance were disproportionate to the pension benefits paid to participants. PBGC relies on the plan administrators to control the administrative costs, some of which is for required work by accountants and actuaries. There

*PBGC can save about  
\$2 million of future  
multiemployer trust  
funds.*

may be several reasons for the disproportionate administrative costs, including that the smallest plans cannot achieve the same economy of scale as large plans. When comparing the costs of administering the smallest insolvent multiemployer plans to the largest ones, the average administrative cost is much greater as a percentage of benefits paid for the smallest plans. In 2005, administrative costs were approximately 14 percent of the pension benefits paid by the ten largest insolvent multiemployer plans and 56 percent for the ten smallest plans.

After considering the available options and the related legal implications, we recommended that the best option for reducing the overall cost of administering the smallest insolvent plans is to fund sufficient amounts for the plan administrator to purchase annuities or pay lump sums to each participant. This would close-out these plans, thereby eliminating more than \$1.9 million in future administrative costs and the costs of in-house monitoring of insolvent plans. PBGC management agreed with the findings and agreed to implement the report's recommendation.

### Audit Plan

In the coming period, we have planned work that focuses on several themes that were raised by our stakeholders. We identified two major areas relating to PBGC's "Business Model" in which we will initiate work:

#### Adapting to a changing environment

- Encouraging efficiency to fund capital investments
- Building a flexible organization that can rapidly reconfigure to changing workload
- Implementing performance based budgeting

#### Human Resource Concerns

- Hiring qualified personnel
- Practices for hiring, disciplining and promoting
- Succession planning for upcoming retirement surge

## 4. Information Technology

PBGC's mission of protecting and providing pension plan retirement benefits for over 44 million Americans relies heavily on the integrity and security of the PBGC information system network, and the confidentiality, completeness, accuracy, and availability of information and information processing requirements for pension benefits. Importantly, the financial statement audit reports four long-standing reportable conditions related to PBGC's information technology environment finding that PBGC needs to:

- Integrate its financial systems to better control data processing and integrity;
- Improve its information security through better defined program, policy, monitoring, and enforcement;
- Improve controls and reduce data integrity risks in its premium processing system; and

*Information technology concerns are the common thread for the four reportable conditions.*

- Strengthen its preparedness for unanticipated incidences and business disruptions by improving its COOP and contingency planning efforts.

To that end, we continue to perform work to assist the Corporation in meeting the challenge of providing enhanced customer service, including protecting the integrity and privacy of pension plan participants' information. We note that PBGC formed the Security and Privacy Committee, led by the Offices of the General Counsel and Information Technology to recommend processes to maximize the balance between workplace flexibility and data security and privacy protection.

### Post-Implementation and Performance Audit of Ariel System

When PBGC terminates and trustees a single-employer plan, one of the critical activities is to value the pension benefits of each plan participant. In the past, this was done by PBGC federal and contracted actuaries, who use a system developed within PBGC.

In September 1999, PBGC entered into an agreement with Morneau Sobeco, a Canadian firm, to develop and/or modify their parameter-driven system for valuing pension benefits to meet PBGC's needs. This system, called Ariel, became operational in October 2004. Ariel's purpose was to provide an economical, effective, and efficient capability to perform pension plan benefits valuation.

In September 2006, OIG contracted with Accretive Solutions, Inc. to conduct a post-implementation and performance audit of the Ariel system. The primary objectives of this audit were to:

- Evaluate the vendor's compliance with PBGC's policies and procedures and U.S. government standards for the Ariel system development, implementation, operations, and modifications.
- Determine whether appropriate information technology and business controls were implemented and tested for the proper function of Ariel.
- Determine if Ariel implementation met performance goals and cost projections.

The audit was divided into two phases, both with their own scope and intended outcome. Phase I was to understand how Ariel was designed and operates, and to identify system functionality concerns as well as functions in which PBGC management and staff believes Ariel performed as expected or better.

To perform Phase I, we interviewed thirty-two users and support personnel, both federal and contractors, to obtain information on the application. Those interviewed made assertions related to Ariel's performance and operations reflecting both concerns and praise. We also noted that Morneau Sobeco became the system's application service provider (ASP), which appears to have provided the benefit of improved critical security and audit trail capabilities.

In Phase II of the audit, we are testing Ariel to validate or disprove the performance assertions and completing the three objectives outlined above. We anticipate completing this work and reporting the results in the next 60 days.

***PBGC formed a Security and Privacy Committee to balance flexibility with security and privacy protection.***

*We are encouraged  
by PBGC's progress  
in Continuity of  
Operations and  
Contingency planning.*

## Continuity of Operations and Contingency Planning

In the FY2005 financial statement audit, PBGC received a reportable condition concerning the need for more robust contingency planning to cover a broad spectrum of emergencies. We are encouraged by PBGC's progress in this area. The Facilities and Services Department is leading a fully engaged team of PBGC representatives from all areas within the Corporation to develop a comprehensive contingency plan that prepares for an unexpected interruption to its normal business activities, along with needed improvements to its existing COOP. The OIG is a member of this working group and has observed continued cooperation from all areas in helping to remove this issue as a reportable condition. During this period, PBGC conducted its semiannual IT testing, which had substantially positive results.

The OIG will continue to monitor PBGC's testing and provide feedback to management to help achieve their goal of having a reliable plan for recovery of operations in the event of a disaster or emergency situation.

## Investigation of Inappropriate Internet Access

During a routine Enterprise Information Security IT scan, the computer information security staff referred a matter involving potential child pornography. With assistance from the Child Exploitation and Obscenity Section of the Department of Justice, we investigated and determined that the sexually explicit images were not child pornography. This matter was referred to management for action and the employee was suspended for three days.

## Theft Investigation Results in Management Advisory

We investigated management's report that 10 computers were missing after they were received at the PBGC loading dock. We found that the computers were not stolen, but misplaced during storage. Based on our investigation, we issued a management advisory memorandum that identified weaknesses in tracking information technology equipment, causing vulnerability to fraudulent activity. For example, we noted:

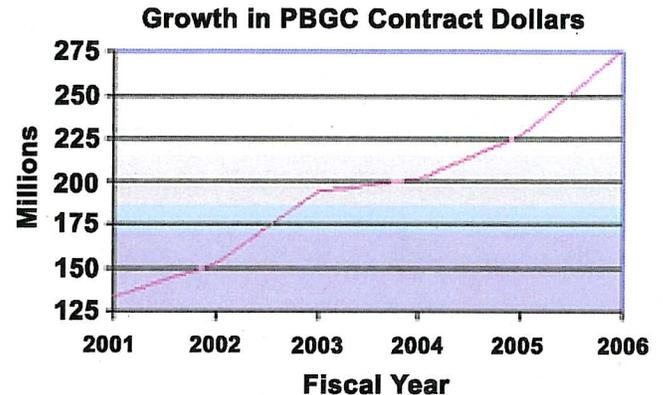
- Delivery receipts were either lost or not completed on IT deliveries, creating a lack of an audit trail.
- Delivery receipts were not sent to the department receiving the equipment to confirm delivery.
- IT equipment was placed in storage without verifying delivery status, resulting in misplaced orders and a theft investigation.
- There are no security cameras for the freight elevator or storage areas, so equipment can be stolen and taken from the building undetected.

In response to our findings, management took prompt action: developed new procedures for delivery sign-off and receipt and regular reconciliation; planned installation of additional security cameras at vulnerable areas; and are revising the property directive.

## 5. Procurement and Contracting

At PBGC, contracting is a significant activity:

- from 2001 to 2006, contracting activity more than doubled;
- the Corporation spends more than 60 percent of its annual budget through contracts;
- the Corporation awards a large number of labor hour contracts and a relatively small number of fixed price contracts. In FY2006, 55 percent of the contracts PBGC awarded were labor hour contracts and 22 percent were fixed price contracts.



Another factor in this management challenge is the Procurement Department's absence of a disciplined process for collecting and settling questioned and unsupported costs through negotiation (see Appendix, Reports Issued with Questioned Costs and Funds Put to Better Use). PBGC recently hired a new Procurement Director who is committed to following up with contractors on questioned costs identified in our reports.

We continue to address this management challenge by conducting audits of PBGC contractors. Overall, the work we do in this area is designed to:

- Identify improvements in PBGC's procurement process, and
- Verify that contractor billings are reasonable, supported and consistent with the contract terms.

### Agreed-Upon Procedures for Incurred Cost Audit of PBGC Contractor (2007-5/CA-0028)

We hired an Independent Public Accountant (IPA) to examine cost representations in invoices submitted to PBGC by a contractor who provides plan termination support services. During the fourth quarter of 2006, the IPA applied agreed-upon procedures to evaluate whether costs incurred by a PBGC contractor in FYs 2003, 2004 and 2005 were allowable, reasonable, supported and consistent with contractual provisions.

The audit report questions \$475,896 in costs related to the following issues:

- No support for labor hour billings of \$4,241;
- Questionable experience and education of contractor employees of \$427,712;
- Billings for employees' lunch period of \$15,137;
- Double billings for office supplies of \$26,234; and
- Erroneous time charges on the monthly invoice to PBGC of \$2,572.

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

*OIG met with PBGC's new Procurement Director to discuss trends and vulnerabilities.*

## OIG Briefs New PBGC Procurement Director

During this period, audit and investigative staff met with PBGC's new Procurement Director to discuss trends in overall procurement and contract management that we believe needs improvement. Based on past work, procurement practices of greatest concern include the need to:

- Decrease the use of labor-hour contracts and increase awards of fixed price and performance based contracts;
- Develop an audit resolution policy on questioned costs;
- Timely resolve open audit report recommendations with questioned costs;
- Document policies and procedures to promote consistent procurement practices;
- Monitor and reduce the use of contract amendments and modifications that significantly increase monetary amounts without the benefit of competition;
- Enforce the terms and provisions of the contracts; and
- Ensure adequate oversight of contractor performance and deliverables.

The Procurement Director was receptive to our briefings. She is committed to revise and update the procurement policy and procedures manual, and follow up on all open audit recommendations, including questioned costs.

### Work in Process

We are finalizing field work to examine a contractor's cost representations as presented in their invoices for services performed under the PBGC contract for the FYs 2003 - 2006. Through September 30, 2006, the contract was amended 31 times and increased by more than \$5 million for a ceiling of \$20 million. For the four years, \$19 million was obligated and billed. As part of this effort, we are concurrently evaluating PBGC's administration of the contract and anticipate the issuance of both a performance and incurred cost report in the next reporting period.

## Other OIG Reporting

### 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

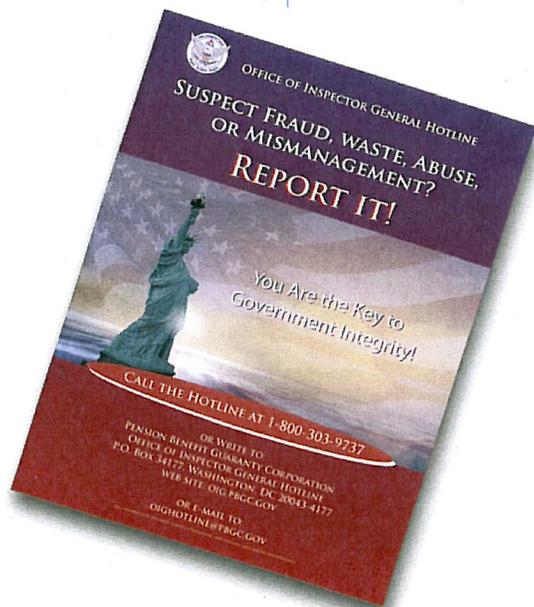
The Inspector General is required to report the following about management decisions on audit reports that occurred during this six-month period:

- There was one audit report, issued on March 19, 2007, 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.

## OIG Hotline Expanded and Publicized

For more than 10 years, the OIG has operated a separate toll-free Hotline telephone number, a confidential fax, and a confidential Hotline post office box (see back page). During this period, we expanded the hours in which the OIG Hotline telephone is answered by an investigative technician to 10:00 am - 3:00 pm, Monday through Friday. At other times, callers may leave a voice message and we will respond within one business day. Additionally, we established a confidential e-mail through our web site at [oig.pbgc.gov](http://oig.pbgc.gov) for Individuals to report suspected wrong-doing.

We created a new Hotline poster, taking it on our visits to the Field Benefit Administration offices and posting it in the break rooms of all PBGC leased space.





# 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. In August 2006, the President signed into law the Pension Protection Act of 2006 (PPA). This Act amended ERISA to provide simplicity, flexibility, accuracy and stability in the defined benefit pension insurance program that PBGC administers. Key hallmarks of PPA were provisions to increase pension plans' funding of future promised benefits and the amount of premiums paid to PBGC, thereby decreasing PBGC's risk, and to require greater transparency in how well a pension plan is funded. Another significant change was to add a Presidentially-appointed, Senate-confirmed "Director" of PBGC. We met with Congressional staffers to confirm the legislative intent for the Inspector General to continue reporting to the Board of Directors, and are working with them on whether statutory clarification is needed.

### 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. We reviewed and commented on PBGC's proposed rule to implement PPA's variable-rate premium increase and other changes.

## Peer Review of OIG

The GAO's auditing standards require peer reviews be conducted every three years on organizations that conduct government audits. The Federal Communications Commission Office of Inspector General (FCC OIG) conducted a peer review of our system of quality assurance control for the audit function in effect for the year ended September 30, 2006. The objectives of the review were to determine whether our internal quality control system is adequate and provides reasonable assurance that applicable auditing standards were met.

In January 2007, FCC OIG issued our office an unmodified opinion in its final report. An unmodified opinion is also known as a "clean opinion." FCC OIG determined our audit function is designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency. The peer review did not identify any material weaknesses in or scope restrictions on PBGC OIG auditor's work.

*OIG received a "clean opinion" during its recent Peer Review.*

*PBGC and OIG  
established a working  
group to reengineer  
the audit follow-up  
process.*

## Outreach to Field Offices

During this period, OIG initiated a major outreach effort to the PBGC Field Benefit Administration (FBA) offices. OIG's Office of Investigations and Office of Audits, working with the Benefits Administration and Payments Department and the Disclosure Division of Office of General Counsel, began a joint effort to provide an increased presence at the FBA offices. Our goal was twofold: to educate and inform the FBA offices on the role of the OIG and to begin building a relationship with the FBA offices. Our office has emphasized outreach to our stakeholders so that we can share information, issues and ideas to work collaboratively to help PBGC identify operational improvements, and prevent and detect fraud against PBGC programs. Though the FBAs are contractors, so not a traditional "stakeholder," they perform critical benefit payment processing and are in the "front-line" to prevent and detect fraud for PBGC.

This semiannual period, we visited five of the FBA offices and are scheduled to visit the remaining five during the next semiannual. The FBA offices provided feedback that our presentations were educational and the information useful.

## Audit Follow-up Working Group Established

When we surveyed the financial statement audit participants, they identified the audit follow-up process as needing improvement. As a result, PBGC and the OIG established a working group to "reengineer" the process of following up on, and communicating the status of, outstanding audit recommendations in a timely manner. At the first meeting in March 2007, the working group agreed:

- Though this recommendation was raised in context of the financial statement audit, the audit follow-up process needs improvement for all types of OIG audits, whether they are financial, contract compliance, performance, information technology, or forensic audits.
- Since the FY07 financial statement will commence in April and most of the outstanding audit recommendations have resulted from the annual financial statement audit, the working group will focus first on the process specific to financial statement audit recommendations (reportable conditions and management letter comments).

The working group is comprised of the IG, Acting Chief Financial Officer, Chief Operating Officer, and the Chief Information Officer, as well as representatives from various departments and the external auditors. The group will present the newly proposed process to the other Executives and management for comment.

## External Activities

Various staff members participated in external professional activities, including:

- The IG 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 served as member of the Legislative Committee that reviews

proposed legislation affecting IGs. There are bills in the House and Senate to amend and strengthen the IG Act. On behalf of the ECIE IGs, the IG solicited and outlined their views on the two bills, and met with Congressional staff members. We anticipate increased legislative activity next period.

- 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. He serves on the FAEC's Audit Committee that sponsored training in April on the new peer review guidance.
- 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.
- Two OIG staff are tutoring children in PBGC's partnership with the Thomson Elementary School.

## OIG's Strategic Plan and Initiatives

Our Strategic Plan is focused in three "voices": the Stakeholder, the Business, and the Employee. We set aside time twice a month for all staff to work on our strategic initiatives. In January 2007, the entire staff re-prioritized our initiatives for this calendar year. We selected two initiatives that we committed to ensuring their successful implementation by January 2008:

- Implement TeamMate, an electronic planning, tracking and workpaper software, (Voice of the Business); and
- Develop and implement a new performance management system (Voice of the Employee).

**Voice of the Business:** The goal is to continually innovate and improve the quality and effectiveness of our products and services. In 2007, we are focusing our efforts on building infrastructure and improving timeliness through accountability. Specifically, we identified the following strategic initiatives that must occur prior to implementing TeamMate by year-end:

- Complete the updated audit manual;
- Define and establish a baseline for elapsed days for product type;

*OIG staff are active members of professional and community service organizations.*

*Two OIG strategic goals are to implement TeamMate and a new performance management system.*

- Define audit and investigation milestones, and develop an interim procedure for capturing milestones via a tracking system; and
- Develop a robust annual audit plan and update it semiannually.

During this semiannual period, we developed and are using a new annual audit plan and are in the final edits of the updated audit manual. We anticipate beta testing TeamMate implementation on October 1, 2007, and roll-out to all OIG auditors by January 1, 2008.

***Voice of the Employee:*** The goal of this “Voice” is to address the workplace environment and development of our employees, as our success is linked to the overall satisfaction and engagement of OIG staff. Our strategy is to recruit, develop and retain fully-engaged and skilled employees that are empowered to innovate and take risks.

Among the number of initiatives in the Employee voice, the OIG decided that the top priority in FY2007 was to develop a performance management system with clear performance goals and measures, so that employees understand the capabilities they need to improve both individual and team performance. Specifically, we identified the following steps needed to meet our goal and implementation date of January 1, 2008:

- Approved Individual Development Plans (IDP) at the beginning of each FY.
- Signed Performance Management and Appraisal System (PMAS) performance plans at the beginning of each FY.
- Signed performance ratings and 360 feedback at the end of each FY.

***Voice of the Stakeholder:*** The goal is to understand stakeholders’ key decisions and information needs so we can focus our work on these issues, seek their feedback on our work, and help them understand the OIG’s mission and value. This period, we began two strategic initiatives:

- We identified PBGC’s key decision-makers and reached out to develop on-going relationships with them. Each OIG staff member volunteered for two PBGC leaders, sent personal letters to explain this initiative, then met personally to discuss the stakeholder’s challenges and issues, possible work the OIG might conduct, and the OIG’s role. Our goal is to meet personally with our stakeholders at least twice a year. These discussions yielded information we used in determining the new Management Challenges and the new audit plan.
- We issued an audit survey to PBGC staff who participated in a particular audit to get feedback on the OIG’s process and product. In the past, we had issued a survey that covered many audit products. Issuing the survey will now be a part of closing out audit and evaluation projects to provide us useful information to improve our processes and products and how well we are meeting our stakeholders’ expectations.

*We are developing relationships with PBGC’s key decision-makers to discuss challenges and plan our work.*

# 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<br>Act Reference | Reporting Requirements   | Page      |
|------------------------------------|--|-----------|
| Section 4(a)(2)                    | Review of legislation and regulations.   | 21        |
| Section 5(a)(1)                    | Significant problems, abuses, and deficiencies.  | 5-18      |
| Section 5(a)(2)                    | Recommendations with respect to significant problems, abuses, and deficiencies.  | 5-18      |
| 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.   | 11-12, 28 |
| Section 5(a)(5)                    | Summary of instances in which information was refused.   | 19        |
| 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.   | 5-18      |
| Section 5(a)(8)                    | Statistical table showing number of reports and dollar value of questioned costs.  | 26        |
| 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.        | 19        |
| Section 5(a)(11)                   | Significant revised management decisions.  | 19        |
| Section 5(a)(12)                   | Significant management decisions with which the Inspector General disagrees.   | 19        |

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

For the Six-Month Period Ending March 31, 2007

|  | Number<br>of Reports | Questioned<br>Costs | Unsupported<br>Costs** | Funds put to<br>Better Use |
|--|----------------------|---------------------|------------------------|----------------------------|
| A. For which no management decision had been made by the commencement of the reporting period. | 14                   | \$5,587,390         | \$4,219,480            | -0-                        |
| B. Which were issued during the reporting period   | 2                    | \$475,896           | \$4,241                | 1,900,000                  |
| Subtotal (Add A. & B.)   | 16                   | \$6,063,286         | \$4,223,721            | 1,900,000                  |
| C. For which a management decision was made during the reporting period.                       | 3                    | \$113,633           | -0-                    | 1,900,000                  |
| (i) dollar value of disallowed costs   | 2                    | \$98,430            | -0-                    | -0-                        |
| (ii) dollar value of costs not disallowed  | 2                    | \$15,203            | -0-                    | -0-                        |
| D. For which no management decision had been made by the end of the reporting period.          | 13                   | \$5,949,653         | \$4,223,721            | -0-                        |
| E. For which no management decision was made within six months of issuance.                    | 12                   | \$5,473,757         | \$4,219,480            | -0-                        |

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

\*\*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   |
|--|---------------------------------------|---|--|
| <b>96-4/23093-2</b><br>Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements<br>03/13/1996             | 1**                                   | <b>Reportable Condition:</b><br>Integrating Financial Management Systems                              | PBGC needs to complete the integration of its financial management systems.                                  |
| <b>2003-3/23168-2</b><br>Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements<br>01/30/2003   | 2**                                   | <b>Reportable Condition:</b><br>Implementing & Enforcing Information Security Program                 | PBGC needs to complete its efforts to fully implement and enforce an effective information security program. |
| <b>2004-2/23176-2</b><br>Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2004 - 2003 Financial Statements<br>1/15/2004    | 2**                                   | <b>Reportable Condition:</b><br>Improving Single-Employer Premium Accounting System                   | PBGC needs to improve controls related to single-employer premiums.  |
| <b>2006-1/FA-0014-1</b><br>Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2005 - 2004 Financial Statements<br>11/15/2005 | 3**                                   | <b>Reportable Condition:</b><br>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.

## SUMMARY OF INVESTIGATIVE ACTIVITIES

For The Six-month Period Ending March 31, 2007

### Investigations

|                             |    |
|-----------------------------|----|
| Pending beginning of period | 17 |
| Opened                      | 1  |
| Closed                      | 5  |
| Pending end of period       | 13 |

### Inquiries

|                             |    |
|-----------------------------|----|
| Pending beginning of period | 5  |
| Opened                      | 16 |
| Closed                      | 10 |
| Pending end of period       | 11 |

### Financial Recoveries\*

|   |          |
|---|----------|
| Theft of Funds Recovered                        | \$16,963 |
| Court Ordered Fines, Penalties, and Restitution | \$22,943 |
| U.S. Government Property Recovered              | 0        |

### Criminal Actions\*

|             |   |
|-------------|---|
| Arrests     | 0 |
| Indictments | 1 |
| Convictions | 1 |

### Administrative Actions\*

|                           |   |
|---------------------------|---|
| Terminations              | 0 |
| Suspensions               | 2 |
| Oral or Written Reprimand | 0 |

### Referrals

#### For Prosecution:

|                                  |   |
|----------------------------------|---|
| Department of Justice            | 4 |
| Declined                         | 4 |
| Various States' Attorney Offices | 0 |
| Declined                         | 0 |

#### For Other Action:

|                                       |   |
|---------------------------------------|---|
| PBGC Management for Corrective Action | 3 |
|---------------------------------------|---|

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

# 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