Pension Benefit Guaranty Corporation

Office of Inspector General

SemiAnnual Report to Congress

October 1, 2007 - March 31, 2008

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, NW, Washington, DC 20005-4026

April 30, 2008

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, 2008. 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.

Once again, both PBGC and OIG experienced leadership changes. On December 20, 2007, Charles E.F. Millard was sworn-in as PBGC's first presidentially-appointed Director. Much of Mr. Millard's time was devoted this period to developing and presenting a new investment policy to the Board of Directors in February. He continued to support other PBGC leaders as they address PBGC's challenges. PBGC also welcomed a new Chief Financial Officer, Patricia Kelly, who worked with the investment management staff to develop PBGC's new investment policy. The OIG has established effective collaborative relationships with PBGC leaders, each of whom is committed to strengthening PBGC's financial condition and providing excellent customer service.

We are pleased to announce the selection of a new Inspector General, Rebecca Batts, who joined our team on April 28. Ms. Batts is a CPA and has 25 years of experience as an auditor, manager and leader in the OIG community, first at the Department of Agriculture OIG, then at the Department of Transportation OIG. We welcome her and look forward to her leadership.

During this period, we continued to focus our work on PBGC's major management challenges areas: Governance, Stewardship, PBGC Business Model, Information Technology, and Procurement and Contracting. This work includes audits, investigations, management advisories and consultations on these significant issues the Board and PBGC face.

Because PBGC has more than $60 billion in assets and pays participants over $4 billion each year, we devoted significant audit and investigative resources in the Stewardship management challenge area. Our office continues to work closely with management in developing corrective actions to address outstanding internal control deficiencies we have reported in our financial statement audits. Likewise, in our investigative activities, we aggressively pursued individuals who fraudulently obtained participants' pension benefits to deter fraudulent claims, protect the pension benefits of participants and safeguard PBGC assets. We commend PBGC leaders for focusing attention on resolving outstanding internal control deficiciences and in supporting our investigative activities.

We continued reviewing the multiemployer program, whose trust fund experienced an increased deficit, and issued the first report of several audits of terminated but not yet insolvent multiemployer pension plans. Following a Government Accountability Office report finding fraud and internal control weaknesses in mass transportation subsidy programs, we reviewed PBGC's two transportation subsidy programs. We conducted audits and investigations to address information technology concerns, including an evaluation of PBGC's development of a new premium accounting system and an investigation of a possible disclosure of personal information. In contracting and procurement, we conducted work relating to PBGC's contract administration and incurred costs, and began monthly fraud training sessions with procurement staff to build their skills and protect the integrity of the procurement process.

It has been a pleasure to serve as the Acting Inspector General for the past seven months. I thank the OIG staff, and in particular the Assistant IG for Audits Luther Atkins and the Assistant IG for Investigations Aaron Jordan whose leadership exemplifies our values of respect, excellence and integrity. I am honored to serve with you all. I also appreciate the spirit of cooperation with the Board and PBGC, and the openness to discuss PBGC's challenges and possible solutions. 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.

Deborah Stover-Springer
Deputy 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, 2007 through March 31, 2008. 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 have designated five areas as PBGC's major management challenges: Governance, Stewardship, PBGC's Business Model, Information Technology, and Procurement and Contracting. We plan audit and proactive investigative work to address these challenges. Significant audit and investigative activity this period includes:

- ***Governance***— We provided requested information to Congress and met with the Board of Directors to support their oversight responsibilities; we followed-up on prior audit reports that recommended actions to strengthen internal governance (see pages 5-7).

- ***Stewardship***— With respect to the financial statement audit, we issued:
  - the 15th consecutive unqualified opinion and associated reports;
  - a limited disclosure internal control report that applied a new reporting standard, resulting in closure of one condition and roll-up of another condition into one of the three significant deficiencies;
  - a management letter, and a lessons learned report.

Investigations aggressively pursued prosecution and recoveries from individuals who fraudulently obtained pension benefits, laptop thefts, possible social security number fraud, and threats to employees and contractors (see pages 8-13).

- ***PBGC's Business Model***— We reported that a terminated but not yet insolvent multiemployer plan's assets were being depleted quickly because of high administrative costs and PBGC might be able to save millions of dollars if it could close the plan before all assets are depleted. We've completed and briefed our work on PBGC's mass transit benefits and subsidized parking program and found internal control issues that could allow abuse (see pages 13-17).

- ***Information Technology*** — We conducted work and briefed initial findings related to PBGC's development of a premium practitioner system; began a review of PBGC's implementation of the new internet protocol; were briefed on PBGC's actions on a system we recently audited; and investigated a possible comprise of personally identifiable information (see pages 18-21).

- ***Procurement and Contracting***— As the result of an audit, we reported that PBGC needs to strengthen contract admnistration. The Procurement Director took steps to correct long-standing weaknesses, including issuing a procurement procedures manual. An investigation concluded that a PBGC employee disclosed procurement sensitive information, and investigators began monthly fraud training sessions with procurement staff for prevention and detection of fraud (see pages 21-23).

Among the OIG's other activities, we assisted several OIGs; conducted an audit peer review, implemented electronic management systems for audit and investigations; developed and implemented a new performance management system; and participated in IG community initiatives.

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.

PBGC manages over $68 billion in assets and pays about $360 million a month to about 600,000 current retirees. Despite significant deficits in both the single-employer and multiemployer programs, 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.

Rebecca Batts is PBGC's new Inspector General.

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. The Secretary of Labor, as Chair of PBGC's Board of Directors, recently selected Rebecca Batts as PBGC"s third Inspector General.

With twenty-two staff, the OIG conducts agency audits, inspections and investigations; participates in agency-wide working groups; and provides consultations to provide our stakeholders with information they need to make decisions. We are committed to our values of respect, excellence, and integrity in all we do.

To provide value, we focus our work on the challenges facing PBGC. 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 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), which incorporate ***Generally Accepted Government Auditing Standards,*** issued by the Government Accountability Office. Our investigations comply with PCIE and ECIE ***Quality Standards for Investigations***.

The OIG has developed its own Mission, Vision and Values statements.

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 and independent information for their key decisions.

Values

This period we defined our values of respect, excellence and integrity.

RESPECT – fair and equitable actions

We will:

- Approach our work assuming that all are trying to do their best at work everyday.
- Enhance personal and professional growth to better understand and use people's diverse strengths and experiences.
- Benchmark when considering technology solutions to enhance the value of our work and IT infrastructure.
- Treat each other with dignity, compassion, and fairness.

EXCELLENCE – work of distinction

We will:

- Deliver high quality products and services that are timely and accurate, while maintaining independence.
- Participate in formal and informal training and networking to continuously build our knowledge, skills and abilities.
- Leverage technology to innovate and improve the quality and value of our work.
- Share in the responsibility and accountability for the OIG's success.

INTEGRITY – personal accountability

We will:

- Demonstrate decency and honesty and accept personal responsibility for our actions.
- Invest in our development and training to ensure we are a model of professional and ethical standards.
- Use available up-to-date technology, processes, and procedures to accomplish our work and protect confidential data.
- Be open and trustworthy in our daily interactions.

Management Challenges

As it expected, in the first half of FY2008, PBGC trusteed fewer pension plans and became responsible for paying future benefits to fewer participants than in past years. PBGC recently adopted a new investment strategy, which will result in greater investment in equity and alternative asset classes. It continues to implement the major statutory amendments as a result of the Pension Protection Act of 2006 and the Deficit Reduction Act of 2005, including higher premium rates and more strict pension plan funding requirements. Plan sponsors are beginning to challenge, and courts consider, PBGC's application of these new statutory authorities. These are just some external factors that create new challenges and opportunities for the Corporation.

We've identified five major management challenge areas: Governance, Stewardship, PBGC's Business Model, Information Security, and Procurement and Contracting. Our goal is to conduct audit and investigative work in all management challenge areas and have a positive impact on the decision-making process of the Board of Directors and PBGC management.

We identified PBGC's top Management Challenges:

- ***Governance***
- ***Stewardship***
- ***Business Model***
- ***Information Security***
- ***Procurement***

1. Governance

In addition to Congress, PBGC's external governance includes a Board of Directors who set policy, and their Board Representatives. Internal governance includes internal controls and clearly articulated authority to act, reporting structure and guidance to implement policies. Moreover, PBGC has some challenging governance dichotomies to manage, such as:

- it is a financial corporation with billions of dollars of assets to manage yet is also a federal agency that provides an insurance program;
- its Board of Directors is comprised of three cabinet-level Secretaries - Labor, Treasury and Commerce - who oversee and set policy for PBGC, yet it also has a Presidentially-appointed, Senate-confirmed Director who administers PBGC;
- it deals with some of the largest U.S. employers in fulfilling its mission to encourage continuation of defined benefit pension plans, yet must aggressively protect the benefits owed to those participants should those employers seek to terminate their pension plans;
- it must be cognizant of the health of the larger U.S. economy, yet maximize settlements from bankrupt sponsors of terminated plans to protect PBGC's financial health as it struggles with a deficit.

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.

Congressional Oversight

Congressman Waxman, as Chair of the House Committee on Reform and Government Oversight, requested all Offices of Inspector General to provide a listing of significant recommendations that were outstanding and their agencies' progress in taking corrective action. Because PBGC has taken OIG recommendations seriously, developed corrective action plans, and management has followed up, we were able to provide Congressman Waxman with a brief, positive response.

The Board of Directors Oversight

The Board of Directors, assisted by their Board Representatives, are an important part of PBGC's governance.

The OIG briefed the Board of Directors on the results of the FY2007 financial statement audit at its semiannual meeting in February. The Board was aware of PBGC's 15th consecutive "clean" financial statement audit opinion since the Board participates in its review prior to the November 15 issuance. The briefing included the application of new audit reporting standards that resulted in reporting three significant deficiencies in the Report on Internal Control, and a discussion of new reporting standards for the FY2008 audit. We commended PBGC's leadership team in setting the tone for effective working relationships with the OIG. The Acting Inspector General also met in Executive Session with the Board.

The Acting IG and Assistant IG for Audits met with the Assistant Secretary of the Employee Benefits Security Administration (EBSA), who is the Board Representative for Board Chairman/Secretary of Labor, and high-level EBSA managers. Among topics discussed were our audit plan and prospective work, and a series of audits involving terminated multiemployer plans for which EBSA still has oversight responsibility. We agreed on some communication protocols between our offices on these audits. As a result, our office, PBGC's Office of Insurance Programs and EBSA staff have engaged in on-going dialogue about potential findings and recommendations.

Management Action on OIG Internal Governance Recommendations

Good internal governance includes setting policy at a high level and then implementing operational guidance and procedures, maximizing collaboration among departments and communication of issues to facilitate good decision-making, and practicing effective internal controls that safeguard assets and information and promote integrity. This period we followed-up on two reports in which we recommended, among other things, that PBGC establish policy.

Claims Sale Report (2006-11/PA-0029)

In August 2006, 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 responsibilities and internal and external communications, and standard documentation for such dispositions. PBGC agreed with our findings and recommendations. In December 2006, we briefed the report to the Board of Directors'

Representatives. PBGC management reported that it was taking action to implement the report's recommendations in three areas: investment and other asset-sale related policies, corporate governance, and documentation.

This period, we followed-up on the implementation of our recommendations. The Board adopted a new investment policy at its February 2008 meeting, which included asset holding guidance. PBGC has taken steps to strengthen practices and communications related to potential claims sales with the Board of Directors' Representatives and within the Corporation, such as instituting significant case update meetings. PBGC also reported that it drafted protocols to guide communications between PBGC and the Board. PBGC and the Board Representatives are working to finalize the protocols for Board consideration and approval.

The Corporation has taken important first steps to implement our recommendations to improve inter-departmental communications and those with the Board. However, we will continue our follow-up with management because the Corporation should have well-documented policies and implementing procedures so there is clarity of expectations, scope and limitations of responsibility and authority to act, and effective oversight.

Internal governance includes written policies and procedures that establish scope and authority to act.

Claims for Disability Benefits and Earnings Limitations Audit (2005-PA-0016)

In February 2006, we issued a report that examined PBGC's ability to identify, monitor and process required benefit adjustments to participants who are receiving disability retirement payments or are subject to earnings limitations. Each pension plan that PBGC terminates and trustees has certain restrictions on benefits. Such restrictions may include a determination of continued disability and terminating the payment if no longer disabled, and reducing the benefit based on earned income or receipt of social security. We found that PBGC could not identify the universe of participants who may be subject to such benefit reductions, and therefore may be paying benefits to which participants are not entitled. Among others, we recommended that PBGC establish an overall policy to require identification and verification of plan participants' continuous eligibility for benefits, and implement information systems controls to identify and verify continuous eligibilty for benefits.

PBGC reported that the formulation of this policy is in the policy agenda and will be completed in FY2008.

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 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. Of the concerns the committee addressed this period, the AIGI had significant input into the potentially invalid social security numbers (see page 13).

2. Stewardship

The OIG's work in the "Stewardship" area focuses primarily on PBGC's stewardship of entrusted resources. Our efforts include fraud prevention, detection of improper payments, protecting participant data, and safeguarding plan assets close to plan termination, as well as the Corporation's overall financial management.

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 for management correction to help prevent future fraud.
- The OIG financial audit manager is participating in the PBGC audit follow-up working group which is ready to issue an agency order regarding the process of following up on, and communicating the status of, outstanding OIG and GAO audit recommendations in a timely manner, as well as the process of audit recommendation resolution.

PBGC received its 15th consecutive unqualified financial statement audit opinion.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2007 and 2006 Financial Statements (2008-1/FA-0034-1)

For the fourth consecutive year, PBGC issued its audited FY2007 financial statements by the November 15th deadline. This was made possible by the team effort of PBGC management and staff, the Board Representatives, Clifton Gunderson LLP, and the OIG. For the 15th 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, 2007 and 2006. 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. 07-04, and the methodology in the GAO/PCIE Financial Audit Manual.

As a result of Clifton Gunderson's audit of the Single-Employer and Multiemployer Program Funds administered by PBGC, Clifton Gunderson reported that:

- 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 control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2007, was fairly stated in all material respects. However, there were three

significant deficiencies for FY2007 regarding PBGC's need to:

  - complete its efforts to fully implement and enforce an effective information security program,
  - effectively implement consistent controls to restrict access to information systems, and
  - integrate its financial management system.
- There were no instances of noncompliance with tested laws and regulations that would have a direct and material effect on the financial statements.

Report Format Changed. Rather than issuing three separate audit reports, this year the OIG requested that Clifton Gunderson issue one combined audit report, which is similar to other Federal government agency financial statement audit reports. This report included the following sections:

- Report Summary;
- Opinion on the Financial Statements, as of and for the years ended September 30, 2007 and 2006;
- Opinion on Management's Assertion about Internal Control;
- Compliance with Laws and Regulations;
- The Audit Objectives, Scope and Methodology; and
- The Agency's Comments and our Evaluation of the comments.

We issued one combined financial statement audit report and a limited-disclosure detailed internal control report.

Clifton Gunderson included the details for each of the three significant deficiencies in a separate, limited disclosure report. The auditors limited the distribution of this report to PBGC management.

Internal Control Opinion: New Reporting Standard Applied - For FY2006, Clifton Gunderson had included four reportable conditions in its report on internal control. These related to:

- the lack of an integrated financial management system;
- 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 (continuity of operations plan or COOP).

Effective for the FY2007 financial statement audit period, there was a significant change for reporting on internal control. The American Institute of Certified Public Accountants issued new Statement on Auditing Standard (SAS) 112, that governs how the auditor communicates internal control matters identified as part of the financial statement audit. The most significant impact of this standard relates to the auditor's reporting of control deficiencies that can have an adverse effect on the entity's ability to initiate, authorize, record, process, or report financial data reliably, and the potential for a material misstatement to occur in the financial statements and not be prevented or detected in a timely manner. In the past, the auditors classified these weaknesses

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

During the FY2007 audit, Clifton Gunderson tested and evaluated PBGC's progress in addressing each of the reportable conditions. Then, they independently assessed the significance and impact of all of the issues identified during the audit, using the criteria outlined in the new SAS 112. As a result, Clifton Gunderson:

PBGC reduced the number of reported internal control weaknesses.

- removed the reportable condition related to COOP.
- included the remaining issues related to single-employer premiums (i.e., the lack of an adequate premiums recordkeeping system) in the significant deficiency on integrated financial management system.
- retained the significant deficiency related to the information security program, and
- reported an additional significant deficiency related to information systems' access controls. This new significant deficiency was the culmination of a number of less-significant prior-year findings, formerly reported in the management letter, as well as the result of implementing a lower threshold for reporting significant deficiencies under the new auditing standard.

Special Purpose Financial Statements - Clifton Gunderson also examined the special-purpose financial statements (2008-3/FA-0034-3) that PBGC prepares for submission to the Department of the Treasury through the Government-wide Financial Reporting System. These special-purpose financial statements link PBGC's audited financial statements to the FY2007 Financial Report of the United States Government. Clifton Gunderson issued PBGC an unqualified opinion on the special-purpose financial statements.

We are encouraged by the Corporation's actions to improve financial management. In particular we note activities of the new CFO and CIO:

- In November 2008, PBGC hired a new Chief Financial Officer, who transferred from another Federal government agency to PBGC. When she arrived, she immediately began working with the Director and FOD staff to update the Corporation's investment policy. PBGC presented the revised policy to the Board of Directors for their approval in February 2008. The CFO has also been working with the steering committee that is implementing a new premium system.
- The new Chief Information Officer has taken steps to reorganize the Office of Information Technology (OIT), improve communications between OIT and the rest of PBGC, improve systems and general controls, and enhance the roles and responsibilities for risk management and information security. However, several weaknesses in general controls continue to exist, thus preventing PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure.

- 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. However, PBGC still lacks an integrated financial management system, thus requiring extensive data manipulation and excessive manual processes to reconcile financial statement information.

The most important ingredient to correcting the remaining significant deficiencies is continued commitment on the part of management to implement corrective actions. PBGC's top leadership continues to emphasize the importance of correcting all of the significant deficiencies. OIG and Clifton Gunderson meet regularly with the Chief Financial Officer, the Chief Information Officer, other Executives, and department directors to discuss significant internal control deficiencies and to provide guidance in developing corrective action plans.

PBGC is committed to implementing corrective actions and improving financial management.

Fiscal Year 2007 Financial Statement – Management Letter (2008-5/FA-0034-4)

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 FY2007 and includes the status of prior year recommendations. The Management Letter report includes both financial and information technology issues. Although these findings are not significant, we inform PBGC management of the issues so corrective actions can be taken and they do not become significant deficiencies.

We discussed the recommendations with PBGC management and they agreed to implement corrective actions. Because this report is for management's internal use, it is not on our OIG website.

Lessons Learned from the FY2007 Financial Statement Audit (2008-7/FA-0048)

For the fourth consecutive year, the OIG, in cooperation with the CFO, conducted a survey to identify lessons learned during the audit of PBGC's FY2007 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:

- The regular audit status meetings, including those for separate subject matter areas, as well as the weekly prepared-by-client (PBC) documentation request status meetings.
- Designating one Clifton Gunderson staff member as a point of contact for documentation requests, and in general, one Functional Area Representative (FAR) as point of contact from each major PBGC department involved in the audit.

- The Contracts and Control Review Department's (CCRD) coordination and facilitation of receiving and distributing documentation requests and tracking the status of prior-year audit recommendations.
- The early meetings set up by CCRD to discuss the status of prior-year significant deficiencies, the PBC list, and any other possible issues that may impact the upcoming audit.

However, the strong commitment to the audit process on the part of everyone, especially the senior leaders, was key to the success of the process.

Areas for improvement included:

- Further refinement of the audit protocol process,
- Issuance and implementation of the revised audit follow-up order, and
- More timely communication of potential audit findings.

Investigations

We recovered money and successfully prosecuted individuals who stole pension benefits.

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 educate PBGC employees and contractors about fraud indicators and identify program weaknesses that can be exploited for fraud. While the amount of recoveries is not large, OIG aggressively pursues cases involving theft of benefits to prevent and deter fraud. Some of the cases we concluded this period included theft of pension benefits, participants' identities and other resources, and threats against PBGC personnel:

- ***Prosecution and Recovery of $15,000.*** We previously reported that a participant's daughter failed to report her father's death to the PBGC, resulting in her continuing to receive his pension benefits to which she was not entitled. Before PBGC discovered the fraud, the daughter received $15,004. The daughter was prosecuted, received probation of 18 months, and ordered to pay restitution of $15,004 to the PBGC. In addition, she is required to serve 125 hours of community service and pay $1000 in court and attorney fees.

- ***Recovery of $20,000.*** A participant in Hawaii called the PBGC Customer Service Center to inquire about the status of his benefit payments. When PBGC discovered that his monthly payments were being sent to someone else's account, the matter was referred to OIG for investigation. We traced the funds through multiple bank accounts and found a woman in Texas was receiving the funds. The U.S. Attorney's Office in San Antonio accepted the matter for possible prosecution. Because the fraudster was legitimately receiving a pension benefit from PBGC, she was offered the ability to repay the $20,199 she fraudulently received in lieu of prosecution. She agreed to a 5-year, 50% recoupment from her current benefit payments. This was a positive outcome for the government: we saved the costs of a prosecution

and PBGC will be reimbursed by withholding payments rather than relying on the participant to comply with court-ordered payments. Because the OIG concluded that the participant in Hawaii had no part in the fraud, PBGC has taken steps to pay the participant his back benefit payments.

- ***Invalid Social Security numbers.*** The OIG received information indicating that numerous social security numbers (SSNs) for participants who are in pay status or entitled to future benefits were invalid. We joined with other PBGC departments - representatives from the Contracts and Controls Review Department, Office of the General Counsel, and Benefits Administration & Payment Department - to determine the validity of these numbers. We also met with the Social Security Administration OIG regarding verification of the SSNs, as well as discussed a potential joint investigation if we determined that fraudulent activity was involved. In an independent review by our Office of Investigations, we determined these particular invalid social SSNs were not fraudulent because:
  - Many invalid SSNs were "dummy" numbers entered by PBGC for individuals whose numbers were unavailable due to illegal immigration status or missing information from prior paying agents.
  - Data entry errors accounted for a significant amount of invalid numbers.

Working with PBGC management, we investigated participants' invalid social security numbers.

- ***Theft of Laptop.*** We previously reported that we recovered a stolen PBGC laptop from a contractor's residence. Due to concerns that privacy information may have been contained on the laptop, we initiated a forensic analysis which revealed that the laptop contained no privacy information nor was used in any illegal activity. The analysis did indicate the laptop was used for unofficial business and personal use. The contractor is no longer employed at PBGC. The United States Attorney's Office declined prosecution and the matter has been referred to PBGC management.

- ***Communication of threats.*** We were notified that one of the PBGC Field Benefit Administration offices and the PBGC Customer Contact Center received a call from an irate participant concerning pension benefits. The participant subsequently threatened to set himself on fire and enter the PBGC facility. We notified the local law enforcement authorities who went to the participant's home to warn him of the serious nature and consequences of making threats to federal entities.

  Another PBGC Field Benefit Administration office and the PBGC Customer Contact Center received a call from a different irate participant concerning pension benefits. OIG Office of Investigations had conducted a criminal case involving this participant for pension fraud in 1999. As a result of our investigation, the participant was convicted, served time and was required to pay back more than $40,000 to the PBGC. This participant sent an email and threatened to "shoot the official at the PBGC." We notified the local law enforcement authorities who went to the participant's home to warn him of the serious nature and consequences of making threats to federal entities.

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. It needs to improve its information security program (see management challenge below) and make decisions about updating old business systems in an era of relatively static budget projections. It is a small federal entity dealing with some of the largest and most sophisticated U.S. corporations in negotiations and litigation to protect pension plan participants. 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 the "Business Model" challenge, OIG conducts work to evaluate PBGC programs and identify options for adapting to its changing environment, while providing superior service and generating cost-savings.

PBGC's Multiemployer Program

Though the majority of PBGC's resources are devoted to terminated single-employer pension plans, PBGC is also responsible for multiemployer plans when they terminate and become insolvent. Multiemployer plans are sponsored by several employers, generally covering employers in the same industry whose employees are represented by a union. The multiemployer plans are governed by trustees from the employers and unions and, until recent years, were not a significant financial impact on PBGC. When a multiemployer plan terminates, it is operated as a "wasting trust" until all assets are depleted, at which time it begins to receive financial assistance, in the form of loans, from PBGC so it can continue paying guaranteed benefits to participants. As PBGC does not assume trusteeship of multiemployer plans (like it does for single employer plans), these plans continue to incur administrative expenses until the final benefit payment is made. Because the plans' trustees are responsible for operating the plans, they also remain under ERISA's Title I requirements and the DOL's Employee Benefits Security Administration jurisdiction.

OIG is focusing on the multiemployer program because the multiemployer trust fund deficit is continuing to grow.

Over time, more multiemployer plans are terminating and PBGC is providing financial assistance loans to pay guaranteed benefits when they become insolvent. Because these plans are generally in declining industries, PBGC has little, if any, prospect of collecting on these loans. As a result, the multiemployer trust fund has experienced a significant decline. At the end of FY 2005, the multiemployer program had a net deficit of $335 million and by the end of FY 2007 the deficit had grown to $995 million.

Last year we issued an audit report finding PBGC could save about $1.9 million in future administrative costs it pays to certain insolvent multiemployer pension plans and recommended that PBGC close these plans by funding the purchase of annuities or lump sum payments for the participants. Based on these identified cost savings, we expanded our audit coverage to include multiemployer plans that are terminated but not yet insolvent. These are plans that currently have sufficient funds to pay benefits and administrative costs and are not yet receiving financial assistance from PBGC.

The following report is the second in a series of planned audits to address this growing risk and make recommendations for an improved business model.

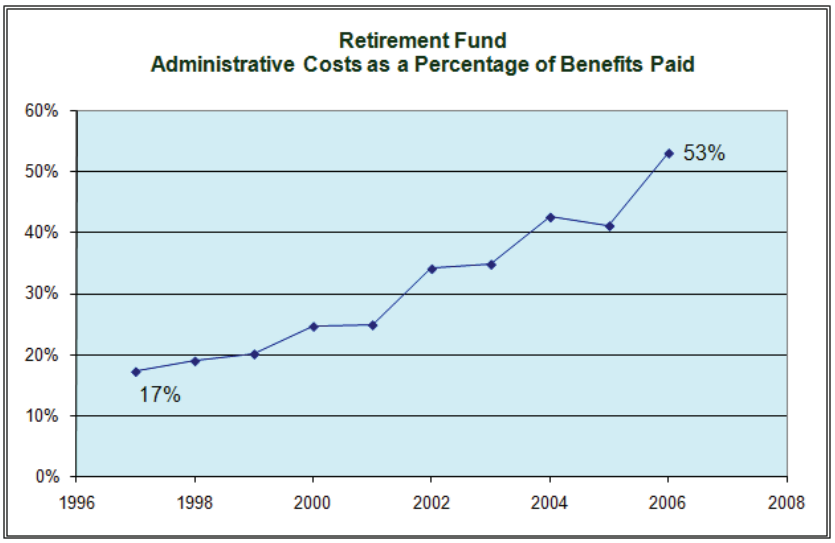
Protecting the Assets of Multiemployer Retirement Funds (2008-6/PA-0037-1)

Based on our analysis of 44 terminated multiemployer plans, we selected a plan for detailed review that had very high administrative costs. The objective for this audit was to determine if PBGC could assist the Plan in better protecting the Plan's assets, thereby reducing the amount PBGC will pay in the future for financial assistance.

In our March 2008 report, we concluded that PBGC could assist the Plan in better protecting the assets to reduce PBGC's future financial assistance for this plan. The assets of this recently terminated multiemployer plan are being depleted in a manner that could cost the PBGC millions of dollars.

Using 10 years of data, we analyzed the administrative costs of the Plan in several different ways and we concluded the costs of this plan were disproportionately high as compared to benefits paid.

- When we calculated administrative costs as a percentage of benefits paid, we noted for the year 1997, administrative costs were only 17% when compared to benefits paid to retirees. For each year thereafter, however, the costs continued to increase until, by 2006, the administrative costs were approximately 53% of benefits paid, as shown in the chart below.



- When we measured administrative costs on a per participant basis for 1997, we calculated the administrative costs to be $113 per participant. By 2006, administrative costs had increased to $367 per participant, a significant increase over 10 years.

Administrative costs of a terminated multiemployer plan were disproportionately high as compared to benefits paid.

When we performed a comparison of the administrative costs for the Plan to costs of the other 44 terminated multiemployer plans, we found that:

- the Plan was in the top 25 percent on the list,
- the Plan had higher administrative costs as a percentage of benefits paid than most of the plans on the list.

PBGC has at least two options to assist the Plan in better protecting the assets and reduce PBGC's future liability.

- Develop a program to more closely monitor the expenses of terminated but not yet insolvent plans. This option would require collaboration with the Employee Benefits Security Administration (EBSA) of the Department of Labor.
- Another option is for PBGC to fund the Plan's close-out soon or when the Plan is insolvent and avoid future administrative expenses. This would result in significant savings in PBGC's future financial assistance.

Although PBGC could save approximately $4.3 million to $5.3 million in future payments, there are obstacles to PBGC closing the Plan now. The first obstacle involves PBGC's inability to close out plans under which benefits exceed ERISA's guaranteed benefit levels. In this plan, some participants' benefits exceed the statutory limit. The trustees of the Plan cannot reduce these benefits in order to close out the Plan nor can PBGC reduce these benefits. The second obstacle relates to whether and how PBGC could collect withdrawal liability owed to the Plan.

PBGC is in a unique position to save millions regarding this Plan if PBGC can act soon to close it out. The Plan has approximately $3.2 million in assets. If a regulatory or legislative amendment were enacted to remove the legal obstacles noted herein or if there were another source of funding non-guaranteed benefits, PBGC would only need to fund approximately $2.3 million. Then, the Plan's administrator could purchase annuities to close the Plan. The underfunded gap for this plan continues to grow as the Plan's assets continue to deplete. This depletion is, in large part, due to the high administrative costs.

PBGC may need regulatory or statutory changes to address multiemployer program issues.

Therefore, we recommended that PBGC:

- Determine whether PBGC can legally collect debts from employers, after a plan is closed, who previously owed withdrawal liability to that plan.
- Explore whether regulations could be issued to assist in overcoming the obstacles to closing terminated but not yet insolvent multiemployer plans or whether legislative changes would be necessary.
- Develop a policy with respect to closing out terminated multiemployer plans that are not yet receiving financial assistance from PBGC.
- Determine, within one year, whether the Plan can be closed out in accordance with the policy.

Audit of PBGC's Employee Mass Transit and Subsidized Parking Programs

In April 2007, the Government Accountability Office (GAO) reported numerous instances of fraud and abuse of the Employee Mass Transit Program (MTP) by Federal employees. To support a cleaner environment by reducing the numbers of Federal employees who drive to work, the MTP subsidizes employees' transportation to and from work if they use mass transit. In response to the GAO report, the Office of Management and Budget (OMB) re-emphasized to all federal agencies the benefits of the MTP and the importance of having good internal controls to guard against fraud, waste, and abuse. To assist in addressing this area, we initiated an audit of PBGC's MTP and its Subsidized Parking Program (SPP).

Following GAO's government-wide report finding fraud, we initiated a review of PBGC's transportation subsidy programs.

Our overall objective was to determine the adequacy of PBGC's controls over the MTP and the SPP, and specifically to determine:

- PBGC's adherence to prescribed internal controls established by OMB and its own policies and procedures;
- If PBGC's controls are adequate to prevent and detect fraud, waste or abuse;
- How PBGC educates its employees on these programs, and
- What role parking plays in PBGC's MTP and SPP programs and determine how other agencies implement parking as part of their programs.

Although our work is still ongoing, we found that PBGC has taken a number of steps to protect against fraud, waste, and abuse of the MTP and SPP; however, we found areas where internal controls can be improved. For example, for the period we tested we found:

- Eleven former employees who could have downloaded MTP benefits on their smart cards months after they had left the agency. Out of the eleven employees, four downloaded their benefits after leaving the agency. OMB requires removal from the MTP to be included in an employee's exit procedures. PBGC's exit procedures did not always identify and remove employees from the MTP promptly.
- Six PBGC employees were inadvertently listed as eligible to receive both MTP and SPP benefits, which is prohibited. Federal employees are only allowed to receive one of these benefits at a time. None of the employees received double benefits.

We briefed responsible agency program officials on these and other findings and our recommendations. We expect to issue our draft report to PBGC in April 2008 and will make several recommendations to address the improvements needed for these programs to better guard against fraud, waste and abuse.

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 systems network, and the confidentiality, completeness, accuracy, and availability of information and information processing requirements for pension benefits. For the past several years, information security has been reported as a significant deficiency in the financial statement audit's internal control report. This year, access controls to information systems was added as a separate significant deficiency due to its importance and impact within the overall information security program (see the Stewardship section for a full discussion).
We continue to perform work to assist the Corporation in meeting the challenges of providing enhanced customer service through its IT systems, including protecting the integrity and privacy of pension plan participants' information, and effectively planning and executing selection and development of those systems.

We are reviewing PBGC's development of a premium accounting system.

Review of Premium and Practitioner System (PPS) Project

PBGC receives no funds from general tax revenues. PBGC's revenue is derived from insurance premiums paid by insured pension plans, investment income, and recoveries from employers responsible for terminated underfunded defined benefit plans. Premium revenue totaled about $1 billion in 2007. Currently, PBGC uses the Premium Accounting System (PAS) for processing premium payments for the pension plans it insures. Among other things, the PAS system records, generates, and calculates defined benefit plan premium receipts, late notices and premium billings, and applicable penalties and interest for late payments.

PBGC's goal is to reduce the expenses and delays involved with the current system, and modernize its dated business processes by converting to an on-line, real-time transaction based system that will process hardcopy premium filings, as well as electronic filings over the Web. To achieve this goal, PBGC is reengineering its processes to provide one-stop customer service to pension plan practitioners. As an adjunct to the reengineering process, the new system will minimize the manual processes that PAS relies upon to capture, maintain, and correct data. The system will be known as the Premium and Practitioner System (PPS). The PPS solution is defined as an integrated Commercial Off-the-Shelf (COTS) product with customized components for premium operations.

PPS will become a part of the overall Consolidated Financial System (CFS) project that is to streamline and integrate PBGC's financial systems. The first implementation of the CFS project was achieved in October 2006, which consolidated three general ledger systems into one.

Using a fixed-price contract, the OIG hired a contractor to review PPS' compliance with the system development process and the effectiveness of project oversight. The objectives of the work are:

- Has the PPS development project followed the PBGC Systems Life Cycle Methodology? Specifically:
  - Has oversight of the project been appropriate?
  - Have all appropriate approvals been received?
  - Has all testing been completed and system accepted by business owner?
- Will the new system be easily maintainable? Specifically:
  - Have extensive modifications been made to a COTS solution?
  - Can required modifications be easily implemented?
  - Has all development been well-documented?
- Has PPS addressed the issues and deficiencies identified with PAS?

The field work on this project is still on-going. We have had preliminary discussions with certain PBGC management concerning our initial findings related to overall project management and the impact of project delays. A report documenting our findings and recommendations will be presented to PBGC management and reported in our next semiannual report.

Review of PBGC's Internet Protocol version 6 (IPv6) Readiness

We are reviewing PBGC's ability to comply with implementation requirements for Internet Protocol version 6 (IPv6). In addition to other advantages of implementing IPv6, the major issue it endeavors to resolve is the expansion of Internet addresses, which is how Internet traffic is routed to and from various locations. With the current number of addresses in IPv4 dwindling, the implementation of IPv6 will add an additional number of addresses equal to 3.4×10^{38}. However, for the implementation of all of these new addresses to be advantageous and work properly, network equipment attached to the Internet that route this traffic both externally and internally must be able to recognize these new addresses. The Office of Management and Budget (OMB) has issued requirements through its Memorandum 05-22 that all federal agencies have this equipment (referred to as the network core) installed and tested by June 30, 2008. This equipment should be capable of transmitting and supporting both IPv4 and IPv6 traffic and addresses.

We are testing PBGC's readiness to convert to the new expanded internet protocol.

The Federal government has also requested all agencies transition their network backbones to IPv6 for the following additional reasons:

- To take advantage of secure end-to-end communications;
- To address the challenge faced by the U.S. from international competition in the realm of IPv6; and
- To lead by example in U.S. enterprise IPv6 transformation.

The primary objectives of this review are to determine if PBGC will be able to comply with OMB Memorandum 05-22 and can demonstrate its capability to:

- Transmit IPv6 traffic from the Internet and external peers, through the core Wide-Area Network (WAN), to the Local-Area Network (LAN).

- Transmit IPv6 traffic from the LAN, through the core WAN, out to the Internet and external peers.
- Transmit IPv6 traffic from the LAN, through the core WAN, to another LAN (or another node on the same LAN).

We have completed our field work on this review and will be issuing a management advisory report to PBGC management soon. The results will be reported in our next semiannual report.

Management Action on *Ariel*

Management used our report to evaluate continued use of the Ariel system.

In our last semiannual report, we summarized our work related to a post-implementation review of the ***Ariel*** application, a replacement system for PBGC's existing Actuarial Calculation Toolkit II. Overall, our conclusions indicated that PBGC needed to:

- Reassess and verify the cost and benefits of this application before making any additional investments;
- Solicit and determine if other vendors were available to value plan benefits; and
- Ensure compliance with an IT solutions and project management methodology when investing additional resources in the benefit calculation and valuation process.

During this same timeframe, one of the Chief Operating Officer's (COO) goals was to revisit the whole benefit calculation and valuation process. Our report provided PBGC with timely, accurate information to assist them in their decision-making process. We were encouraged that PBGC has now completed an extensive effort to perform a risk assessment, cost/benefit analysis, and selected an investment strategy to build a process that will be cost effective and efficient. The COO and PBGC management said that our report was very helpful in supporting their reevaluation of continuing with the ***Ariel*** system. We appreciate their efforts to keep us informed of their progress and decisions.

Possible compromise of personally identifiable information

PBGC management reported that a PBGC employee, whose background investigation came back with derogatory information, abruptly left the PBGC Headquarters. Since the employee had access to sensitive Personal Indentifying Information (PII), we were asked to investigate whether there had been any PII breaches. We reviewed information to determine if the individual had accessed certain systems during the weekend or after the day the individual left the PBGC. For that period of time reviewed, there was no suspicious activity noted. At the request of management, we are reviewing other areas of concern.

Compliance with Omnibus Appropriations Act, 2008

In the recently enacted Omnibus Appropriations Act, Congress included three provisions regarding access to and usefulness of OIG websites which requires:

- Each executive department and agency to establish and maintain on the homepage of its website, an obvious, direct link to the website of its respective Inspector General
- Each Office of Inspector General to:
  - Post on its website any public report or audit or portion of any report or audit issued within one day of its release;
  - Provide a service on its website to allow an individual to request automatic receipt of information relating to any public report and which permits electronic transmittal of the information, or notice of the availability of the information, without further request; and
  - Establish and maintain a direct link on its website for individuals to anonymously report waste, fraud and abuse.

In response to the above requirements, we modified our website to comply and requested PBGC to change its link to our site. PBGC officials took immediate action to improve the visibility of the link to the OIG's website on PBGC's site.

5. Procurement and Contracting

Procurement at PBGC is a significant activity. In its FY2009 Congressional budget submission, PBGC reported that it spends about two-thirds of its annual budget through contracts. In addition, between 2000 and 2007, PBGC's contracting activity more than doubled. Total active contracts for FY2007 totaled $824M. These trends make contract management a major challenge for PBGC.

Over the last several years the OIG, the Government Accountability Office (GAO) and the PBGC's Contracts and Controls Review Department have issued a number of audit and evaluation reports to the Procurement Department identifying improvements and recommendations that are needed. The OIG continues to devote a significant portion of its resources to audits and reviews of PBGC's procurement and contracting activities, and to consultations and fraud briefings with procurement staff. Our audits include those of PBGC contractors to verify that their billings are reasonable, supported and consistent with the contract terms, and of PBGC's procurement process to identify improvements.

The Procurement Director addressed long-standing issues: Labor-Hour Contracts and a new Procedures Manual.

Significant Progress in Addressing Long-Standing Procurement Issues

Fewer labor-hour contracts. In the past, the OIG commented on the Corporation's practice of awarding a large percentage of labor hour contracts and a relatively small percentage of performance-based contracts. However, the Corporation is making

progress in reducing the number of labor hour contracts from an average of 62 percent in FYs 2001-2006 to 40 percent in FY2007. By an Order issued in September 2007, PBGC established its "policy to use as a first choice fixed priced performance-based competitive procurements." Labor hour contracts are evolving into one of a variety of contract types, rather than the predominant contract type. This has resulted from education about different contract types and risk of labor-hour contracts, and the agency's ability to better define requirements for statements of work and estimate costs. Labor-hour contracts are still used where appropriate.

New Procedures Manual. PBGC's Procurement Director recently issued the "PBGC Procurement Department Standard Operating Procedures Manual," which resolves long-standing GAO and OIG audit findings that no written procurement policies and procedures had been established or were out of date. Completion of the Manual is a major accomplishment toward promoting consistency in the application of procurement policies and procedures. The Manual contains numerous hyperlinks to the Federal Acquisition Regulation and sample formats of various contractual documents that contract specialists prepare. The document was distributed to the procurement staff and they were trained on how to use it effectively.

PBGC needs to strengthen its contract administration to ensure contractors meet qualifications and experience requirements.

Report on PBGC's Contract Administration (2008-4/CA-0033-2)

As a companion to an incurred cost audit focused on the contractor's billings, we also conducted an audit of PBGC's administration of that contract. We found PBGC needed to improve its contract administration by holding the contractor accountable for complying with the contract terms and better monitoring the performance and payment. We identified two root causes for the $167,459 costs questioned in the incurred cost audit report issued in September 2007.

- The contractor did not always verify the qualifications and experience of their employees assigned to the PBGC contract. We found the COTRs relied on erroneous information provided by the contractor and did not evaluate the contractor's process for assigning personnel on the contract. This resulted in improper payments of $147,681 for five (5) of the contractor's employees who were not qualified under the terms of the contract; and
- The COTRs did not adequately monitor the contractor's performance and payment, resulting in unallowable costs of $19,778.

To strengthen the contract administration function, we recommended that PBGC emphasize to its contractors their obligation to verify the education and experience of their employees, and provide more guidance to COTRs and contract monitors who have contract oversight responsibilities. The PBGC Contracting Officer and other agency officials generally agreed with the recommendations and stated they would complete all corrective actions by the third quarter of FY2008.

Incurred Cost Draft Audit Reports on PBGC Contractors

At the end of this reporting period, we issued two draft reports with identified issues and questioned costs. The primary issue and questioned costs relate to contractor personnel who did not meet minimum experience requirements under the terms and provisions of the contract or, as represented in their proposal submissions, use the GSA rate structure for specific position classifications. We briefed our findings to the Procurement Director and are awaiting the contractors' responses to identified issues and questioned costs in the draft reports. We expect to issue the final reports in May with the detailed findings and recommendations, along with the contractor's response, and report in the next semiannual report.

Audit Resolution & Follow up

In the past six months, the Procurement Director submitted 24 Recommendation Completion Forms to address outstanding recommendations from previous OIG reports. We followed up on the recommendations and concluded that sufficient corrective actions had been taken to close all of these recommendations. Most noteworthy was the completion of a new procurement operating manual, as cited above. We commend the Procurement Director's serious pursuit and dedication of resources to address OIG recommendations.

Unauthorized Release of Procurement Sensitive Data

The OIG investigated an allegation that a PBGC Federal employee, who was the Chair of a Technical Evaluation Panel (TEP), had improper discussions with a PBGC contractor employee during the procurement bid evaluation process. The TEP Chair initially denied the improper comments, but later confessed making statements to the contractor employee about the quality of his management's presentation to the TEP. This violates the Standards of Ethical Conduct for Employees of the Executive Branch, and the Federal Acquisition Regulation. Both the improper procurement communication admission and false statements given during an OIG investigation were referred to PBGC management for appropriate action.

OIG Investigations Works with Procurement to Detect Fraud

During this reporting period, OIG Investigations began monthly fraud training sessions with the PBGC Procurement Department to present various topics relating to fraud schemes and procurement "red flags." The sharing of knowledge, experiences and ideas between OIG Investigations and the Procurement staff has sharpened the staff's skills and knowledge, and resulted in a closer working relationship to help protect the integrity of the PBGC procurement system.

Office of Investigations worked to protect integrity in procurement practices.

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 are no audit reports for which management decisions are pending.
- There were no significant revised management decisions.
- There were no management decisions with which the Inspector General disagreed.

Other Office of Inspector General Activities

Review of Proposed Statutory and Regulatory Changes

Statutes

A major responsibility of the OIG under the Inspector General Act is to independently review PBGC-proposed changes to laws and regulations. ERISA was amended in August 2006 by the Pension Protection Act of 2006 (PPA) to provide simplicity, flexibility, accuracy and stability in the defined benefit pension insurance program that PBGC administers; there were no significant PBGC statutory proposals this period. As described below, the Acting IG was actively engaged on the IG community's Legislation Committee that had input into House and Senate bills to amend the IG Act.

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. Its recent regulation changes were required to implement the PPA's amendments relating to when PBGC would guarantee shut-down benefits and how bankruptcy impacts guaranteed benefits. We reviewed, provided written comments, and had substantive conversations with the drafters of these proposed rules.

Assistance to Other OIGs

Federal Elections Commission – Implementing TeamMate

The Federal Elections Commission (FEC) OIG is in the process of implementing TeamMate, the electronic workpaper package we installed during this period. To minimize the effort required to get this package installed, FEC asked for our assistance in developing their initial audit library. This library is a comprehensive definition of terms that specifically defines the process and protocol for performing audits using TeamMate. Its development is both a crucial part of implementation and time-consuming. We were able to package and send the library we developed to the FEC as a starting point in their implementation.

We provided assistance to other OIG offices.

General Services Administration –Developing COOP

The General Services Administration OIG requested information about how we handled development, training, and testing of our own OIG contingency plan. Because PBGC has devoted significant resources to developing and continuously improving its contingency planning processes, we were able to provide information about how PBGC developed its contingency plan. We also discussed how the OIG has two distinct roles in the development process: first as an office within the agency

that needs to do its own contingency planning, and also as an important oversight resource and law enforcement liaison during an emergency event. In addition, since the OIG operates a separate network within PBGC, we have duplicated our systems, both hardware and software, at our off-site location and participate in all testing of PBGC's contingency plan. We provided the GSA OIG a copy of our own COOP plan.

National Labor Relations Board- Rebate Fraud

During this reporting period, the Office of Investigations provided assistance to the National Labor Relations Board regarding purchase card transactions at companies that provide rewards to individuals. We shared information about our investigative approach and tools pertaining to our investigation into rewards earned as a result of purchases using the Government purchase card, and internal control concerns.

Chinese Delegation Visits PBGC OIG

OIG shared anti-fraud program with Henan Province officials from China.

The OIG hosted a delegation of Internal and Anti-Bribe Inspectors from the Henan Province, China. The delegation is part of the Ministry of Supervision, which has primary responsibility for government supervision of the procurement process, and law enforcement related to bribery, corruption, and misconduct by Chinese government officials. The OIG conducted a half-day training session, providing an overview of the OIG's authority, role and responsibility as an oversight agency for PBGC. As part of an overall effort to improve the knowledge and skills in an oversight capacity, the Ministry of Supervision sends a delegation from the various provinces in China to the United States each year to train and learn from different state and federal oversight agencies such as the PBGC.

Audit Peer Review of CPB

We conducted a quality control review of the audit operations of the Office of Inspector General of the Corporation for Public Broadcasting (CPB). External peer reviews are conducted within the OIG community to evaluate the audit organization's system of internal quality control and to ensure that it complies with generally accepted government auditing standards (the GAO Yellow Book). As part of the peer review, we evaluated the CPB OIG's staff qualifications, their independence, audit work, training, and quality control procedures. The results of our peer review can be found on the CPB OIG's website at www.cpb.org/oig.

OIG's Strategic Initiatives

Our Strategic Plan is focused in three "voices": the Stakeholder, the Business, and the Employee. We continued to commit significant resources this period to ensuring the successful implementation of two major initiatives by January 2008:

- Implementing electronic management and document software packages for the Office of Audits and Office of Investigations (Voice of the Business); and
- Developing and implementing a new performance management system (Voice of the Employee).

An OIG team also worked to define our values of respect, excellence and integrity.

Electronic Audit & Investigative Management Systems

TeamMate is a planning, tracking and workpaper management software designed specifically for audits. A team consisting of OIG staff and a contractor, with input from OIG management, spent a majority of this period completing the development of this automated workpaper package for audit staff to begin using in January 2008. TeamMate has a number of modules that we customized to plan, coordinate, monitor, and manage our audits in a completely automated environment. In addition to automated workpapers, TeamMate allows us to complete and monitor progress of our audit plans; issue and track recommendations; build and better manage our audit projects; and manage staff time and expenses related to our work schedules.

We implemented electronic management and document tracking systems in the OIG's Offices of Audits and Investigations.

As of January 2008, we successfully implemented TeamMate and provided training to our audit staff and management. Starting in February 2008, all auditors are required to use this system for all audits. Since this is a radically different way to conduct and document our audit work, we have only implemented the workpaper portion of the system now. We plan to proceed with implementing the other modules to further improve our ability to plan, coordinate, monitor and manage our audits in FY2009.

The Office of Investigations procured an electronic case management system for the purposes of tracking and reporting investigations. The Case Management & Tracking System (CMTS) became fully operational in January 2008, and provides the OIG with greater infrastructure and functionality to conduct and monitor investigations. Using CMTS, investigators will have a fully-electronic case file and the Assistant IG for Investigations will have timely and reliable oversight of cases to ensure efficiency and effectiveness of investigations. It will also allow OIG to more easily assemble statistical information for various required reports to Congress.

New Performance Management and Appraisal System

Over the past year, the OIG worked with a contractor to develop and implement a new Performance Management and Appraisal System (PMAS). This PMAS is based on individuals' outcomes that cascade down from OIG strategic goals, rather than the traditional skills-based evaluation. It included developing a clear performance management policy and guidance handbook, training, and individualized coaching and feedback for OIG staff as each of us developed individual performance plans. As part of the PMAS, each staff member worked with their supervisors to:

- Define performance objectives that include specific results and performance criteria;
- Incorporate OIG core values linking to the performance evaluation;
- Develop a Continuous Learning Plan; and
- Institute a self-assessment tool and 360 evaluation

We also implemented our own outcome-based performance management system.

This new PMAS was a stretch for all involved, but resulted in meaningful conversations about goals and appropriate measures. The individual performance plans provide clarity of expectations for both staff and supervisors, helping the OIG to make further strides toward building a high performance organization, and developing and retaining highly-engaged staff.

Core Values

Because we want our values to guide our conduct and be integral to performance discussions, it is important to have a shared understanding of "respect, excellence, and integrity." A team of OIG staff volunteered to draft definitional statements that would address work performance, professional development, use of technology, and personal standards. The team received feedback from staff through written comments and open meetings, resulting in our new values statements (see page 4).

External Activities

Various staff members participated in external professional activities, including:

OIG staff are involved in IG community and professional organizations.

- The Acting 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. She served as member of the Legislative Committee that reviews proposed legislation affecting IGs. We continued to work with Congress toward passage of bills in the House and Senate to amend and strengthen the IG Act, as well as considering other legislative proposals to assist OIG's fraud detection and prevention activities.
- The Assistant IG for Audits is a member of the Audit Committee of the Federal Audit Executive Council (FAEC). 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. This period the Committee commented on proposed audit standards for federal financial statement audits, and monitored joint activities of the International Auditing and Assurance Standards Board and the Auditing Standards Board of the American Institute of Certified Public Accountants. The Committee also established the 2008 peer review schedule.
- The Assistant IG for Investigations joined the Permanent Curriculum Review Committee (PCRC) established by the Inspector General Academy. The PCRC members are criminal investigators with law enforcement training, knowledge and experience. The purpose of the PCRC is to review and revise, as necessary, the IG Academy's training curriculum to ensure that investigators receive up to date training in various procedures, techniques and legal issues that impact investigations conducted by the IG community.
- OIG Investigations became a member of the National White Collar Crime Center (NW3C), a congressionally-funded, non-profit corporation comprised of law enforcement agencies, state regulatory bodies with criminal investigative authority, and state and local prosecution offices. The NW3C provides a nationwide support system for agencies involved in the prevention, investigation, and prosecution of economic and high-tech crimes to support and partner with other appropriate entities in addressing homeland security initiatives. This membership provides OIG investigators with quality training, investigative support and research services.
- IT Audit Manager serves as the Program Committee Chair for a chapter of the Information Systems Audit and Control Association to assist members to meet their certification requirements in the fields of audit, technology, security, controls, and management for both the private and public sectors.

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.	25
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-23
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-23
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	31
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REPORTS ISSUED WITH QUESTIONED COSTS AND FUNDS PUT TO BETTER USE*

For the Six-Month Period Ending March 31, 2008

	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	$2,017,099	$4,241	$0
B. Which were issued during the reporting period.	0	$0	$0	$0
Subtotal (Add A. & B.)	9	$2,017,099	$4,241	$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.	9	$2,017,099	$4,241	$0
E. For which no management decision was made within six months of issuance.	9	$2,017,099	$4,241	$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.

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*	**Significant Deficiency:** 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	6*	**Signficant Deficiency:** Entity-Wide Information Security Program Planning & Management	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2008-1/FA-0034-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and 2008-2/FA-0034-2 Limited Disclosure Report on Internal Controls - PBGC's FY 2007 and 2006 Financial Statements Audit	11*	**Significant Deficiency:** Access Contols	PBGC needs to mitigate the systemic issues related to information access control.

This chart complies with Section 5(a)(1)(2) and (3) 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, 2008

Investigations	
Pending beginning of period	*20
Opened	16
Closed	19
Pending end of period	17
Complaints	
Pending beginning of period	*0
Opened	52
Closed	43
Pending end of period	9
Financial Recoveries**	
Theft of Funds Recovered	$20,199
Court Ordered Fines, Penalties, and Restitution	$15,004
U.S. Government Property Recovered	$0
Criminal Actions**	
Arrests	1
Indictments	2
Convictions	1
Administrative Actions**	
Terminations	0
Suspensions	0
Oral or Written Reprimand	0
Referrals	
For Prosecution:	
Department of Justice	0
Declined	0
Various States' Attorney Offices	0
Declined	0
For Other Action:	
PBGC Management for Corrective Action	1

* The Office of Investigations implemented an electronic case management system this period. The "pending end of period" investigations (12) and inquiries (8) from last period's Semiannual Report are now combined in "Investigations," and a new category, "Complaints," began as 0.

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

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

The deaf or hard of hearing, dial FRS (800) 877-8339
and give the Hotline number to the relay operator.

Web:

http://oig.pbgc.gov/investigation/details.html

Or write:

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